

Advanced Commodity Trading Techniques

by J.D. Hamon

REVISED EDITION

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*To Barbara J. Hamon
who made this book possible*

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Introduction

The HAP Research Investment Study Group is an organization which believes price movement can be predicted using techniques developed from extensive research. There is no magic here—just hard work! What does our research consist of?

First, we analyze past and present trading systems, techniques, indicators, etc. We have a large library of trading systems and related material, and have, in fact, studied materials contained in private collections throughout this country. We review material for its trading merit.

Years of experience, system evaluation, and intense Gann research led to discoveries of several new techniques. The HAP *trader*, like Gann, uses a *geometrical approach* and will provide detailed instructions that you may follow also. Anyone can formulate a theory for a trading plan; it takes a *trader* to know if the theory can become a reality! Years of training enable us to determine if the trading plan is built around a formula “copied from a book,” or whether the trading plan is correct (one trading plan costing over \$1,000.00 was found to be wrong mathematically—no wonder it did not work).

Second, we use the results of our analysis of trading material to formulate new ideas and develop new methods—we stand on the shoulders of others. We can successfully devise these methods because we stress determining the important features of the past and present trading plans. Frequently a combination of trading plans is much more successful than the individual plans themselves.

Finally, we are innovative—that means we formulate and test methods which are not extensions or combinations of the work of others.

R. N. Elliott and W. D. Gann found an amazing balance and symmetry in the market. Elliott observed that it is not unusual for the market to react in waves of five and to correct in waves of three. Gann learned to balance the opposing forces of price. These men, like the HAP Research Investment Study Group, do not believe in the random movement of the market. We believe that technical analysis can be beneficial in predicting price movements.

The real question is: *Do you believe in price prediction?*

If your answer is definitely *no*, it was nice to have known you; we have nothing

Introduction

to offer you. If your answer is definitely *yes*, it is nice to know you; we have the results of our research to offer you! With these results you will certainly be able to enhance your trading skills! If your answer is *maybe*, let us provide you with more data on which to base your decision.

R. N. Elliott had tremendous success in the market and attributed the market symmetry and balance to the natural laws of the universe. This is certainly plausible, since natural laws governing various physical phenomena can be found in any physics book. One notable phenomenon predicted by these laws was the return of Halley's Comet! You may wonder why there apparently is so much more known about physical phenomena than there is about market phenomena; the answer is simple! The research involving physical phenomena started hundreds of years before market research. We, the HAP Research Investment Study Group, have been working to discover the laws governing market phenomena.

In the pages that follow you will be introduced to Fibonacci Numbers, Balance Point Trading, Recurring Angle Method (RAM), Time and Price Ratios, Equilibrium Techniques, Wall Theory Trading, The Rhythm Method, and other various new techniques developed by HAP. For example, HAP's RAM technique is not afraid of the Bull and Bear markets. It is only one of many new methods developed by HAP (Hamon's Angle Procedure). The methods and techniques of HAP are for the improvement of a trader, but are only as good as a trader's personal abilities. HAP hopes to make more successful traders. Three different combinations of HAP methods have produced 80% or better results on previous price action, but no guarantee can be given that a trader may achieve these results in the future.

In summary, the purposes and goals of the HAP Research Investment Study Group are:

1. To fill the need for an organization of technical market analysts who will set a standard of integrity.
2. To provide a valuable service to the industry, rather than trying to make money at any cost as a primary objective.
3. To develop and market trading material—indicators, techniques, etc.—with merit.
4. To document our trading material in a manner useful to our customers.
5. To perform research and testing for non-spreading speculators.

Chapter 1

Types of Markets or Price Patterns

To keep down repetition in the other twelve sections of this work, the types of markets or price patterns will be presented here and referred to in future material.

The four main types of price action patterns are: the runaway, the swinging or choppy, the labored move, and the congestion pattern. These names describe how fast price is changing and how long price keeps going in one direction. Each of these markets have different rhythms. The price level will often affect the pattern of price action, making swings or legs of the market more narrow or broad. A market may be referred to as slow, normal, fast, or sometimes even dead, according to how much trading is going on in the contract, revealing interest or lack of interest by traders. The various price patterns are discussed on the following pages and illustrated in Figures 1 and 2.

Types Of Markets Or Price Patterns

THE RUNAWAY

The runaway is the fastest moving price pattern. It moves mostly in one direction, very rapidly. It is unusual for there to be more than two day reactions. A trader just has to have the nerve to get in and hang on in this type of market. Price may move in one direction for seven or more days in a row, but generally after seven days a reverse day or two may be expected. The odds favoring a change are about the same for the first seven days. When a market gets going, it attracts a lot of traders who like action. Movers are the most popular type of market, as it is hard to make money in a slow market. Generally, a runaway market will be over after it changes its line of travel the third time. It is very important to be in this market on the right side from the beginning, or the risk factor becomes great, also stops must be far away. With prices above old highs, it is harder to estimate reactions, and with a lot more traders involved there are more poorly financed ones in the market who are easily shaken out. At tops, runaway markets are wide swinging and hectic. Even congestion areas between runaway legs are generally wider. The runaway would be described by Elliott as a zig-zag type.

SWINGING

Swinging markets may move fairly fast but they do not go very far until reversing for a move in the opposite direction. A swinging market may be choppy, going more slow and labored. Some traders make a separate category of the choppy swinger, but we do not. We merely refer to a slow swing or a fast swing, with the slow swinger being the choppy type. These swinging markets have a lot of three's and five's in their rhythm if they are choppy, or four's and one's if they are the faster swinging type. A runaway market will not evolve out of a swing as often as it will from the congestion or the labored move. When a market gets to swinging, a lot more swings may be expected. The swings may vary in size, but usually keep swinging until old highs or lows are broken. Shakeouts are often found at these old highs or lows. A shakeout is characterized by a long thrust day or two, running the stops, then reversals. Accumulation or distribution is often indicated by a jerky market.

Price level makes a difference in the swinger. Lower levels should be slower

Types Of Markets Or Price Patterns

and higher levels faster, more volatile, and wider apart in swings. Use the rule of alternates, as described in the Chapter on Elliott Wave Theory, in this market. If there has been a lot of choppy action, expect prices to slowly give way to a fast action leg. This is called a flat by Elliott. The swings will have “V” reversals more often, which is hard for positioning, but in spite of the problems involved, this is one of the best kinds of market to make money.

THE LABORED MOVE

The labored move consists of a lot of up and down days overlapping with slow, steady channel-like travel in one direction. There are a lot of one's or two's then one's. The reason this market is laboring is because it is trying to change directions, so it is important to get out or reverse positions as soon as its channel is broken.

Three days up should be followed by two days down, or vice-versa. Look for a big increase in volatility and volume on breaks to help locate the true break-out. When there is a true break from the channel, there ought to be at least three days in one direction with the break. As price patterns change, chart followers change positions and this emphasizes the action. Recognizing scared action in the market is important. Understanding the reason for it helps. Short covering or long covering results from traders scrambling to change positions. Deviation from the normal rate of volatility often means scared action movement. The labored move, including its fast breakouts, would be called zig-zag by Elliott, if it is kept moving in one main direction; otherwise it could be either flat or irregular, according to the larger type of market pattern. What we refer to here as a labored move is that part in a channel going in a slow, choppy direction, not the swings that may follow.

THE CONGESTION

The congestion phase type of price action is the most complex and the most important kind for the trader to learn to understand. It is said that over sixty percent of the time, the market is in congestion. There are more shapes to this type than can be easily described, but the sum totals up to the fact that the market is moving mostly sideways. The sideways motion may be orderly and even, or erratic and irregular. Flags, pennants, diamonds, and triangles are also forms of congestion.

Types Of Markets Or Price Patterns

It is often hard to tell the direction of the market during a complicated congestion phase. This is the resting place of the market when traders are uncertain about the fundamentals, but it also may be accumulation or distribution. Usually there are only two days in one direction in a small congestion and four in a large one. Then when boundaries seem to be formed, stops may be run and shakeouts occur.

Some trading methods are written especially for congestion area trading. Traders may buy only breakouts, others may buy the fifth day down or sell the fifth day up. If the congestion area comes after a bottom has been made, it is generally to be expected that the market will proceed on out of the congestion the way it came in. If price comes out of a congestion, reverses back into it without making new lows, then comes back out again, this is generally a good trade. If in the middle price range area the leg goes back the way price went into the congestion, then another congestion should be expected soon, with another try at the old congestion level. Price stalling near the middle of a congestion area and reversing is more apt to go out on the next try. If the market is going up, three points are usually made on the bottom of a congestion. If a false break occurs, then there may be three more points. After a fast run there may be only two points in the congestion.

Congestion areas must be considered by price levels of low areas, middle areas and high price areas. Near the bottoms there will be more jerks or long fast thrust days as accumulation is accomplished. At tops, a congestion should be wide, swinging and volatile, with distribution taking place. On flag congestions, the up-flag generally signals a down move and the down flag signals an up move. Breakouts from well-defined triangles are more reliable. The ordinary congestion area does not have any Elliott count that is reliable. Large triangle congestions could be what Elliott called irregulars.

As a general rule, expect markets moving out of congestion to be of the same type as before the congestion. A runaway market coming out of a congestion will more than likely be a runaway when leaving the congestion. But, it is more important to analyze market conditions.

Buyers can usually purchase all they want after three or four days at the same general price level. Commercials try to buy a five day low or ten day low; or if selling, on a ten day high or twenty day high. With experience, a trader learns to read the market like an old familiar book. An inside day on low volume is just pit men swapping trades; but an inside day on large volume is a good sign of an impending price change. Inside days are really small congestion areas, as can be

Types Of Markets Or Price Patterns

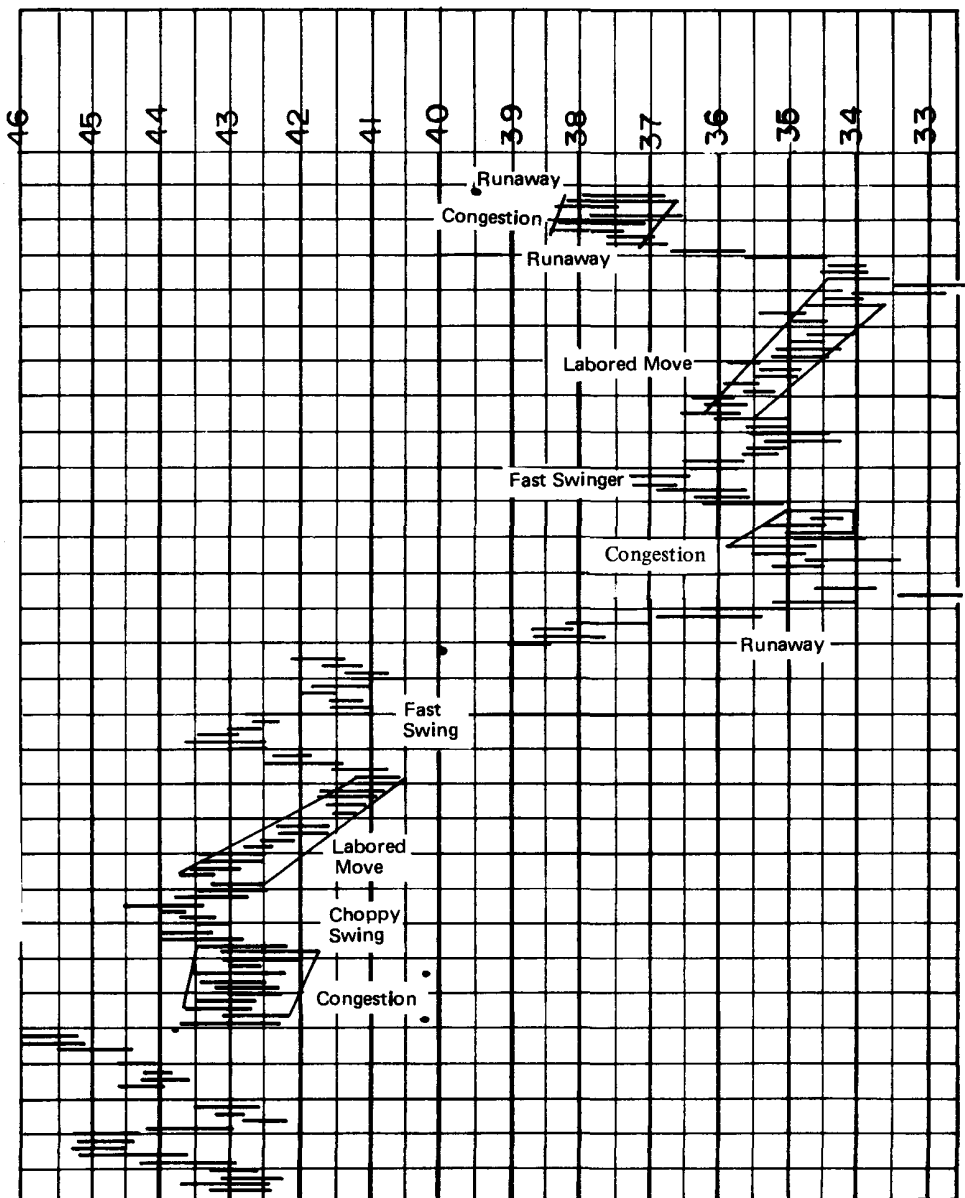
seen on five minute charts, and should be treated like congestion areas.

In summary, look for repetitious patterns, as they often repeat in the future. Consistently compare one part of the pattern with as near like the other as is possible. Do not expect too much from the market, but try to be in for the larger move should it come.

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McMaster, R. E., Jr. *Trader's Notebook 1979*, The Reaper, P. O. Box 39026, Phoenix, Arizona, 85069.

FIGURE 1
TYPES OF MARKETS



Charts furnished courtesy Commodity Perspective

FIGURE 2
TYPES OF MARKETS

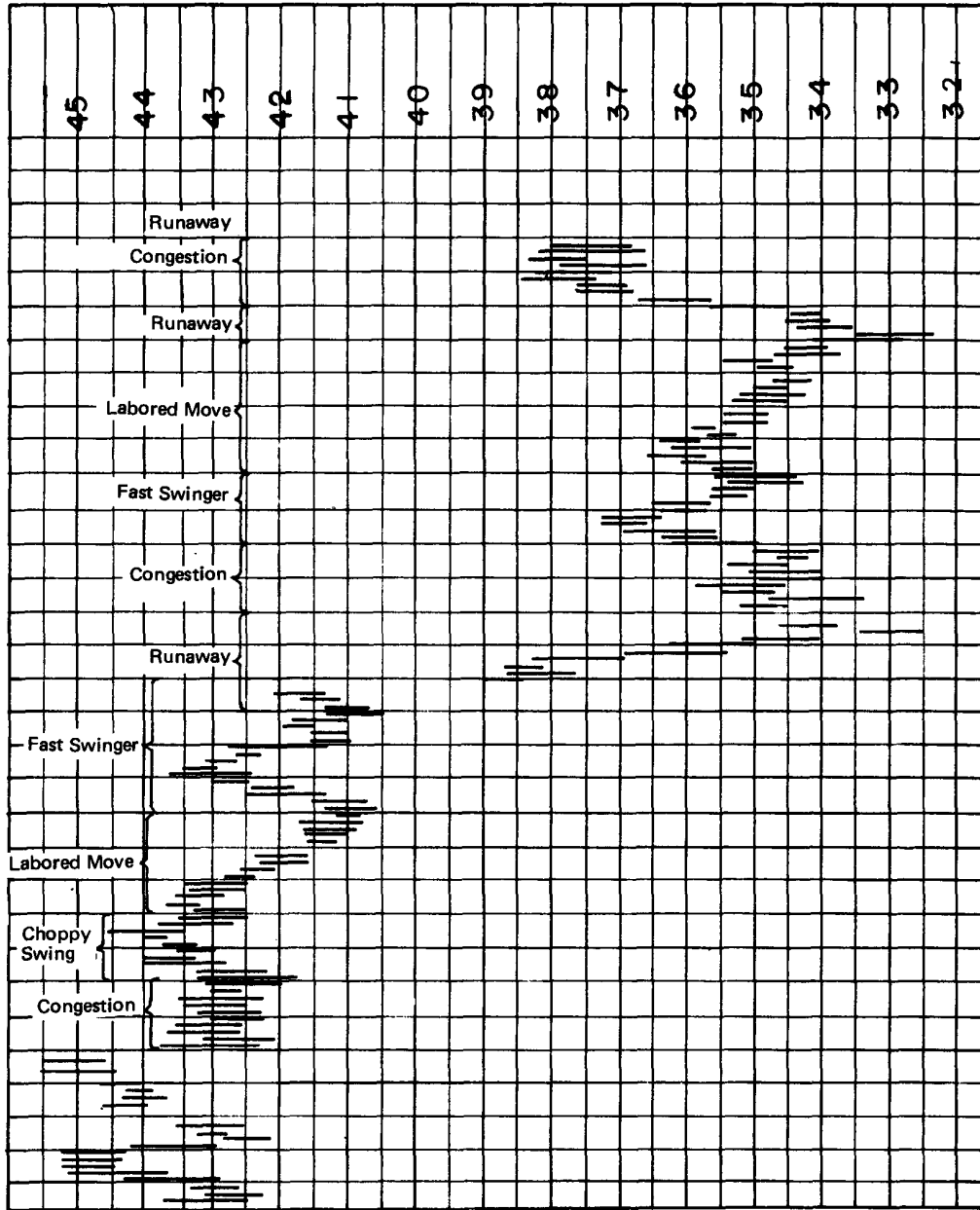


Chart furnished courtesy Commodity Perspective

Chapter 2

Winning With Fibonacci

FIBONACCI'S BACKGROUND AND THEORY

Fibonacci was a fourteenth century mathematician interested in the Pyramid of Giza. He began to unravel the symmetry and rhythm in the design of this ancient marvel. From this study came the Fibonacci sequence, the summation series and ratios that are now famous around the world.

WAYS TO USE THE FIBONACCI NUMBERS

1. Day trading—special times during a day are significant, as revealed by

Winning With Fibonacci

HAP's *own* unique day trading technique. This method will be explained in detail at the end of this section.

2. Using ratio differences—some FIB experts think the only necessity is to count the ratios. For example, one, two, or three times the FIB ratio of .61814.
3. Horizontal count is usually done on time, by the day or week.
4. Vertical count is usually done by price.
5. Diagonal count, or trend line count, is preferred by some and gives the general area where a change can be expected.
6. Circular count—the circle is evenly divided into 36 or 18 sections with the count around the circle.
7. Price patterns—these make the count easier and more meaningful.
8. Time and price—there will be a special section covering time and price.
9. Wall theory—with this theory there is a definite place to start and to finish.

HOW OTHERS HAVE USED FIBONACCI

Some use his series primarily on time, others use price; but most use the vertical, horizontal, or diagonal to count. It is suspected that W. D. Gann used his calculators as tools with which to do Fibonacci counts; but there has not been anything published, as of yet, to this effect.

WHERE TO START

HAP has found it is best to use a Fibonacci count with price patterns, since different rules must be used for several of the pattern types. The best tools to use in analyzing chart patterns are proportional dividers. A good price pattern to start analyzing is where swings of the same size are found. Learning *where* to start is the most important step in learning Fibonacci count.

It has been found that some Fibonacci analysts start counting anew for no apparent reason! Others may decide to take only one-half of a number if it makes it easier for them. HAP traders *do not* do this, because *consistency* is of *great importance*. There must be a logical reason to start a new count. It is not proper to use half of a number, or twice the amount of one, to procure a prediction. The steps taken must be understood and followed with regularity. The rules cannot be changed to suit a “whim!” Different commodities and different price patterns

may need varying methods due to different rhythms, but the general principles *must* be the same. Those alike must be counted with similar kind; price ranges (low, middle, or high) should be compared separately, by category. Price action walled off by higher highs or lower lows should be counted separately until broken. Long term count must not be mixed with short term; rules of logic and consistency are definitely a *MUST!* The only time to use interday count with daily count are those few times when they are at the *SAME* point.

How far back in time the HAP trader will go depends upon how long he hopes to stay in the market. Position traders who plan to stay in the market for several years may want to consider the major time spans, which can go back fifty to eighty years. For most traders, it is only necessary to understand the general time area when the major highs or lows are due, and be on guard during these times for the larger and stronger cycle force to interrupt the smaller, which must be considered on a daily basis. Going back three to five years on weekly charts should provide the main highs and lows with which to work. It should also contain the majority of cycle spans for most commodities. Make notes of the longer time period dates and tab them in relation to the smaller periods used every day. Fourier analysis may be used to determine dates of significance. The longer term dates must have a larger tolerance factor, with short term work used to procure proper entry or exit signals.

LIKELY STARTING PLACES

1. Main cycle, low or high
2. Major high or low
3. Previous FIB number
4. Reversal price pattern
5. Combination of several of the above
6. Wall theory method means that until overcome, the previous high and low will act as a wall for future price to overcome. Using this principle it is only necessary to watch the highs and lows, making the Fibonacci count until one of the two are overcome. There may be sets of Fibonacci count going along with the larger price moves overlapping the smaller, and new count starting with broken highs or lows. This blends with the Dow theory of using higher highs and lows to show strength.

Winning With Fibonacci

Some markets will work better than others due to the number of traders and characteristics of a commodity. Good success has also been found using FIB count on weekly charts.

RULES AND INSTRUCTIONS FOR FIBONACCI COUNT

1. In deciding where to start, try to have several rules agree on the place to begin. Cycles, highs and lows, price chart reversal patterns, main highs or lows, or Elliott wave count may all come out at the same number. The more reasons behind a decision, the more likely it is to become successful.

2. Larger numbers and longer time spans are more powerful than those which are smaller or shorter. The largest numbers and/or the longest time spans should take precedence over the smaller.

3. For this reason, it is best to determine the longer rhythm first.

4. Try to work with equal sized swings or legs.

5. Work separately with different price zones. High prices should be worked differently from low prices, since pivots will fall on longer term Fibonacci series numbers.

6. Let channels help. When the main price support lines or resistance lines are broken, start a new count. There should be three price area channels: small, middle-sized, and large. Count within the channel sizes.

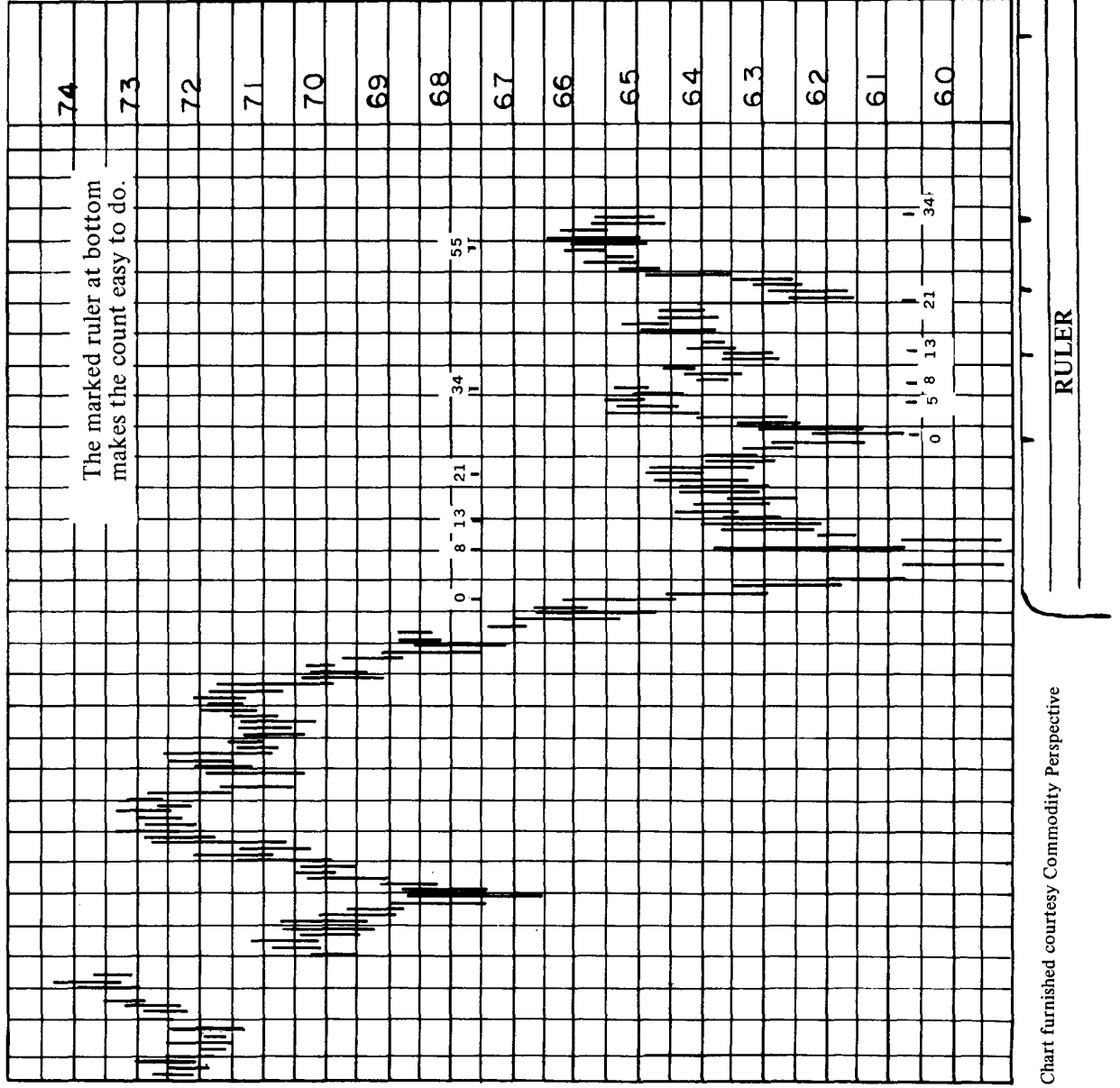
7. Price patterns need to be counted individually, with larger ones overlapping the smaller ones.

8. A variance or tolerance amount may be used if kept consistent and logical. There may be times when the market needs to catch itself. Trading hours are not necessarily the same as the count hours. There may be some differences. The eight day expected change may come late on the seventh day, or early on the ninth day. An example of the Fibonacci Count is illustrated in Figure 3.

USE ON CONGESTION AREAS

Price in the congestion area does not go far before reversing. With these shorter turning points, smaller FIB numbers are necessary if the area is to be analyzed. A line may be drawn through the congestion area and be counted as

FIGURE 3
EXAMPLE OF FIBONACCI COUNT



Winning With Fibonacci

one leg of the market, with a breakout used as the place to start a new count. The shorter time period and shorter price action requires a new start to have count within the congestion area. It will be still harder to see a reason for the FIB number when the highs and lows are lined almost even. However, count should help in predicting a breakout.

SWINGING MARKET USE

FIB count is more meaningful in swinging markets, for here the turning points are more pronounced. The count is a valuable indicator for helping to call the pivots. Smaller count should be inserted in smaller swings within the longer and larger numbers.

THE RUNAWAY MARKET WITH FIB NUMBERS

The longer term count is important in the runaway market. Look for the big swings! This market is the skeleton on which the rest of the price action is hung. The long legs and wide swings of the big-move markets will probably contain all of the other types of price patterns. Those who trade long term look for evidence of an upcoming big-move market, and only trade when indications for one are favorable. There are good price projection indicators which help predict the probability of this type of market.

FIBONACCI COUNT IN THE LABORED MOVE

FIB count in the labored move is similar to FIB count in the congestion area, except it is easier to see the dips or peaks. Nothing special needs to be done, except keep the count current with the start of the move or any good correction.

Here is a HAP Odds Table Example:

C=Congestion; S=Swinging; L=Labored; R=Runaway (Type Market)

MAJOR UP TREND MARKET

Table 1	Low Price Range Days until change				Middle Price Range				High Price Range			
After:	C	S	L	R	C	S	L	R	C	S	L	R
Day 1	1	2	2	4	2	4	3	6	3	4	3	7
Day 2	1	3	1	3	1	3	3	5	2	3	2	6
Day 3	1	2	1	2	1	4	2	4	1	2	1	5
Day 4	0	1	0	1	0	1	1	3	1	1	1	4
Day 5	0	0	0	3	0	2	0	2	0	2	0	3
Day 6	0	1	0	2	0	1	0	1	0	1	0	2
Day 7	0	1	0	1	0	0	0	1	0	0	0	1
Day 8	0	0	0	0	0	0	0	0	0	0	0	0

The numbers shown are rough examples. Each commodity and price stage (or pattern) must be analyzed separately. Weekly tables will probably work better. The information that is compiled in this type of table, or tables, will then be used to make a percentage ratio like that of seasonal odds ratios.

A Major Down Trend Market Chart must be made, which will have a reverse action from the above chart.

This last example of HAP Odds should appeal to those who are accustomed to situations with advantages in their favor. This method used the FIB count, along with price patterns, reversal patterns, and momentum, to make the HAP Odds Tables for each day's trading. To enter a trade, knowing that the HAP Odds are 80% in favor of it will insure confidence and a feeling of comfort.

I. Working up the tables.

One must first determine the kind of market (1) congestion, (2) choppy or swinging, (3) labored move, (4) runaway, then apply the Fibonacci numbers as follows:

1. The congestion market goes up and down in a narrow sideways channel. Run the Fib numbers, (1, 1, 2, 3, 5) up on them first. Then run them across to help in predicting when the congestion will end.
2. The labored move goes up two or three days, then comes back some, making an angled channel. Use the Fib numbers of 2, 3, 5, and 8.
3. The swinging market goes up and down faster. Use only 3, 5, and 8.
4. The runaway market should not go much more than thirteen days without

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a correction. Use 5, 8, and 13.

II. How to use the ODDS information.

1. In a congestion area if the price turns and goes one day up from the bottom of the congestion, expect it to have a better than 50% chance of going another day. If it goes two, then it should have more than a 50% chance of being up three ($2 + 1 = 3$). This is using the Fib numbers of 1, 1, 2, 3.
2. In a labored move the channel is more important. If in two days it hits the channel top, expect a one day correction. If it takes three days to hit the channel top, expect a two day correction. If it takes five days to reach the top, expect a three day correction. (Using the Fib numbers in a descending order: 5, 3, 2, 1, 1).

In using these you must see what has been done in the past to judge what will happen in the future. The labored move should go up in increments of two, three and five days of up and down action confined to a channel.

3. The swinging market expects a correction after three days, but this should be of a small magnitude. Then after five days of main thrust, there should be a larger correction. The swing should reverse by the eighth day.

The size of the corrections tell what to expect on the next move. The length of the move should reveal the extent of correction.

4. The runaway market only expects a two day correction, or even less during the first five days.

After five days in one direction, look for eight on the next main thrust, then have a bigger correction. Finally it should reach thirteen days, when a congestion takes place.

Corrections are generally the Fib number lower than the count on the previous main thrust, but this is not true for the runaway market. The main thrust usually goes the amount of the next Fib number above the amount of the correction, but, here too, the runaway is different. If the correction is two days in a runaway, the main move will probably be more like five or eight rather than the next Fib number of three. An eight day up move in a runaway will not produce a five day reaction as it does in other kinds of markets. Here you should have a three and one; five and one; or an eight and two; or perhaps a thirteen and three.

Failures to follow through as expected denotes weakness.
Extensions beyond the expected show strength.

NATURAL NUMBERS

Some numbers, like "100," have a psychological impact as they appear on the trading board. Invariably, if 100 or a multiple thereof is surpassed, the market will take a spurt for no apparent reason. This is true to some extent for other numbers, such as ten or fifty. Most of the time some FIB number will also be the natural number, or a ratio will be seen between the number and a previous main turning point. The main natural numbers are one hundred, two hundred, three hundred, or any multiple thereof. The next natural number in strength is fifty and its multiples, followed by ten and its multiples. Even numbers are used more often by traders than odds. Be careful when trading to make this information useful.

MAKE MORE IN TRADES WITH THIS DAY TRADING TECHNIQUE!

In daily trading, it has become evident to some traders that price actions often change close to certain times each day. Knowing how to detect these times of change can mean a great deal of money to a trader by getting him better fills, or by improving day trading. The secret of these vibrations is found in the use of Fibonacci numbers. Make five minute bar charts during the day. (Live cattle works good with this system). Count the Fibonacci series by fives, starting five minutes after the exact time of the opening. These numbers, or minutes from the opening are: 5, 10, 15, 25, 40, 65, 105, 170, 275. If these numbers are posted in a special color on the chart ahead of time, it is easy to see how they do when price and time catch up with the charting.

On an average of 60%, price will change at a time on or near these numbers. The changes can be from down to sideways; from sideways to either up or down; from up to either down or sideways. Starting from the opening there are six possibilities of market action.

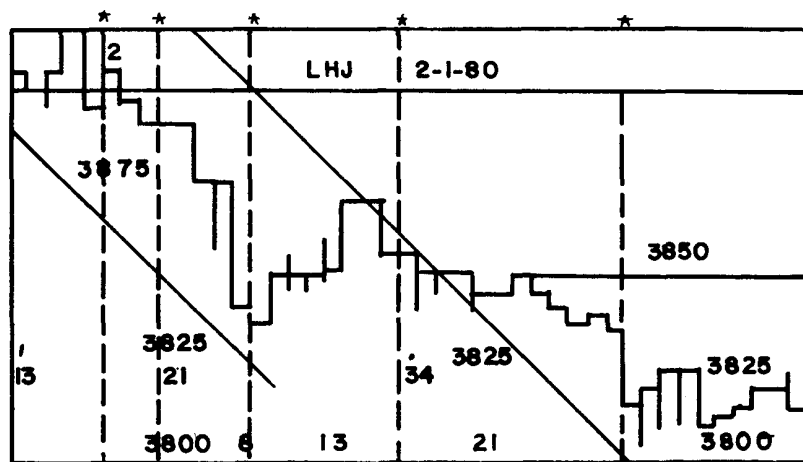
Most of the time no trading would be done for the first fifteen minutes, while the market is settling down and establishing a daily trend. When a market goes into a sideways action it will usually extend out the same direction from which it entered the congestion area. Charting techniques used on daily charts can also be used on five minute charts, working as well there as on the daily ones.

Winning With Fibonacci

EXAMPLE OF DAY TRADING

Entries and exits should be done on a day trade basis. Count from the opening bell a Fibonacci series by fives. Note 40, 65, 105, 170, and 275 minutes on a five minute chart. For the cattle, the times that would apply on Central Standard Time are: 9:45; 10:10; 10:50; and 11:55 A M.* Expect a change on these times. Trade like a daily chart. Following these time periods will greatly increase the amount of returns by procuring better fills and getting in better.

FIGURE 4
APRIL LIVE HOGS
Example of Intra-day Five Minute Chart
With FIB Time Periods Marked At Each Star



The HAP traders believe they can estimate the odds in favor of a change of market direction just as well as, or better than, those who estimate seasonal odds. In fact, Fibonacci odds should be more accurate and dependable.

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* These times are indicated by vertical dotted lines on Figure 4.

Chapter 3

Balance Point Trading

The Balance Point is one of the most important parts of market analysis. To find the balance point it is necessary to analyze the minor swings or choppy areas of the market. Each swing in the market helps predict what is to happen in the future. During choppy congestion areas, accumulation or distribution takes place; then fast markets develop.

ATTEMPTS AT FINDING THE BALANCE POINT

Many attempts have been made at finding the Balance Point. Most traders use the fifty percent rule. There are, however, not that many fifty percent swings in

Balance Point Trading

the market; rather there are various sized swings, most of which are not fifty percent of the preceding one.

HOW TO FIND THE BALANCE POINTS

Instead of trying to use a halfway point, HAP connects various halfway points with a line. The Balance Point Line must go through the center of at least two swings, but the more centers connected, the more reliable the BPL. In order to have a valid directional indicator, there must be a second BPL connecting two swings, pointing in the same direction as the first BPL, if there is only one two-swing line BPL found at first. A three-swing BPL should give a good directional signal. The two-swing BPL acts as a warning signal, with two two-swing BPL's equivalent to the three-swing BPL.

MAKING BALANCE POINT LINES

A Balance Point Line is made by drawing a line through the mid-points or centers of two or more swings. The line must be straight, but may be in any direction and can be of any length as long as the centers of several swings are connected. It has no definite place of origin and is not restricted to consecutive swings. Usually better results are obtained if the last swing is bisected, but this does not always hold true (See Figure 5).

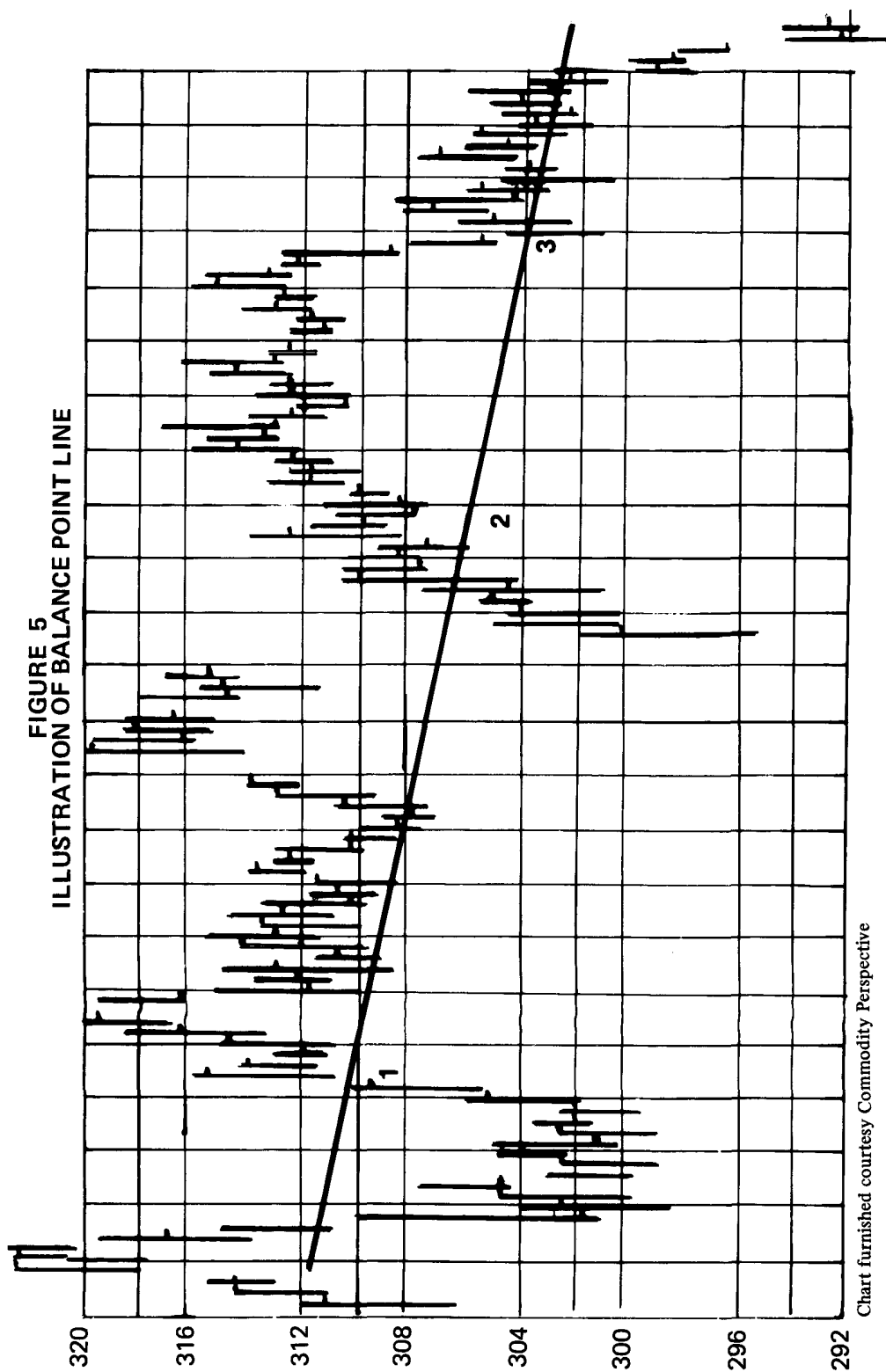


FIGURE 6

ILLUSTRATION OF BALANCE POINTS AND BALANCE POINT LINE

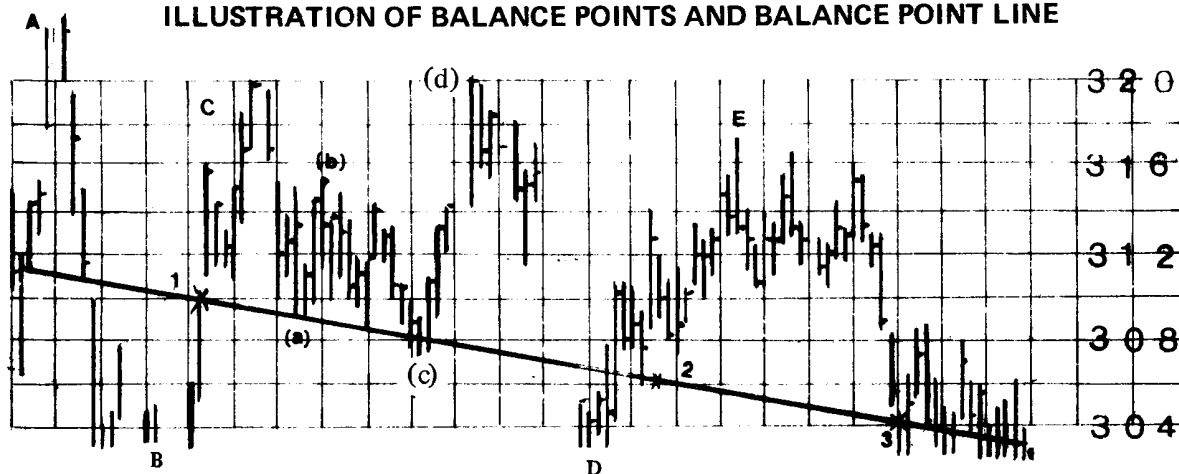


Chart furnished courtesy Commodity Perspective

In the illustration above, note the distance between 1 and (c) is about the same length as 1c; and from (c) to 2 is also the same length. 1, (c), 2 and 3 are all the same distance apart, and also almost the same length as the swings above or below the Balance Point Line. This, however, does not happen too often.

There may be a good distance, or several swings, between the Balance Points of the Balance Point Line. The object is to find the middle of most price action. Price action should be fairly evenly divided above and below the Balance Point Line. If the action is more perpendicular, price should be almost equally divided on each side of the BPL. Action above the line should produce equal action below the line. If this is not true, then expect a new tier of price action, of about the same size, above the BPL. The force that should have gone down is turned to apply to the upward action, making the new upward action stronger.

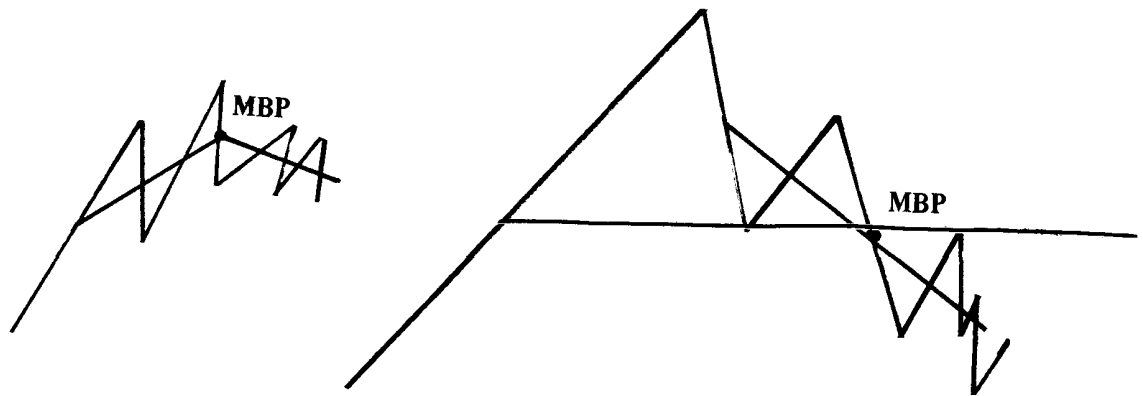
Use only major swings when desiring to find the major trend; by dealing only with the large legs of the market, the main trend should be evident. Likewise, to determine intermediate or small trends, use only price action of those dimensions in proportion to the main swing.

THE MAJOR BALANCE POINT LINE

Occasionally, there is a balance point where two Balance Point Lines intersect,

or at times, two BPLs may cross and use the same balance point at crossing. When this happens, there is a Major Balance Point, which should be more significant. Work off a Major BPL, if possible, in preference to other BPLs. Expect more price action to be necessary to penetrate the level of this point. Should this point be broken, it is a stronger indication of price change and should be given more weight in price prediction analysis. Note the illustration below:

MAJOR BALANCE POINTS



USING CHANNELS

Help in finding major, intermediate, or minor trends may be obtained by making channels parallel to the BPL. These channels may be divided into fourths if they are large enough, and according to how many pivot points their inner channels may hit. Often a mini-channel will stand out. A channel may shift up or down some. The top or bottom part that gives more resistance or support is the strongest. Different sizes of channels should be clear, and indicate the trends in action (See Figure 7).

BALANCE POINT REVERSAL RULES

Summary of theory: Action-reaction; Equilibrium; difference between balance point line and its parallels; price reversal patterns; thrust rules.

FIGURE 7
EXAMPLE OF BALANCE POINT CHANNELS

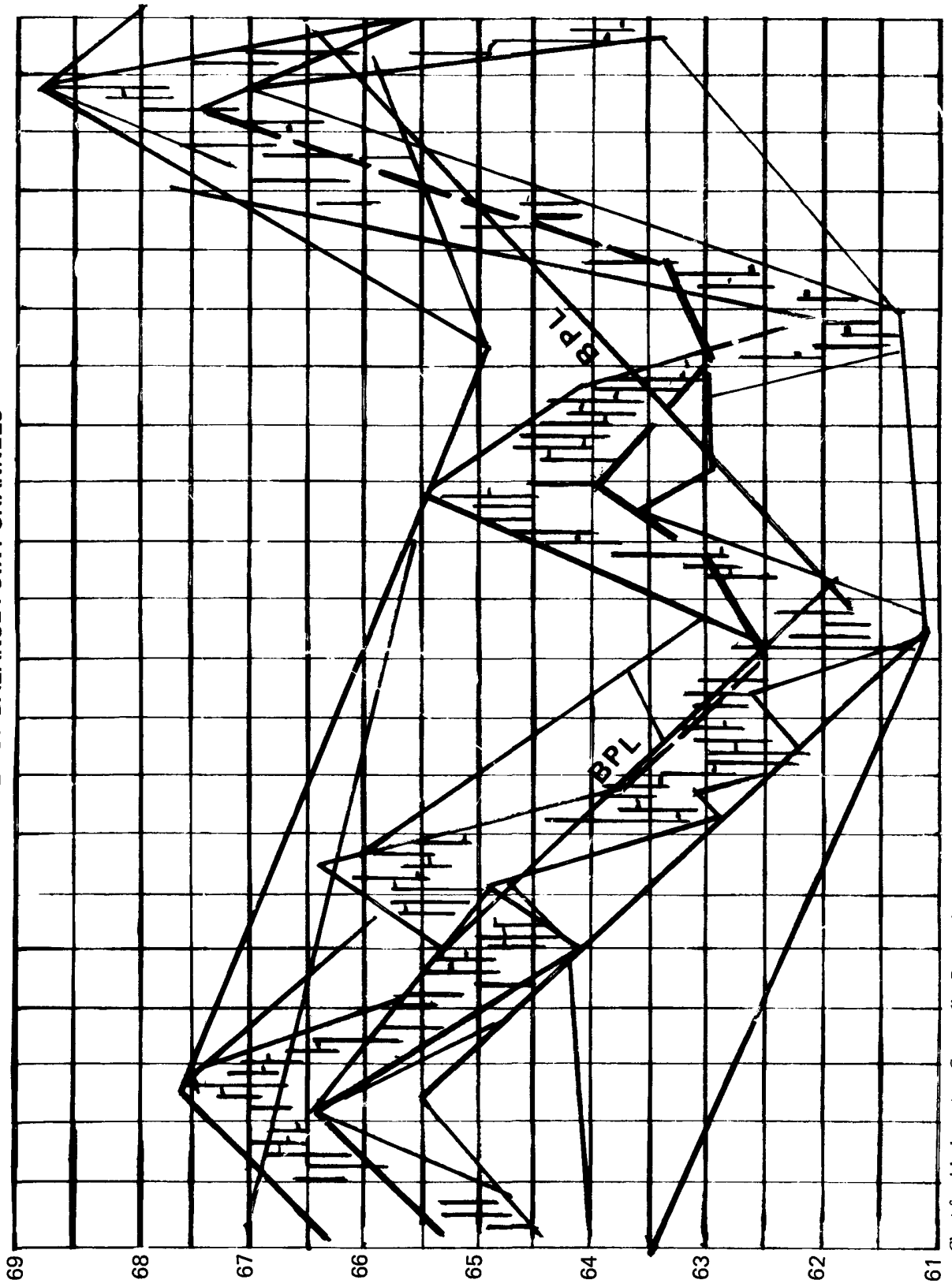


Chart furnished courtesy Commodity Perspective

1. Action-Reaction—Action-Reaction theory is based on Newton's third law of motion stating that for every action there should be an equal and opposite reaction. Price should continue to develop above, below and across from a balance point in future price action about the same as it has in past price action. Fast, hard action should have a good reaction. If this does not happen, it is a failure and price should go on in the original direction.

2. Equilibrium Rules—If price hangs too long in an area or stalls out, it should retest its former boundaries. Larger swings should not come back as far, then go further on the next swing.

3. Starting the Pendulum Swing—The last high or low should be the pivotal point for an equilibrium swing. But if a pivot occurs on the balance line, this should also be a pivotal point from which to make the pendulum or fulcrum swing. A one-half point from the pivotal point over the horizontal, and parallel with the present price, should also make a good pivotal point from which to make equilibrium lines. New equilibrium pivotal points must be found if price goes below the balance line parallel (See Figure 8).

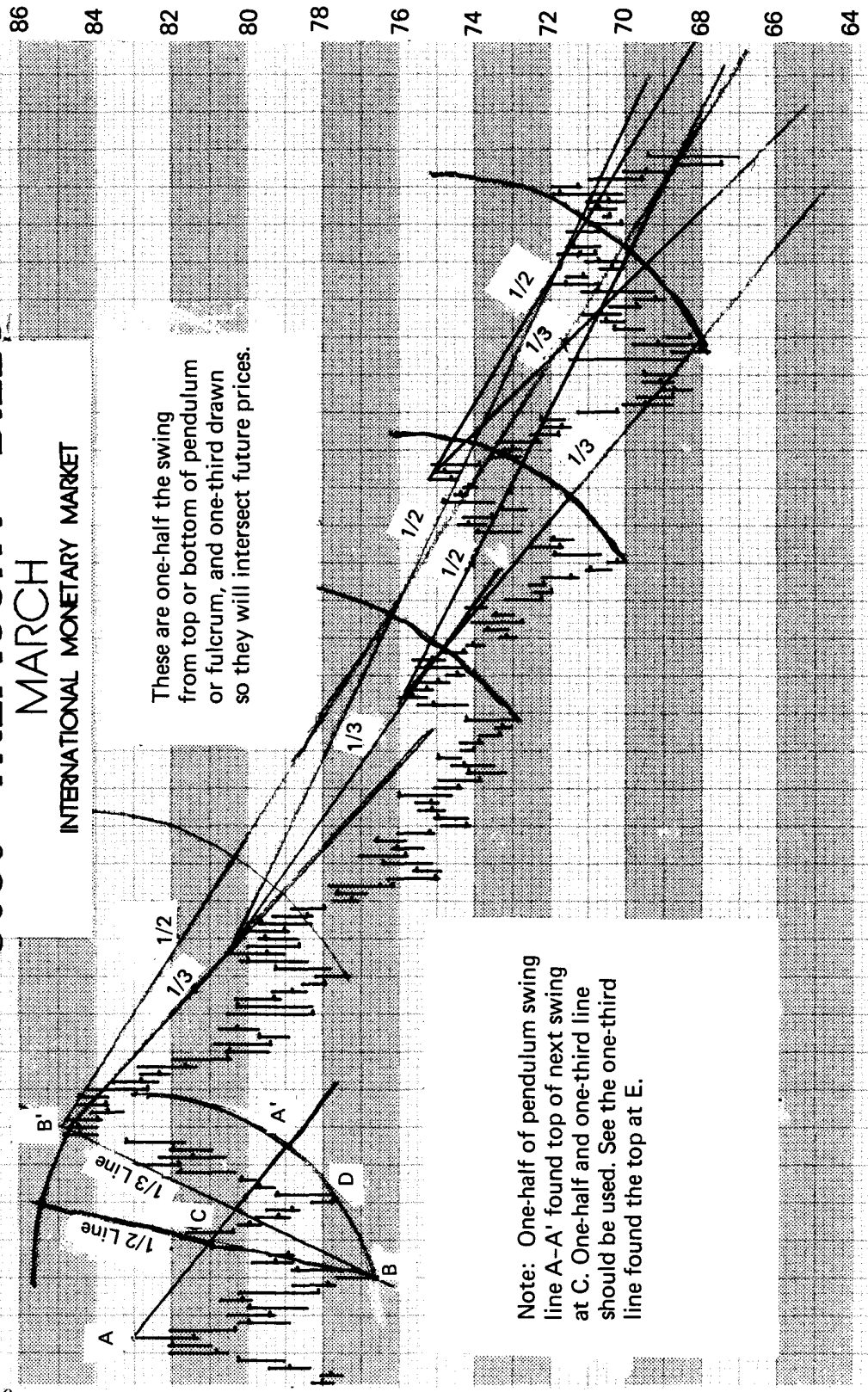
4. Price Pattern Differences—Differences must be made between choppy congestion areas and runaway price action. Balance lines for congestion areas should end when the congestion area or choppy area ends. High-price, broad swinging markets will be different from low-price, dull markets. The Balance line is not meant to interpret each minor swing or mini-swing. Smaller swings closer together will not be as accurate. It is better to have swings of about the same size, but this is not mandatory. Consider balance lines between about equal size swings to be more important.

5. When to Use Price Reversal Patterns—There are two price reversals which may be used with the Balance line. They are the Island Reversal and the Gap Reversal. These are to be used only if they are above other nearby turning points.

6. Thrust Rules

a. For reversal indications, the number of closings, and especially the number of pivots that are overcome or reversed, is important. Price closing higher or lower than several pivots should be an indication that price is going to the far side of the balance point channel.

FIGURE 8
EQUILIBRIUM LINES
U.S. TREASURY BILLS
MARCH
INTERNATIONAL MONETARY MARKET



- b. When a long thrust or several long thrust days do not continue, but change into short thrust days, expect a reversal. (Make an exception for this if the day is before a holiday or major market report).
- c. The direction of the third thrust often points the way.
- d. If a labored move which has not reached support (or resistance) makes a thrust in the opposite direction, count this as an indication of a minor reversal.
- e. Shorter thrusts on corrections indicate the move before the correction is not complete.

HOW TO USE THE BALANCE POINT METHOD

The main use of the BPL is as a directional indicator. During swinging markets or choppy congestion areas where it may become hard to tell the main trend, the BPL with channels should take the confusion out of locating trends. Comparative relationships in size of channels should indicate not only where the market is going, but also what length of trade is involved. Major, medium, or small trading trends can be more easily defined.

When the BPL is pointed upward, trade from the bottom of the balance zone near balance line parallels, assuming the main trend is up and other indicators agree. By trading from the bottom with the main trend, there is a good chance of being aboard should a runaway breakout occur. The opposite is true in trading from the top channel line, if the balance favors the downward action.

The Balance Point Line with its channels is also a help with price projection analysis. The size of each channel should double upon a valid breakout of the channel. On a break with a channel, make shorter BPL's as price moves away from the old BPL. The direction of the break should be pointed out by the Balance Point Line in the middle of the Balance Point price action.

The longer the Balance Point Line, which goes through most of the middle price action in consecutive order, the greater the breakout leg should be. Balance Point parallel lines are not as strong as lines coming across from old highs or lows. Failure of price to go below the Balance Point line is sometimes an indication of an impending break. What price does *not* do is important. If the balancing factors indicate that price should go back to the lower part below the line, but it does not do so, this can be an indication of a price change.

Other indicators should be used with this method. Try to have six of the ten main technical indicators favorable before trading.

FIGURE 9
BALANCE POINT LINES WITH BALANCE LINE PARALLELS

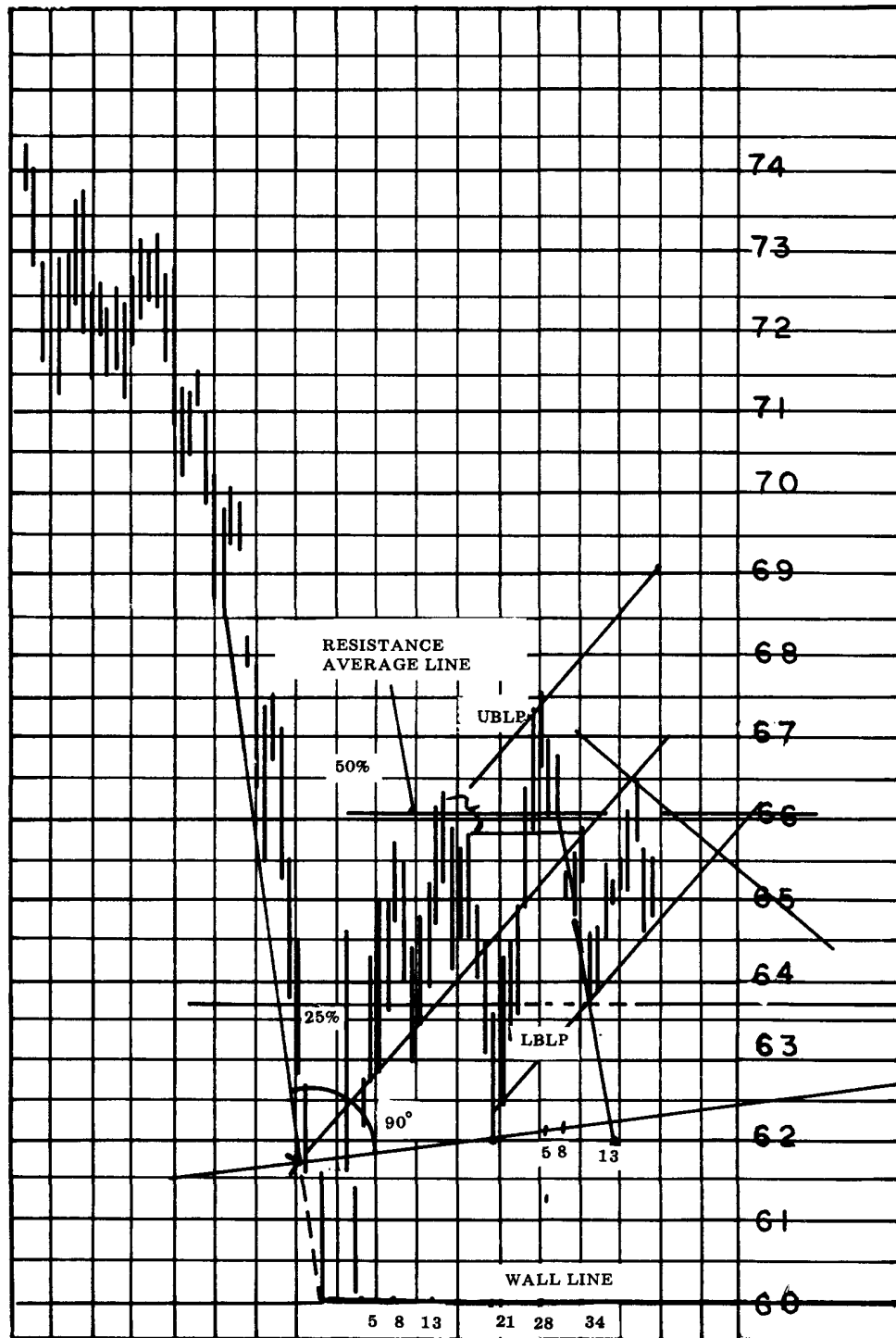


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Chapter 4

Recurring Angle Method (RAM)

Famous traders learn repetitious factors in the market and use this knowledge to make a fortune. Others have learned of repeaters to increase their ability. HAP has found several of these repetitious money makers. One is the Recurring Angle Method.

Use parallel rulers on price charts, and with a little experimentation these repetitious angles will become evident. There are up angles and down angles, with a sideways action usually in between them. Sometimes, instead of a sideways action there will be a swinging market between the Recurring Angles. When this happens, a ninety degree angle from the last Recurring Angle will usually be the trendline along the bottom of the swinging area. Learn to find the Recurring Angles of travel, for it will greatly improve your trading.

Recurring Angle Method (RAM)

THEORY

1. Most price charts eventually will reveal repetitious angles, called Recurring Angle Lines. When price moves away from this line angle, it should eventually go into another Recurring Angle. Down angles and up angles usually differ in degree.
2. Price following a trendline or repetitious line of travel will usually have a ninety degree break from this angle of travel. If there has been a fast moving market, there should be a greater bounce before the sideways action begins.
3. Price, as a rule, does not stay exactly on the Recurring Angle, but fluctuates around it. The distances away from the angle should be averaged. Find the Recurring Angle on back chart work.
4. When price swings of the Recurring Angle are averaged, estimate when to expect a correction back to it. Swings of each side should be equal.



5. When price moves sideways on a ninety degree angle away from the Recurring Angle the old angle is broken. Eventually, prices move from this sideways action perhaps out some distance, either beginning a new Recurring Angle or continuing the old one. Price does not always move from angle to angle with exact precision, but since the correct angles are known from previous chart work, the new angle should soon become evident.

HOW TO USE THE RECURRING ANGLE

1. Wait until a Recurring Angle is established for both up and down markets before trading.
2. Trade with the main trend. Average distances on each side, and enter the market on that average which is out from the end of a correction that is away from the Recurring Angle.
3. Other indicators should be used to help confirm these trades.

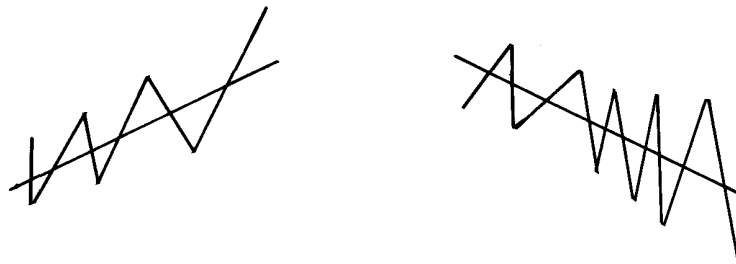
Recurring Angle Method (RAM)

ORDER OF WORK BEING DONE

1. Establish Angle.
2. Center Angle in price swings by averaging.
3. Consider the move temporarily over when the parallel of the Recurring Angle is broken; especially, if a horizontal line from old highs or lows is also broken. If the horizontal is not broken and price reenters the channel, go back into the market again. If a sideways action takes place on a ninety degree angle from the Recurring Angle, this is confirmation that the move is over.
4. The up angle and down angle will not usually be the same. Price should move sideways away from each before going into the next Recurring Angle (opposite to the previous), either up or down.



5. Recurring Angle on a Zig-Zag Price Pattern.



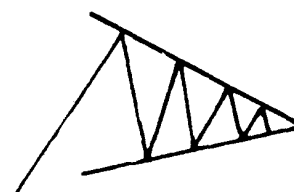
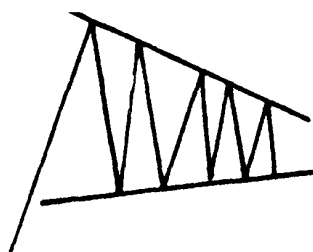
Recurring Angle Method (RAM)

6. Recurring Angle on a Flat Price Pattern.



Here the smaller fluctuations must be used to center the Dominant Angle.

7. Recurring Angle in an Irregular or Triangle Price Pattern.



8. Recurring Angles may not be true in smaller price movements. In triangles or irregular price market patterns, work with the Angle only on the larger swings, and let the trendline or channel line tell when to stand aside on the smaller swings.

SUMMARY OF RECURRING ANGLE PROCEDURE

1. Comparison with the Balance Point Method

The RA method is for trending markets, while the Balance Line method is for non-trending markets. Some of the same rules apply, especially the reversal rules and the action-reaction rules.

2. Problems with the Recurring Angle Method

a. The averaging of swings below or beyond the RA may cause expanding or contracting swings, which could get a trader out too soon or fail to take him out fast enough.

Recurring Angle Method (RAM)

b. Deciding between several possible channel dimensions may cause problems.

c. Money may be lost trying to decide if the right RA is being shown, or in waiting for proof of an angle.

3. Solving These Problems

a. The conservative trader should use the smaller sized channel for exits, then plan to come back in the market if the channel is reentered. Do not stay in beyond good money management rules for the size of an account. There may be an unexpected move further than anticipated, which may be too much for a small trader. It is best to plan to give up some profits by getting out at the smaller sized channel; but for those who are well funded, remember the rule that a channel size should double when broken.

b. Do not wait for confirmation of a RA if other signals are sufficient for entry. If the RA is later confirmed, then go ahead with the RA trading methods.

c. If the angle is above price in a down market, there are no problems; and likewise in an up market, there are no problems as long as price is above the angle.

d. In an up market, if price fails to come back to the channel parallel line, this is a sign of strength.

e. If price goes beyond the angle an equal distance of the old channel and starts back, a new channel may be made between these boundaries. Use the Equilibrium rules here.

f. Contracting swings on a down line shows strength.

g. Expanding swings on a down line indicate a reversal may be near.

h. Contracting swings on an up line shows weakness.

i. Expanding swings on an up line shows strength.

j. Use other indicators to help with this method.

VALUE OF USING THE RECURRING ANGLE METHOD

1. Price patterns that repeat should keep repeating. Use this knowledge for profits.

2. The recurring angle, with its channels, represents good entry and exit places.

3. This method keeps a trader out of a non-trending market, but has him in for the big move.

FIGURE 10
RECURRING ANGLES

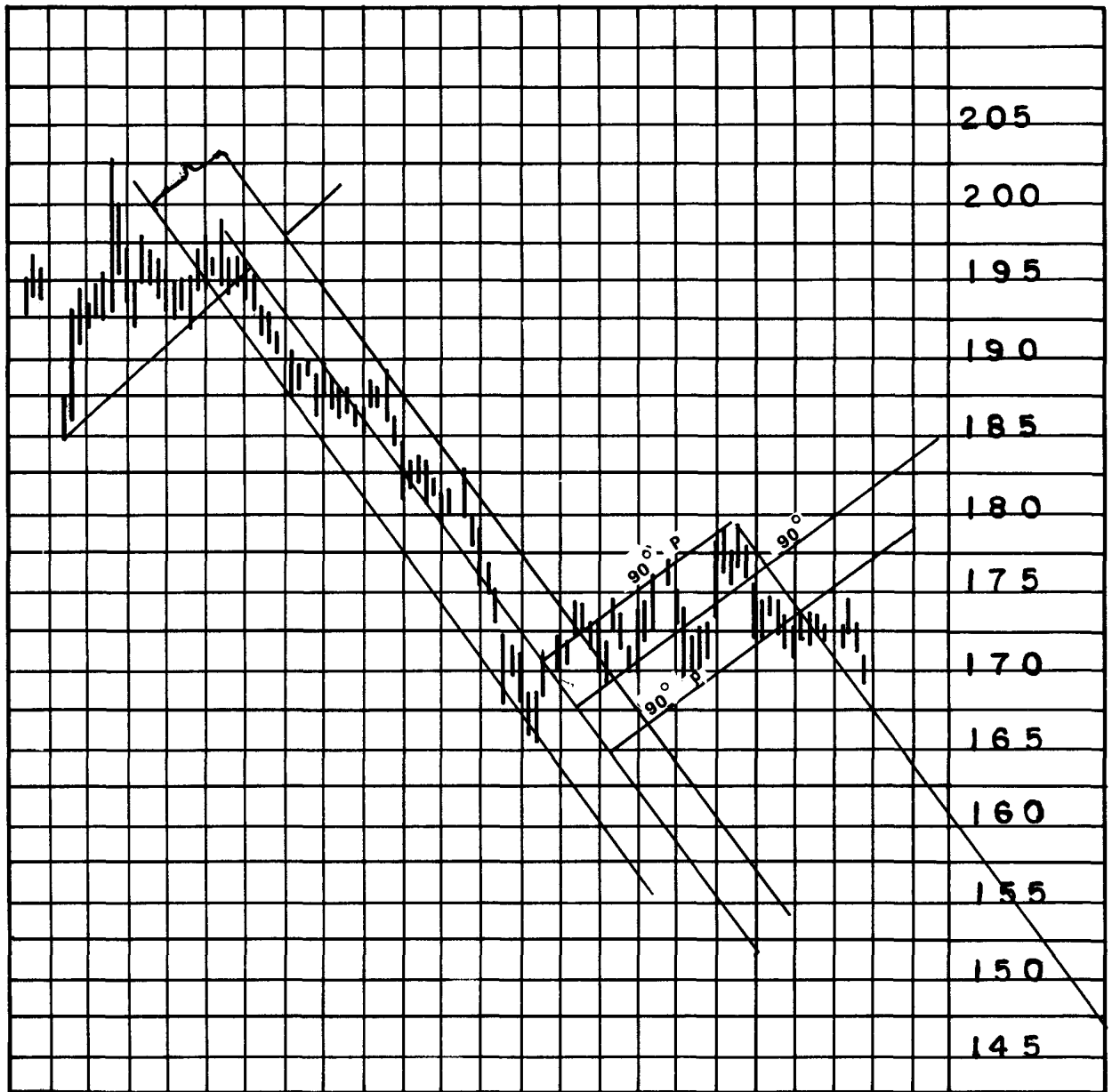


Chart furnished courtesy Commodity Perspective

FIGURE 11
RECURRING ANGLES

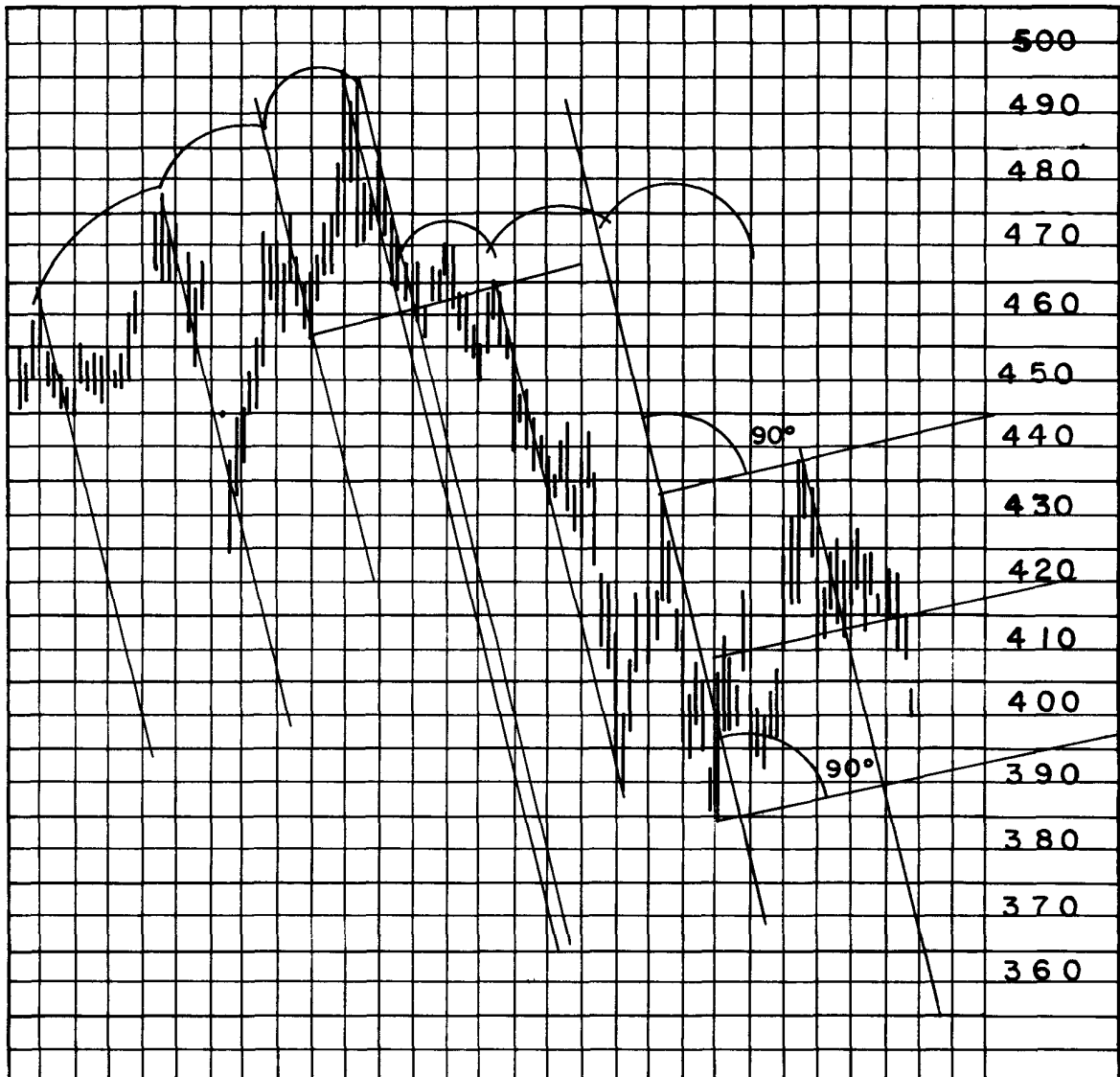


Chart furnished courtesy Commodity Perspective

FIGURE 12
RECURRING ANGLE
 With 90° Angle and Parallels From 90°

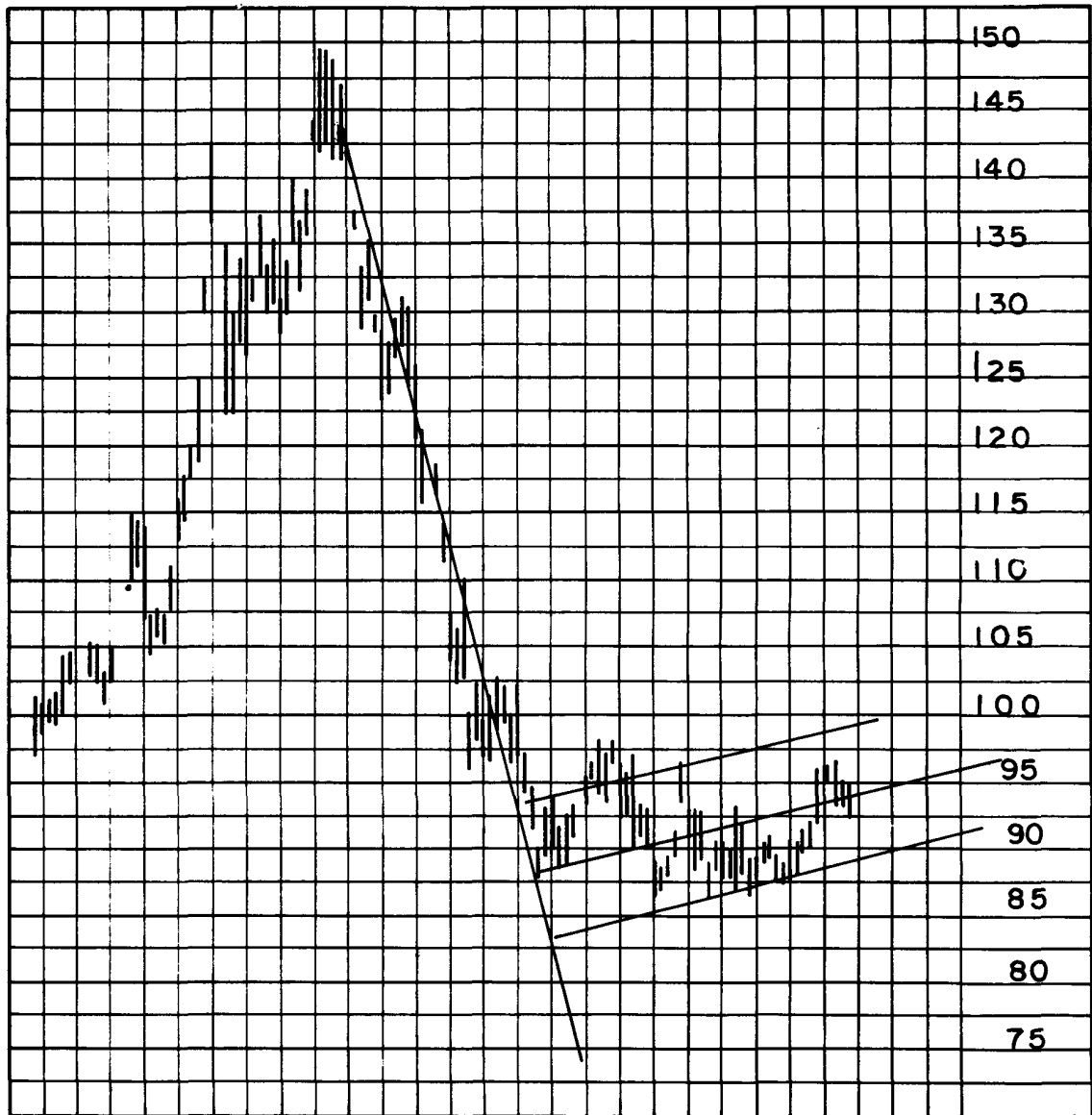


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Chapter 5

Balancing Time and Price

INTRODUCTION

Momentum, cycles, overbought-oversold conditions and balancing time with price all use a lot of the same theory. The factors affecting one of these will usually affect the others. Traders must study price patterns to learn what is normal or not normal for each. HAP has a section on price patterns that will help. Comparisons must be made between types of markets. Criteria need to be clear as to what each of these time-price indicators will do.

Momentum is the rate of change in speed. Velocity is revealed by the time taken for price to reach some objective, like a previous high or an estimated cycle time of change. Cycle theory expects regular change at nearly equal intervals.

Balancing Time And Price

Overbought-oversold conditions are objective comparisons; how much or how fast is the objective being achieved or exceeded. These will all be clarified and explained later, but first Time and Price balancing will be considered.

Time is needed by buyers and sellers to get a supply exchanged. When one side of the duo gets ahead of the other, time is needed to work out the details. Equations have been made to predict when to expect a change, according to whether or not price and time are equal. Some call this a squaring of time and price, but it is really a balancing or equalizing. Complicated calculators and formulas may be found which are meant to help. HAP uses Fibonacci ratios to make this easier and better.

Information published on balancing time and price has not been understood by most people trying to use it. Apparently, the answer not given is using Fibonacci numbers. HAP's section on Equilibrium elaborates on the use of spirals with Fibonacci numbers to improve the use of them considerably. Following is a chart (Fig. 13) showing how to square time and price using Fibonacci numbers. These are weeklies of July Pork Bellies, using one cent to equal twenty points. Note on March 20, where an arrow delineates a 23 day time span, that time went down about twenty-three cents in twenty-three days, then traded up to sideways. Then time and price turned down again on a FIB number (see mark above the day) and went down sixteen cents in sixteen days. On the week of time and price equalization it reversed again, going four cents in four days. On the tenth week, time and price balanced and the Bellies rose again.

Another example is shown in the illustration of September Copper (Figure 14).

One hundred forty-four days are marked with Fibonacci numbers brought up and over from the bottom so a line from each will intersect price. Price went sixty-two cents in eighty-nine days, turning on the exact day of the Fib number, then came back to its base in 120 days, squaring itself. If a Fib number line did not hit a pivot, lines across an equal number from the top usually did (See Figure 15 also).

FIGURE 13
JULY PORK BELLIES 1980

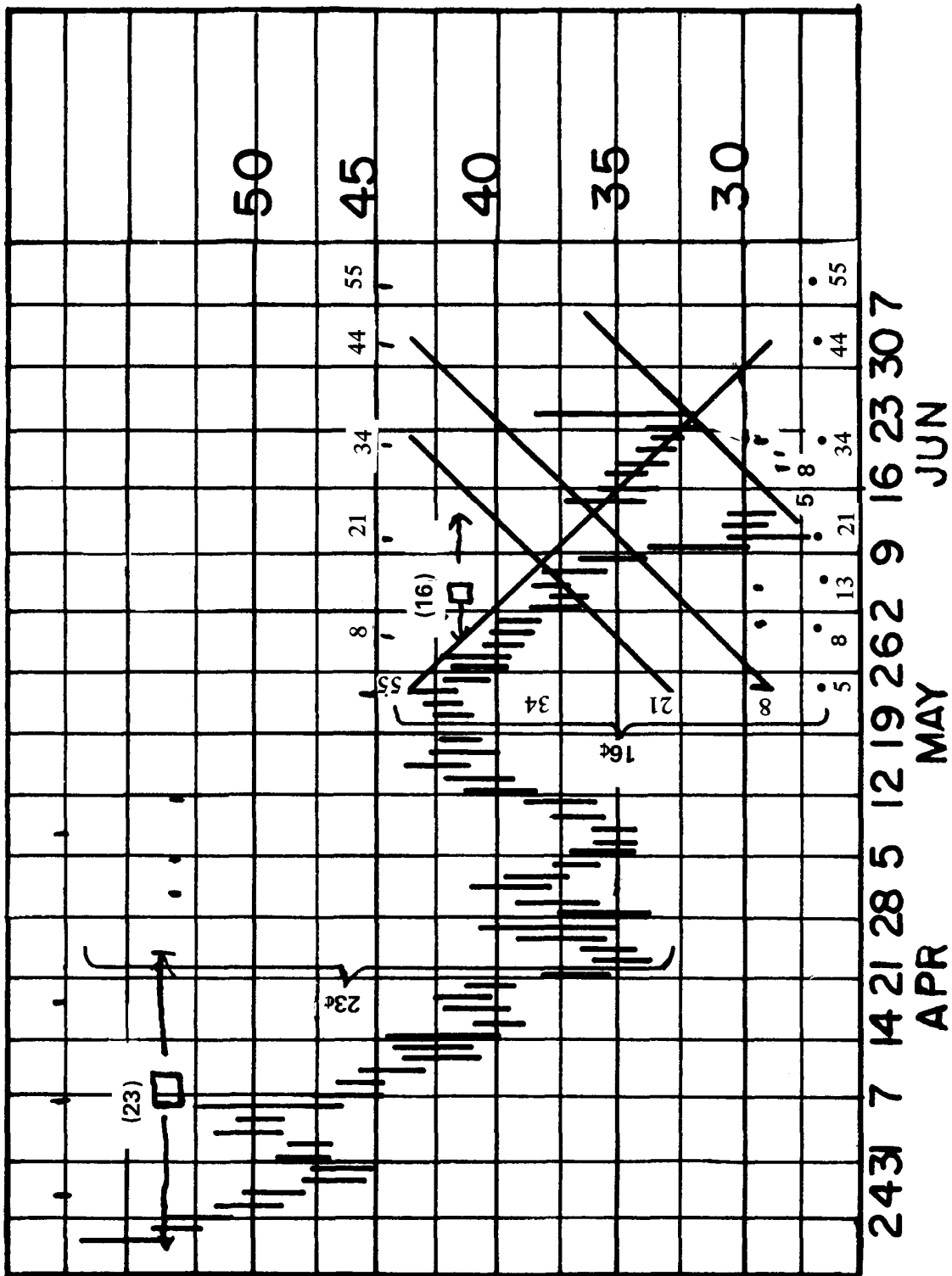


FIGURE 14

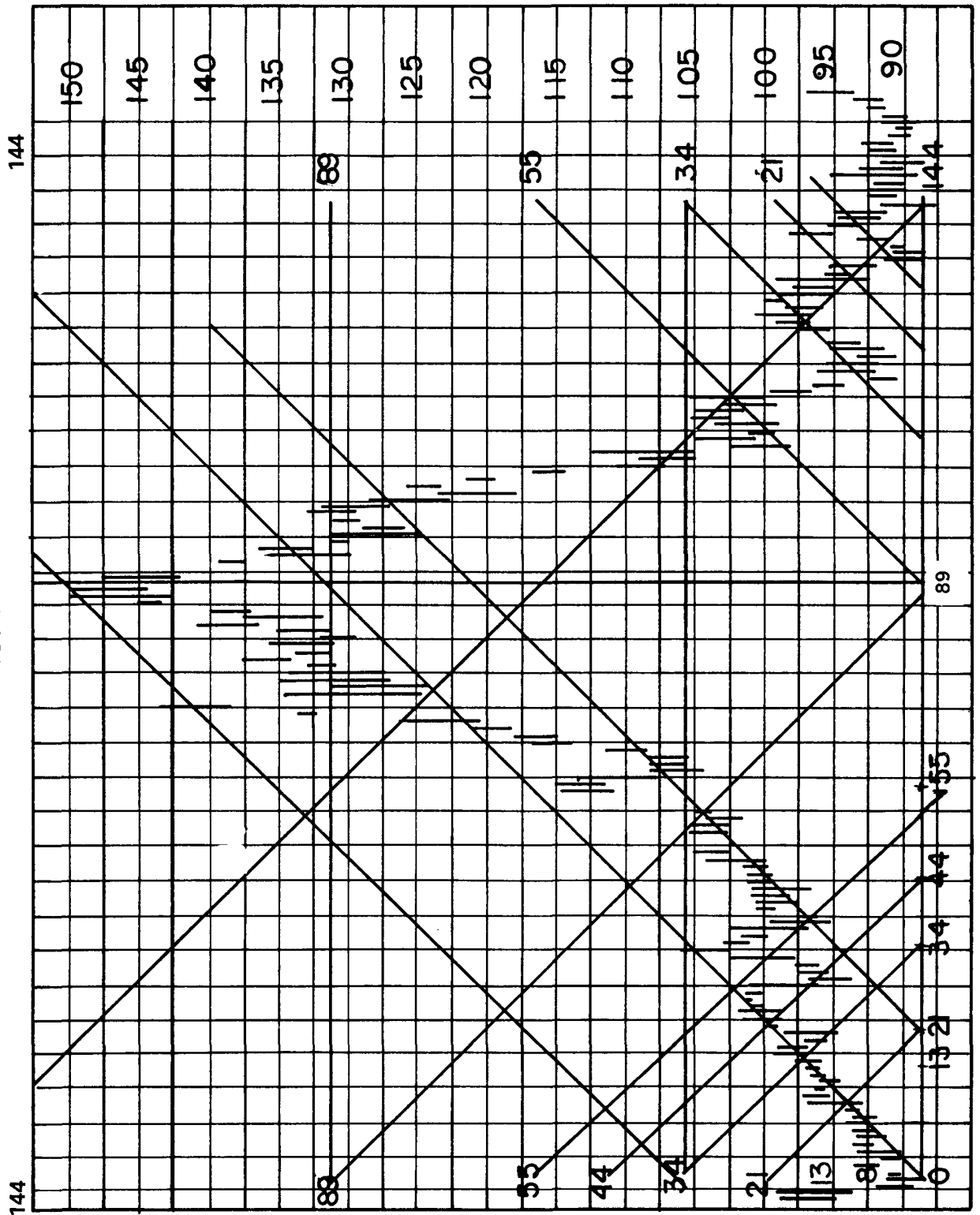
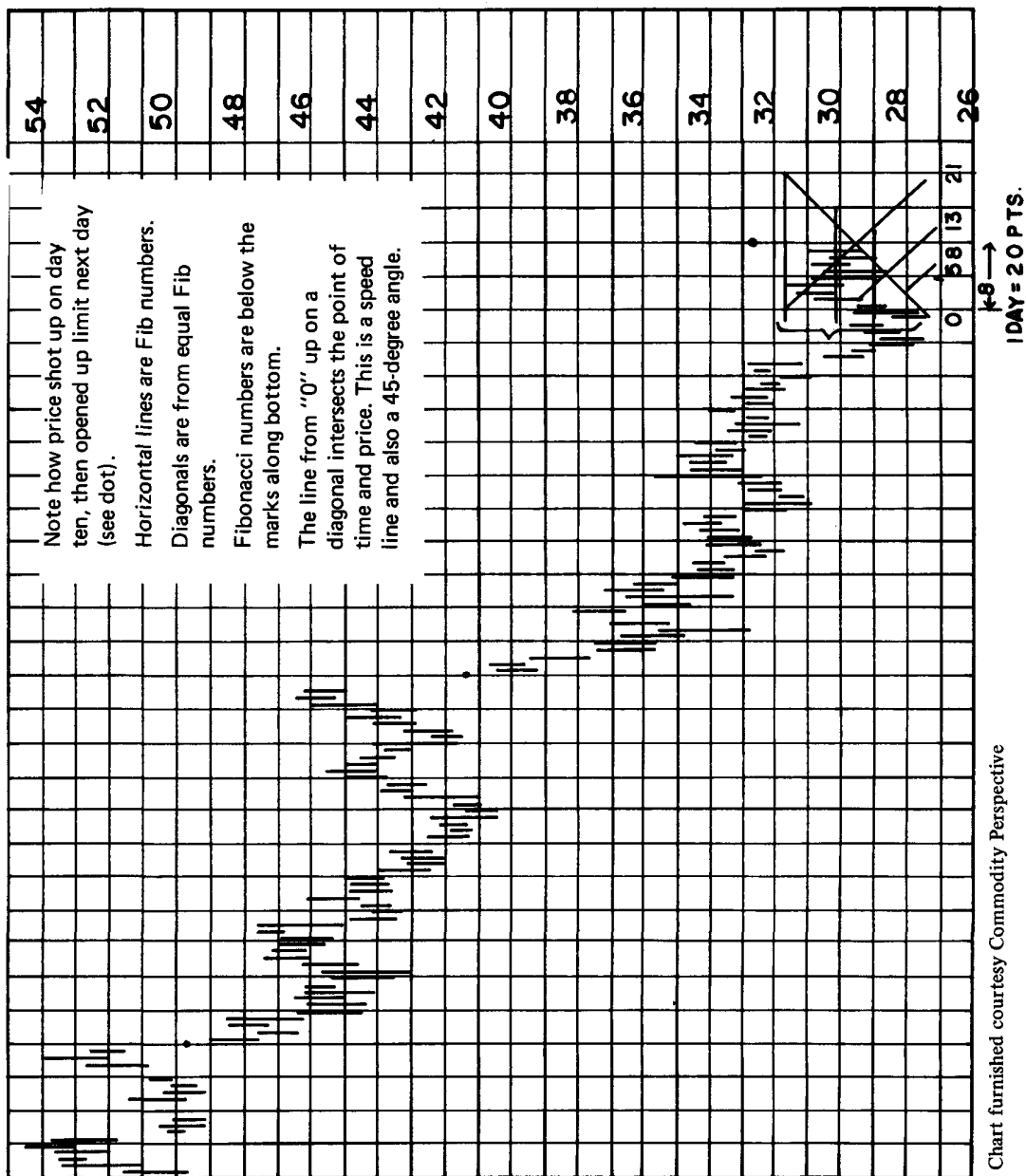


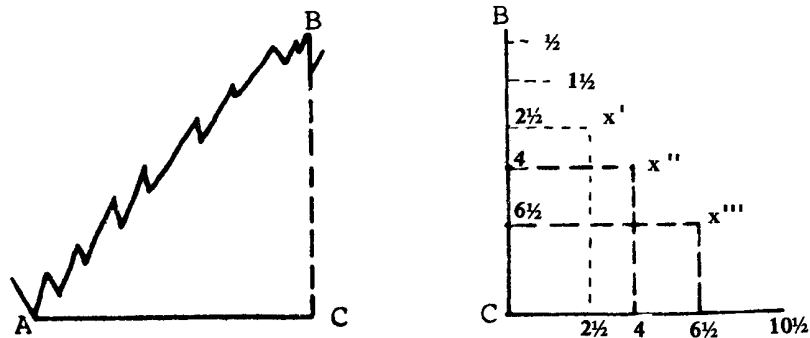
FIGURE 15
SQUARE OF TIME AND PRICE EXAMPLE
 Using Fibonacci Numbers



Balancing Time And Price

BALANCING WITH FIBONACCI NUMBERS

If prices are drawn on a one to one scale with time, the theory believed by HAP technicians is that time should move across on an average speed with price. When time and price become equal, change is expected. The following example shows how:



To make this easy to calculate, suppose there is a price rise AB which went up ten cents in ten days. The Fibonacci numbers, going down BC as well as going across AC, would be the same in this case. They are $\frac{1}{2}$ cent, one cent, $1\frac{1}{2}$ cents, $2\frac{1}{2}$ cents, 4 cents, $6\frac{1}{2}$ cents and $10\frac{1}{2}$ cents. The vertical line BC is at the Pivot Point where price starts down. Extend the same distance as AC out to make CX so that the Fib numbers may be marked where price may intersect. Draw dotted lines out from the Fib points to each line, one horizontal and the other vertical. There should be a price change where they cross. The expected price change occurs when both time and price Fib numbers are equal or come together with price. Price coming down from B could drop fast, go back to X' or X'', or come down to X'''. The object is for both time and price to square on Fibonacci ratios.

An interesting variation is to make speed lines from C up to the X intersection points to see what happens when price hits them.

THEORY BEHIND TIME AND PRICE BALANCING

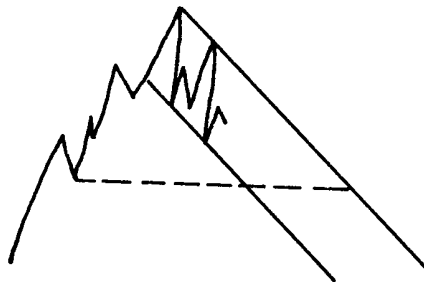
1. Price meets strong resistance or support at 90-degree angles from previous lows or highs.

2. If price has come up off of a low, when it comes back to this low again, there is strong support here, and often a double bottom forms.

3. As price goes up, a 90-degree angle (shown by a sliding ruler out equal space on time with price) will show where to expect resistance when the two are equal. Price will move sideways or reverse most of the time. If price goes twenty cents in grains in only ten days, when price and time equalize on the twentieth day, there is usually a change in direction (See Figure 16).

USING THE FORTY-FIVE DEGREE ANGLE

Some use 45-degree angles on charts, drawn one to one to square time with price. When experimenting with these, it is interesting to find that the numbers obtained with the 45-degree angles are also Fib numbers. If done properly, both should obtain the same answer. Forty-five degree and 90-degree angles are expected to bring pivots or price changes; 60-degree and 30-degree angles are expected to find congestion areas or resistance-support zones. Channels are made from a price high and price low, with 45's drawn down from them.



It is believed that where the 45-degree angle comes down, hitting a 90-degree angle coming out from a previous pivot or congestion area, is where a price change can be expected. When price breaks out of a channel, another 45-degree angle is drawn an equal distance from the line of breakout to find the extent of the new move. The width of a previous channel is often found to be the width of the new price action. Price is expected to go the same distance as the channel width after breaking out of the channel.

FIGURE 16
SQUARING TIME WITH PRICE

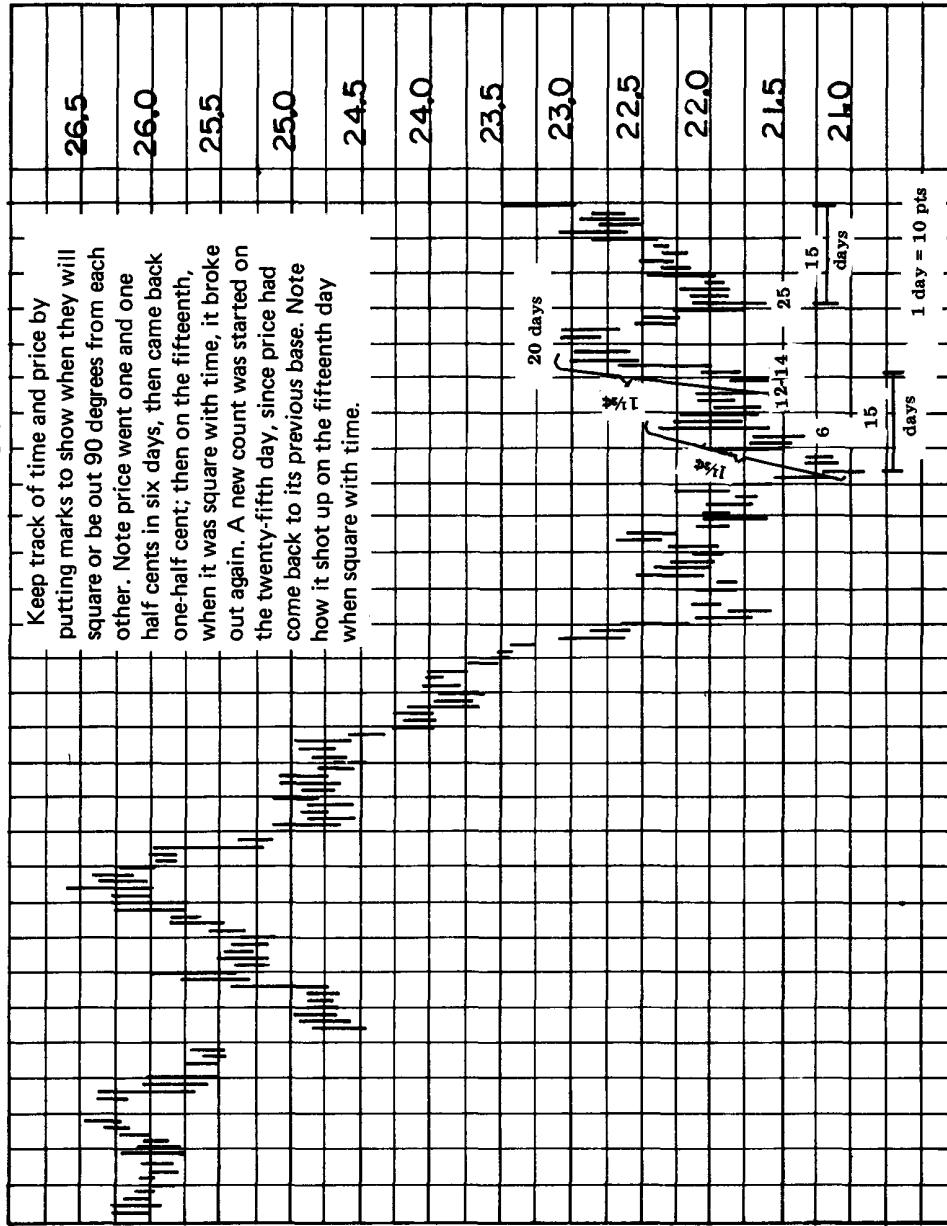


Chart furnished courtesy Commodity Perspective

SOLVING PROBLEMS WHEN USING A 45-DEGREE ANGLE TO BALANCE

There are several problems with using this method. The main one is finding charts drawn on a scientific scale with precision across the page of at least .001. Holes left for holidays will change the angle, too. On the ordinary price chart, price will move about fifteen points in a day. If holes are left in charts, it is necessary to add 15 points for each hole.

The other problem is that few charts are drawn on a one to one ratio. Grains are found this way more often, but even these can be changed at the end of any week if price is hard to contain on a page. This can be overcome somewhat by using angle equivalents. The following is a listing of the main angle equivalents that are needed:

1-1	2-1	3-1	4-1	5-1	6-1	7-1	8-1	9-1	10-1
30°	49.11	60	66.59	70.89	73.9	76.1	77.28	79.11	80.17
45°	63.43	71.51	75.96	78.09	80.54	81.81	81.88	82.66	83.19
60°	73.9	79.01	81.79	83.41	84.50	85.29	85.87	86.33	86.70

On time and price balancing methods, it must be remembered that this indicator is only good for the short period when price and time are actually in balance. It cannot be assumed that price has gone too far out of balance with time, since there is no certainty on the amplitude of swings. Only use this method when time and price are equal.

Balancing Time And Price

SUGGESTED TIME AND PRICE TERM AMOUNTS

1. Swiss Franc	50 pts. a day
2. Deutschemark	1 pt. a day
3. Canadian Dollar	1 pt. a day
4. T-Bills	10 pts. a day
5. Meats	20 pts. a day (1¢ a week)
6. Grains	1¢ a day
7. Bean Oil	10 pts. a day

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Chapter 6

HAP Momentum Indicator

THEORY USED

The speed of price in a cycle span and between swings is compared, since price and time are expected to balance. The amount of difference within the cycle span or within the swing boundary is as fast or slow as the amount it is out of balance. Similar type markets and price patterns must be compared (See Figure 17).

MARKET TIME-PRICE RATIOS

An average velocity should be found for each kind of market and each type of

HAP Momentum Indicator

price pattern in order to learn when the market is expected to be fast or slow, so that a reliable comparison can be made. For example, our experience shows meats are expected to move one cent for each week, or fifty-two cents altogether each year counting both up and down movement. The grains are expected to move one cent for each day, or 365 cents in a year. Each commodity has its ratio of time to price. Each type of market price pattern has an expected time-price ratio. For example, a low price, runaway pattern should be twice as fast as time. A low price, level congestion area type price pattern should only move half as much as time, or the reverse of the runaway. For example, the congestion should only move two cents in four days, where the runaway should move four cents in two days.

Figure 17 shows how the overbought-oversold conditions are revealed by their relationship to cycle time and old high or low lines. Note that the swing from the main low went sixteen and one-half cents in seven days. It was due for a pullback, as the cycle should crest on one-half of its time. The swing stopped short of the previous high. Time compared to price also showed oversold—remember one cent equals one day in grains. In making up an index, the following values were assigned: (1) the cycle showing normal behavior would be given fifty percent; (2) if the old high and low relationship is holding, this is also normal and would be assigned fifty percent. When there is uncertainty at this point, the percentage is reduced accordingly.

The labored move price pattern is about halfway between the two. The swinging price pattern must be classified according to whether or not it is choppy. The fast swinger is the same as the runaway, but it does not go as far. The choppy swinger is similar to the labored move; it should move about three cents in four days.

When price reverses directions several times, it is important to keep the last main swing in mind. Use this swing as the main high or low objective to overcome. Price reversing takes away the speed of the last swing, as well as starting a speed count for the new swing. Sideways motion nullifies momentum. Small sideways motion will be finishing up needed days to balance time from the previous main swing. When there are several one-day changes in price direction, it may be necessary to get quotes on regular intervals during the day to determine the speed, since the velocity for one day cannot be computed against itself for a comparison.

The main point to remember about momentum in relation to price patterns is

Chart furnished courtesy Commodity Perspective

HAP Momentum Indicator

that there is an average velocity under similar conditions of price action near the same general price level of the market—so divergences should be easily seen.

GUIDELINES FOR INDEX

1. Increments of change must be worked out on a one-to-one basis. Do not mix dailies with weeklies. Have a one-to-one price scale on the chart.
2. Velocity differences between logical time spans must be calculated to determine the acceleration.
3. Average speed must be figured for each kind of market:
 - a. Low, medium, and high price congestion
 - b. Low, medium, and high price labored-move
 - c. Low, medium, and high price swinger
 - d. Low, medium, and high price runaway.
4. Date the index the same as the chart dates.
5. Deviation from the normal is the only important factor for trading.

CRITERIA FOR A NORMAL MARKET

1. Velocity at high levels or low levels may be caused by accumulation or distribution. Look for erratic movement or jerks away from otherwise similar price action. Extra velocity at these levels on this kind of price action must be discounted, since it could be caused by the unusual forces of accumulation or distribution.
2. Erratic markets are expected:
 - a. during distribution or accumulation
 - b. in thin or controllable types of markets, such as eggs
 - c. during propaganda campaigns put on by large commercials
 - d. in topping action near the end of a campaign.
3. Fast markets are expected:
 - a. at high price levels
 - b. on valid breakouts
 - c. on valid reversals
 - d. with excessively sharp increase in open interest

HAP Momentum Indicator

- e. during runaway markets and fast swinging markets
 - f. on shakeouts with stops run but no continuation.
4. Slow markets are expected:
- a. during middle range congestion areas
 - b. on a false breakout or reversal
 - c. in a labored move
 - d. before a holiday or before a major report or news release.
5. Irregularities or non-normal conditions are:
- a. slow speed after an important news release
 - b. slow speed in a runaway or fast swinging market
 - c. lack of continuation after stops are run
 - d. high volume in a low thrust day.

HOW TO MAKE THE INDICATOR INDEX

1. Find the small cycle size.
2. Subtract the low from the high of this time period to get the thrust. This must be updated for each computation.
3. Divide thrust by length of cycle (or time).
4. Find ratio of speed of most recent main swing and compare this with that of a similar type swing.
5. Verify time price differences.
6. Average the cycle time ratio to get the number to plot.
7. Finding the ratio of speed:
 - If in thirteen days, price goes ten cents, the speed ratio is 10/13.

HOW TO USE THE INDEX OR OSCILLATOR

1. Trendlines, channels and breakouts may be drawn on the oscillator chart.
2. In a fast-breaking market, the second peak or top is usually the one to trade.
3. Use other indicators to substantiate a trade, as this is primarily a warning signal to keep the trader out of trouble.
4. In most cases, there must be at least a fifty percent change before velocity is important.

HAP Momentum Indicator

5. As long as the price is in the middle of a swing area or a cycle span, these only need updating once a week.

Getting the average velocity can be done quickly, without a computer, by merely marking off representative days on charts for ratio computation. Five days will be a good length of price for this purpose, since it is the approximate length of days in the average swing.

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Chapter 7

Is a Change Overdue?

Overbought-oversold theory is generally based upon its relationship to an objective. Each day, the relationship of the close is compared with that of the last previous twenty days, or “X” number of days. Usually some arbitrary number of days is set without considering the reason for using this number. This does not meet HAP requirements. The number of days should coincide close to a cycle length, or to the amount of price thrust in some previous swing.

CYCLE RELATIONSHIP OR PERCENT OF THRUST

Use the HAP cycle finding technique, or any technique desired that will find

Is A Change Overdue?

the small cycle. Go back the number of days in the cycle on the charts and find the high and low to obtain the cycle thrust length. Take the present price and subtract it from the cycle high. This difference, divided by the thrust, provides the relationship of price, with the cycle high or low as a percent value. This percent value, plotted on a graph between a base line of 0% and a top value of 100%, can be referred to as "The Percent of Thrust." A value near 0% is an overbought indicator and a value near 100% is an oversold indicator. This same conclusion can be arrived at visually, rather than mathematically, by using the following procedure. The cycle may be marked on a plastic ruler, then laid so that each day the cycle high, low, and present price may be easily seen. Care must be taken, if using the ruler method, not to include some hole left for a holiday.

A close above the high of the cycle and over one-half the cycle length is overbought, because the cycle should be correcting. A small cycle, having gone from its low to a high ten days out of a fourteen-day cycle, should be coming down. The opposite is true of a cycle near its low for that period. The cycle should soon be turning up again.

OLD LOW AND HIGH RELATIONSHIP

The thrust of the last swing is also a dominant factor in the overbought-oversold relationship. The relationship of the thrust of the last swing with the present close should be plotted. If the low of the last significant swing is subtracted from the high of this swing, the previous swing thrust is obtained. Next count the number of days traded since the first high or low of the last swing was made. Subtract the present price from the thrust amount of the swing for the number of days since the swing began. This Swing Thrust amount will make a plus or minus percentage.

AVERAGE THE TWO INDICES

Now take the percentage of OB-OS #1 and average it with that of the number two ratio amount. This will give an average OB-OS index to use, with progress on the cycle length compared with the previous significant swing high and low. This is a comparison of cycle thrust achievement with that of the previous swing thrust achievement.

Should thrust objectives be exceeded and cycle lengths unquestionably overrun, there is an inverted market, which means higher (or lower) prices going much further. If price has traveled sixteen cents in a small cycle length of fourteen days, it is oversold. If the previous swing thrust is exceeded, it is oversold. With this thrust equation, when a new high or new low is made, the next previous swing thrust must be used. If the cycle price runs over the cycle length thrust amount for more than two days, then the next larger size cycle length must be found and used to compare with the momentum indicator. This is going from a small swing indicator to an intermediate size swing indicator.

Short term traders would probably have taken profits, with longer term traders staying in. The larger cycle length and swings may be used from the beginning by longer term traders; but this will miss a lot of short term price signals which may tell the trader vital information.

When new life of contract highs or lows are made, this indicator will not be of much help, because there will not be a former high or low with which to compare. Other indicators must be used if this happens, until price gives reversal boundaries with which comparisons may be made.

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Chapter 8

HAP Cycles

Those who use only one indicator are more often in trouble. Sometimes price will change at regular intervals, but this does not happen too often. For this reason, cycles must not be used alone.

WHAT OTHERS HAVE DONE

Moving averages are used by most cycle analysts. First they get an estimated cycle size with a ruler or dividers. Fourier analysis may be used if a computer is available. With the estimated size of the cycles to be used, moving averages are

HAP Cycles

made of these cycles' length, which ties the process to actual price movement. Then a detrending method is used to show how this compares with the actual price movement.

One of the better methods uses the %R as its moving average for each cycle size. It is said the %R formula was first used in Russia to help estimate the quality of pig iron. Larry Williams made the first use of it for Commodity traders. Here is how to get the %R.

- a. Take one of the estimated cycle time periods and determine the high and the low during that period. This will be called the Range.
- b. Now take the present day's close and subtract it from the high of the time period and call this the Change.
- c. Now divide the Change by the Range and plot the results in an oscillator form from 0% to 100%.

Using this %R type of moving average is better than regular moving averages for cycle work.

After the cycle is estimated, some way must be found to relate this to actual price changes; thus the moving average or some type of smoothing method is used. Then this is detrended by measuring the distance between price and the moving average line. These detrending measurements are plotted above or below a line under the price chart to give a clear picture. Rules are then established for trading an expected change.

PROBLEMS WITH USING CYCLES

1. Cycles may not occur with regularity, especially on a short term basis.
2. Cycles give no clue as to the amplitude or size of a swing. The cycle may just be a congestion area of the market.
3. The size or length of each cycle span must be averaged, with the hope that a trade prediction is close enough to help.
4. On longer size cycles, a large tolerance must be used to allow for error in averaging. Many cycle traders are happy if they can get within thirty days of a turn in the market. This may be all right for a rich person, but is too much for the average trader.

HAP'S TECHNIQUE

1. Use dividers to estimate cycles.
2. Find the range and the change, but subtract this instead of dividing. (Change subtracted from range or current price, since range would always be larger). Call this the %C.
3. There are usually three main cycle sizes. Find these with the dividers by going across tops, then bottoms, and main turning points in between.
4. Now take the estimated cycles that have been found with the dividers. Divide each in half ($\frac{C}{2}$) and double each (2C) so that you have three values relating to each Cycle (C) with which to work. (Example: If the Cycle C=6, then $\frac{C}{2} = 3$ and $2C = 12$.)
5. Do the %C work on each C, $\frac{C}{2}$ and 2C value as in the above example.
6. Now find the differences between the numbers of each size bracket. There should be three estimated cycle sizes; a small one, a medium sized one, and a larger one. If three estimated cycle sizes were found and three %C moving averages are made of each, there will be nine all together. Plotting the differences between these various moving averages picks out cycles.
7. Last, it is necessary to plot these differences of the moving averages right above each other and above each day's price change. This way, a ruler may be laid on the line denoting the day's action, which will go up through the oscillators. The day that all the oscillators are going up should be the day that price will go up; or vice versa for going down. Doing hundreds of trades like this has shown a remarkable accuracy, with the change coming within two days—and sometimes right on the day.

It must be remembered, however, that there will be occasional times of inversion when the market does the opposite of cycle prediction. Cycle analysts are on guard for inversions. The market is strong enough here to overpower the overbought or oversold condition. When this occurs, trade against the cycle, as it should be a better trade and is usually the beginning of a runaway market.

The cycle method above has a triple smoothing input that should lag very little behind pivots. If a trader is extremely busy, however, some help is obtained by just using the %C with the ruler-estimated time periods. If the trader wishes to only cut out part of the work, use the more repetitious cycle found with the ruler method. This leaves the possibility of longer term cycles overriding the shorter ones; so stops must be close with this method and generally, trading must be done on a short term basis.

HAP Cycles

The one-half of each estimated cycle span is important, however, because moving averages made with these one-half sizes will cross each other at regular intervals. The main point is that this gives more averages from which to find differences. It is the differences in these moving averages that pick out cycle changes. So any cutting of corners will be at a cost that devalues the results according to the amount not done.

HAP did thousands of tests with this method on their computer with exceedingly good results.

USING OTHER TIME-PRICE RATIOS TO HELP

Instead of using just the %C as shown above, a better picture will be obtained if the momentum oscillator, the overbought oscillator and a time-price equalizing oscillator are plotted over the results of the %C oscillators, as indicated above. This ties all of the time-price techniques together into one chart, giving a synchronizing effect to speed of movement, comparisons of closeness to resistance or support, and balancing of time with price. Another way to use this is to make an index of these, giving values to each, with a total averaged rating.

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Chapter 9

Equilibrium Techniques

SQUARE OF A CIRCLE

The up and down swings are efforts of the market to find the proper balance between supply and demand. Price often swings like a pendulum from some point up and down or back and forth until this balance is broken, then moves according to which is the strongest, the buyers or the sellers.

When looking at charts a square is seen, but this square is moving a little each day around a balance point of the market. Few people realize the market moves in a circle. The motion is seen better if envisioned with the square on the chart moving around a pivotal point. Look at a chart and think of it as going in a

Equilibrium Techniques

clockwise circular motion. This is the apparent reason Gann did so many spiral calculations. He understood the equilibrium rules of the market.

A circle, a pendulum, or a fulcrum must have some center point from which to swing. Some analysts make fan-like geometric patterns, with lines from a corner drawn out on angles through a circle. This points out the circular motion of the market. None have revealed how to find the balance point from which to figure the equilibrium of the market swings.

Since it involves the circular movement of a square, we call our technique of finding the balance points the "Square of a Circle." To our knowledge only HAP is using this technique. Hundreds of trading plans and books on market action reveal that most analysts try to find the balance point by using the fifty percent rule. The fifty percent rule is obtained in three different methods: one-half of the price; one-half of the time; and measuring the distance that price is above or below a forty-five degree angle on charts drawn on a scale of one unit of price to one unit of time. The fifty percent rule is a valuable tool and important to use in market analysis, but there is more to the balance point than this excellent rule.

A congestion area is a balance between the buyers and sellers; some believe these to be balance points of further market action. Others use measured gaps, as they are thought to be in the middle of a swing or leg of the market.

Analyzing the factors involved reveals circles working within circles smaller or larger than each other. Price action to be balanced must be contained in a circle. If there is a swing, with price trading between the high and low of the swing, then a circle may be drawn from either the high or low as a radius to the other end of the swing. Fulcrum and pendulum balance points must come off of a main turning point of a swing. It is at this significant pivot that price met the opposing force and lost, just like the pendulum when it has come to the end of its force of swing and starts back the other way. As the end of a swing is where price is met by an equal force from the other side, this is a good place for the use of pendulum swings or fulcrum swing balance points. A balance point is placed upon another balance point.

With this reasoning, the center of a congestion area might be thought to be a good place for a balance point. But how can one be sure where the center of the congestion area will be. It may be a triangular congestion area. Also, there is not any price action clearly defined above or below the highs or lows of a congestion area. If a center line can be drawn out through the exact middle of the last swing of a congestion area, there would be a one day balance point, but until price

breaks out of the congestion area there is not much use for a balance point. If the congestion area is big enough to trade, and one likes to trade congestion areas, this one day balance point may be used for congestion area trading.

The important highs and lows are okay for a balance point price on pendulum swings or fulcrum swings; but when price breaks beyond these highs or lows, they cannot be used anymore.

SPIRALS MADE EASY

When using highs and lows for balance points for pendulum swings, the spiral should be understood, since it is always used from some high or low with lines drawn from the high or low out on even angle amounts. This creates a fan-like figure from the beginning point out through the price action pathways. Most spiral lines are drawn on ten-degree angles from the high or low, or perhaps from both a high and a low. It is amazing how often these ten-degree angles will hit some pivot point as they are extended out from a main high. But since no one ever knows when price will pivot at one of these lines, they are not very reliable to use in trading.

An improvement can be made on the spiral lines by going to five-degree angle lines, drawing a circle from the beginning of the lines out around some other turning point, then using Fibonacci count from the turning point. The best Fib count to use is by fives, since the angles are on fives. But Fib count by ones will be of help, too. This increases the odds by at least fifty percent that the spiral line where the FIB count landed would be the line where prices will turn when hit. The circle around from the high or low being used for the spiral lines may be divided off rapidly by using proportional dividers. Five degree angles would have 36 evenly spaced lines if going all the way around, but for most purposes only half way is enough, with eighteen lines. Counting the Fibonacci numbers by fives gives the following numbers: 5, 10, 15, 25, 40, 65, 105, 170, 275, etc. Going by ones they are: 1, 2, 3, 5, 8, 13, 21, 34, 55, etc.,. The five-degree line closest to one of these latter numbers will be close enough; or, if more accuracy is desired, the space on the circle between the lines may be subdivided into five equal parts and an exact line drawn for the odd numbers not hitting on the five degree lines.

The commodities that do better on the "five" series are those which move in increments of five on the market. Grains, which move by quarters, work best from a series of four. Series starting from seven will also work well. It is suspected that a

Equilibrium Techniques

number close to the current short cycle length will work too; but as yet, this has not been tested for real proof.

Rather than draw a lot of circles to check out the best number to use on some given commodity, a circular three-armed protractor can be bought from the Davis Instruments Corporation. Lay this navigational tool with the center of the circle on the high or low desired to use for a spiral line indicator. Next, move the arms around on five-degree increments to Fibonacci numbers. This tool allows a quick check on the angle size or Fibonacci number count. The right angles and numbers become apparent much more rapidly. Hundreds of charts may be examined in a short time in this manner, with the results tabulated and evaluated for use.

A BALANCE POINT PHENOMENON

With these experiments of drawing lines on Fibonacci numbers of angles out from some high or low, the number of times that price turns when hitting these lines should be fifty percent or better. As price swings from line to line, it can be seen that these pendulum balance lines help in trading. There is a way of improving further on these spiral lines, however. This is by finding the square of a circle balance point.

Since the highs or lows do not work well when price is above or below these price levels, it is reasonable to think that there is some other way to find a better balance point from which to work. An interesting phenomenon has been discovered which works better, especially on price above a high of a swing or below a low of a swing.

Take the last main swing from which to work. Draw a line from its high to its low and measure this line. If the market is going down, make a 90-degree angle off this line from its bottom point. Then mark off the same distance on this 90-degree angle line as on the swing line. Now a line drawn down from the high point to the end of the 90-degree line makes a triangle within your circle of activity. Draw a line from the middle of each point of the triangle to the center of each side. Where these three lines cross will be a balance point. Draw a circle from this crossing point out to some nearby pivot, such as the low or the high of the line made to price action.

The balance point of this price action is the point where the three lines cross; but any time price moves out of the square made from these lines of the same

size, then a new balance point should be found. If it is necessary to examine price action within these boundaries, the same thing must be done on a smaller scale. The larger will overcome the smaller. Speed lines drawn from the high or the low to the opposite one-fourth sections of the square will make strong support or resistance lines.

The following chart gives these lines, triangles and squares, with the circle drawn from the low balance point. Note how the Fibonacci numbers hit the pivots on this circle. (Figure 18)

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Davis Instruments Corp., 857 Thornton St., San Leandro, CA, 94577 (for buying circular three-armed protractor).

FIGURE 18
SQUARE OF A CIRCLE METHOD

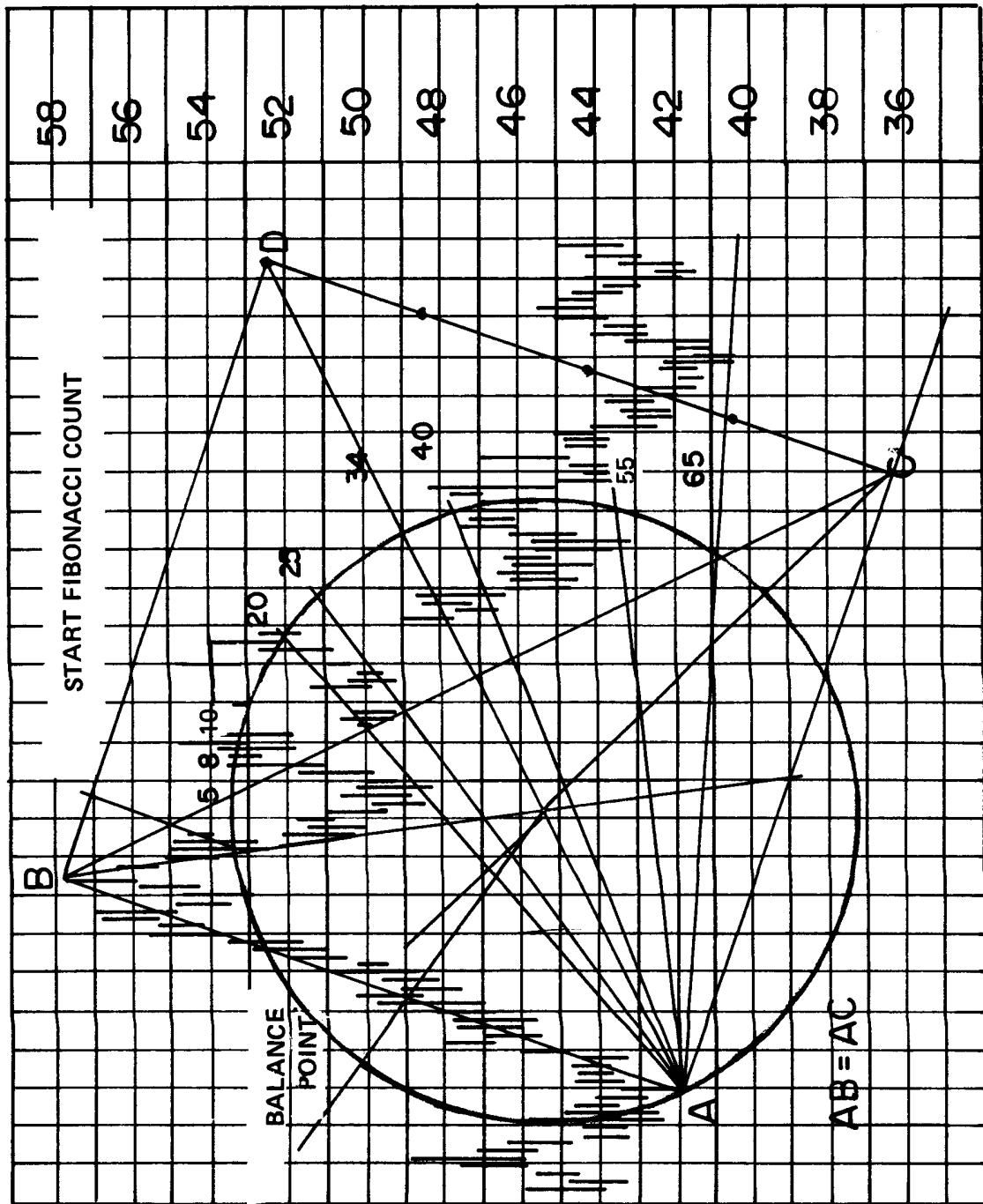


Chart furnished courtesy Commodity Perspective

FIGURE 19
SQUARE FROM PEAK TO LOW LINE

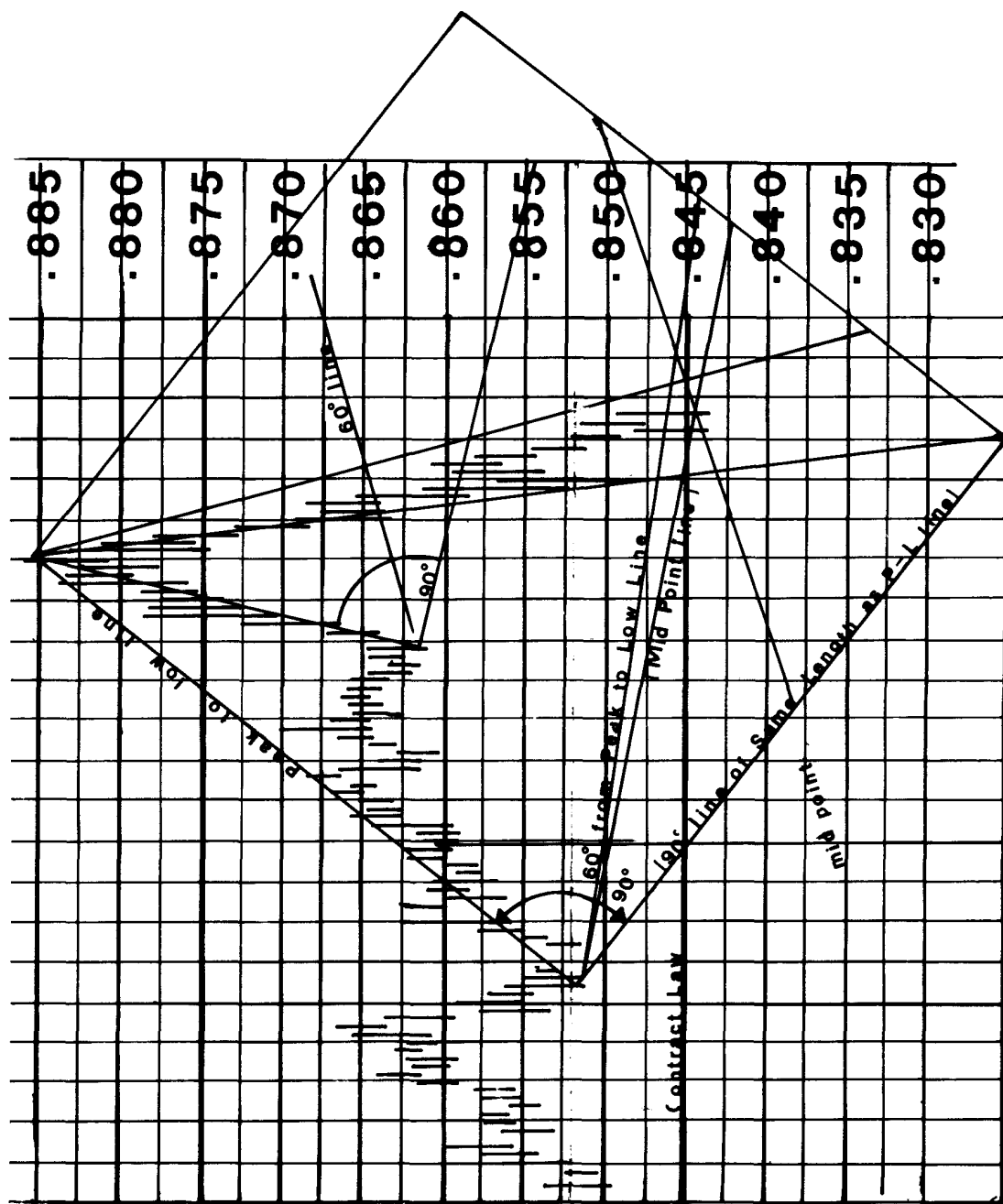


Chart furnished courtesy Commodity Perspective

Chapter 10

Predicting Congestion Areas to Avoid Whipsaws

WHAT OTHERS HAVE DONE

Many traders try to avoid whipsaws by having larger entry points to cut out the smaller price reversals. This gives up a lot of profits and still does not eliminate whipsaws. The length of a swing is never known for sure, so it is necessary to trade in choppy markets at times when other indicators are favorable. Problems appear when the swing is smaller than expected.

If the trader develops techniques to predict a congestion area, a great many of these losses may be eliminated. Trading a congestion area requires tactics other than swing trading or trending markets. There are times when it is important to

Predicting Congestion Areas To Avoid Whipsaws

enter a market during the congestion area because the market may break out and start running, where it becomes difficult to enter. Stop-loss risk is much greater after the break-out. The following techniques help predict an upcoming congestion area to allow trading without large losses and still be in for the longer move.

HOW TO BEGIN

The first step in avoiding losses due to congestion areas is to find the best size swing on which to enter the market. Since it is the smaller-than-expected swing which traps the trader for a loss, try to enter on smaller swings to cut the odds. If it is possible to start on a smaller swing, the rule of alternatives should make the next swing larger, avoiding a whipsaw.

Markets usually have a smaller size swing which repeats a lot. By using dividers, these repetitious swings may be found to help on entry use. Going in on this swing gives odds that the law of alternates will help make the next swing a larger one. If it is seen that the repetitious swing comes up every third time on an average, entry may be made on this smaller swing with a better chance that the next one will be larger and not whipsaw.

Since it is known that larger size swings should not cause a whipsaw loss, a great deal of pricing action may be eliminated as affecting the trade entry point. Major highs or lows usually occur from three to five years apart, and at times they do not come up for ten, twenty or more years. With such high inflation, the highs keep getting higher and lows are higher also. To establish a new low, it is wise to discount for inflation since the last main low. Should a considerable amount of deflation occur this may reverse. Regardless of inflation or deflation—major turning points seldom appear compared to the other main swings of the market.

Most contracts trade for about a year on the average. Getting the yearly highs or lows, or life of a contract high or low, is the most important item. The main swing is not interrupted until it has reversed itself more than 62%. When it reverses again, this new swing is not considered interrupted until it has gone 62% in reverse of its direction. This is 38% of the original movement; making most of the pricing action between thirty-eight and sixty-two percent of the main swing, leaving twenty-four percent of the main swing. This cuts out a lot of action to be concerned about where whipsaws may be involved.

Several market analysts have noticed that many commodities move in

Predicting Congestion Areas To Avoid Whipsaws

increments of double the main action of their small price channel. The channel should double when it breaks from each smaller channel. If, after testing, it is found that a contract is moving in its small channel on four percent averages, then it can be estimated the other channels will be eight percent and sixteen percent. On a five percent estimated small size swing, the others should be ten percent and twenty percent. The six percent swings would be 6%, 12% and 24%—which comes up to the amount figured above as being the largest size to be of most concern.

USING CHANNELS

Making channels and knowing approximately what size they are expected to be will eliminate many of the problems involved in congestion areas or choppy markets. By calculating the percentages and by using dividers, the size of the next expected swing can be determined. This in turn enables the trader to prevent most of the whipsaw losses, making the percentage of wins much greater. There may be some smaller losses, but they will not compare to those by traders who do not know how to enter the market in this manner. Try to enter on a small size swing when other indicators signal a trade, then stay in for the big move. Stop loss amounts will not be great, and when a trade turns bad it should become a breakeven situation using these techniques.

OTHER AIDS

There are other aids in identifying an approaching congestion phase market. If charts are scaled on a one-to-one basis, help may be obtained by using a thirty or sixty degree angle off the peak to low line, placed where any present congestion area is, or across from any former congestion area. Where price meets these lines is often where a congestion is found. Pivots occur at these lines quite frequently (See Figures 20, 21, and 22 on the following pages).

FIGURE 20
60's AND 30's OFF PEAK TO LOW LINES

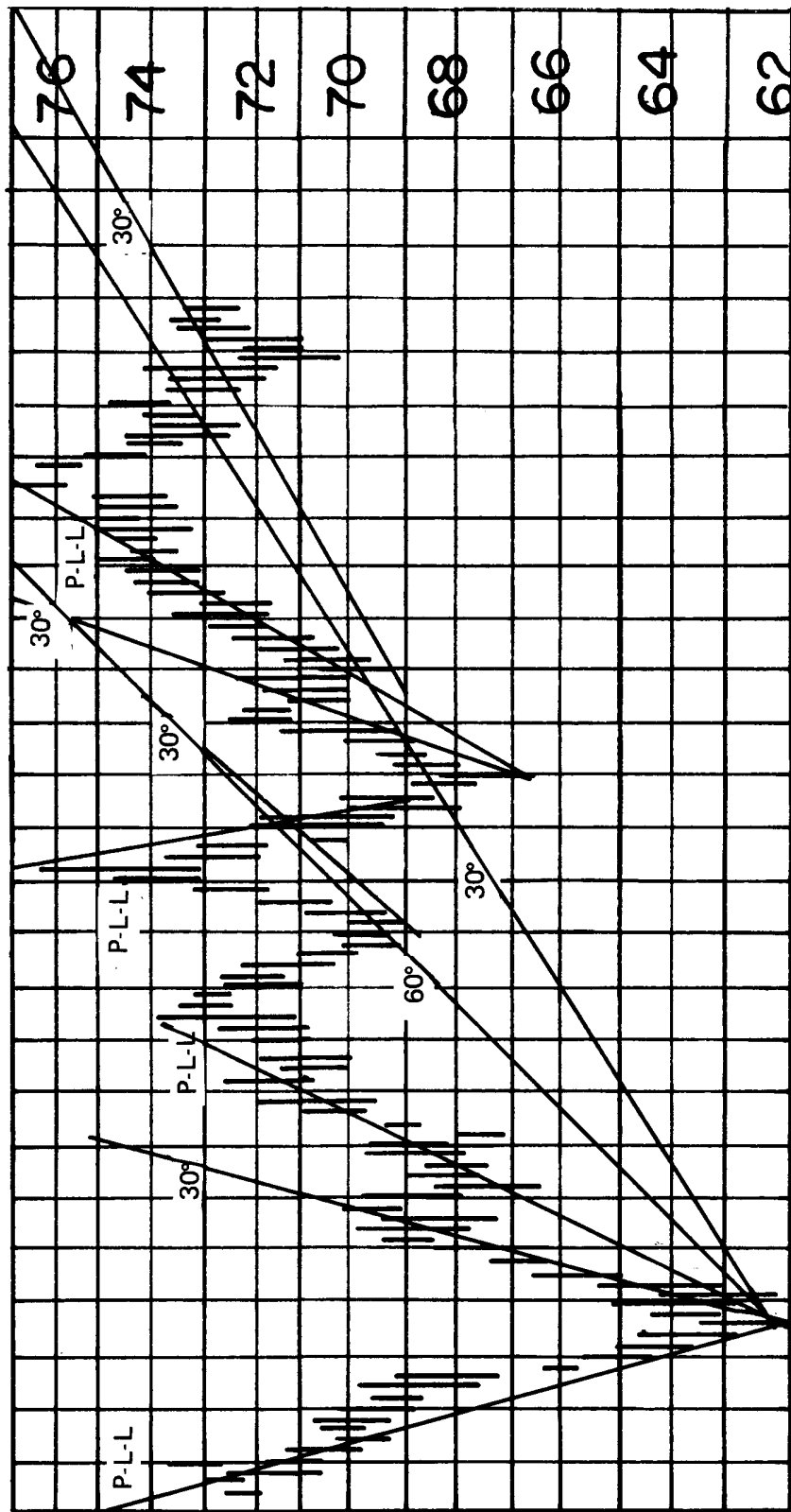


Chart furnished courtesy Commodity Perspective

FIGURE 21

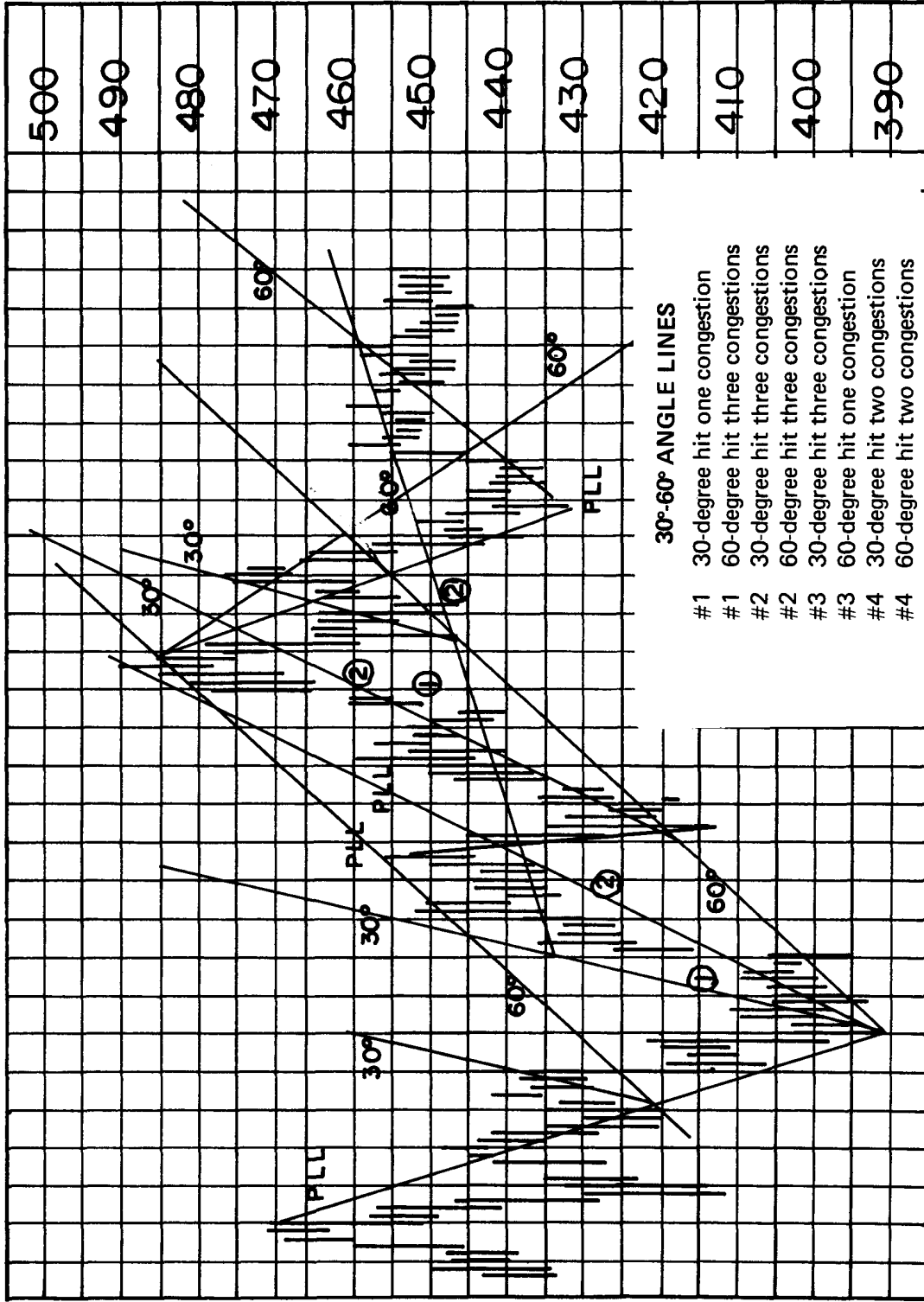


Chart furnished courtesy Commodity Perspective

EXAMPLES OF 30° AND 60° ANGLES WHICH HIT CONGESTIONS

FIGURE 22
60'S AND 30'S HITTING CONGESTIONS AND TURNING POINTS

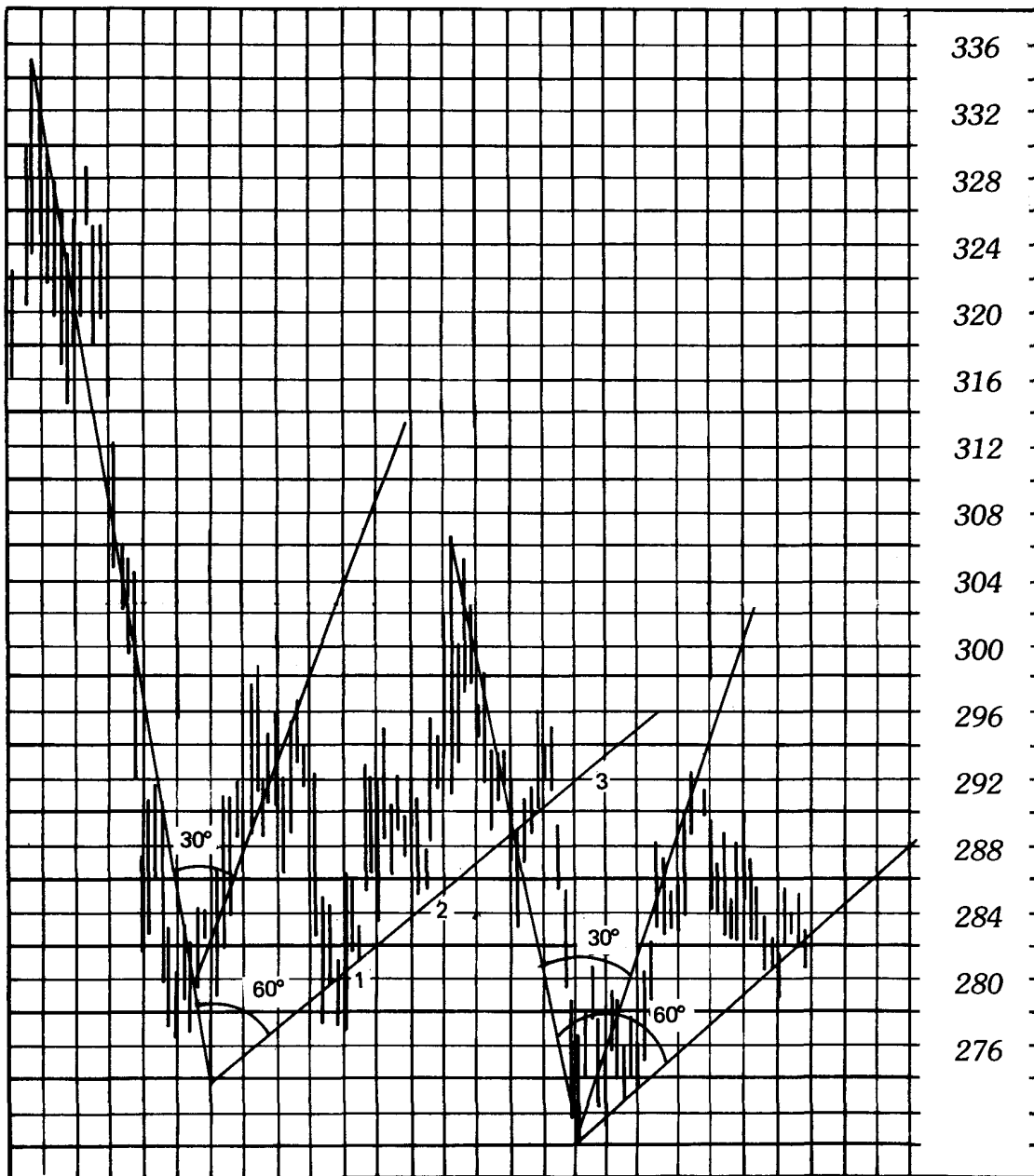


Chart furnished courtesy Commodity Perspective

(The angles are drawn from Peak to Low Lines)

PIVOT LINE TECHNIQUE

Another method of spotting a congestion area is to align a transparent ruler along the top or bottom of two or more previous congestion areas. Where price crosses this line will often be another congestion area (See Figure 23).

In this illustration, note how the three lines hit several more congestion areas after being aligned across two and extended on out.

The same is true of a line through two gaps. If a ruler is placed between gaps extending up through other price action, a congestion area will often be found as price comes down to the line. It is also amazing how many times these same lines through two gaps, or passed by two congestion areas, will tip a turning point. The reason for this is not known by us, but many charts have been examined, and this was found true many times and is worth remembering and using. See the examples of lines through two gaps (Figure 24). These are valuable lessons. If they are not followed, they will be of no value; but if followed they can lead to a much better win-loss ratio.

A fourth method is to find a common distance between two congestion areas in past price action and measure the same distance from the turning point that is being traded. Expect a repetition on this size leg, just as there are price swings that repeat and angles that repeat. This allows for distances between a pivot and a congestion area, or between two congestion areas that may repeat (See Figure 25).

The charts show there are six swings of nearly the same length. Five of these six are from one congestion area to another congestion area.

In addition to these methods of finding a congestion area, good price projection methods may help.

It is important to have agreement on as many congestion finding indicators as possible. By entering the market after a short swing, the law of alternates should make the next swing larger. Channeling and doubling channel breakouts should help. The above five methods along with these should make a lot of difference.

SUMMARY

Patience is needed by the trader who enters the market in a congestion area or choppy market. Some time may evolve before the deadlock at the congestion is resolved and price goes out. As to the length or size of a congestion area,

Predicting Congestion Areas To Avoid Whipsaws

determining this is another matter. A hint may be obtained by the slope of travel. Sharp, fast markets from a breakout do not usually have much congestion. Stronger, faster markets will swing more—making wider congestion areas. Those going on a flat slope are more apt to roll over and make more narrow congestion areas. Thin markets make a difference. In fact, for those who are interested, a complete study of all markets will show that each commodity has different characteristics. Studying books on market advice will help, but a trader needs to also study price chart action until becoming completely familiar with each commodity he plans to trade.

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FIGURE 23

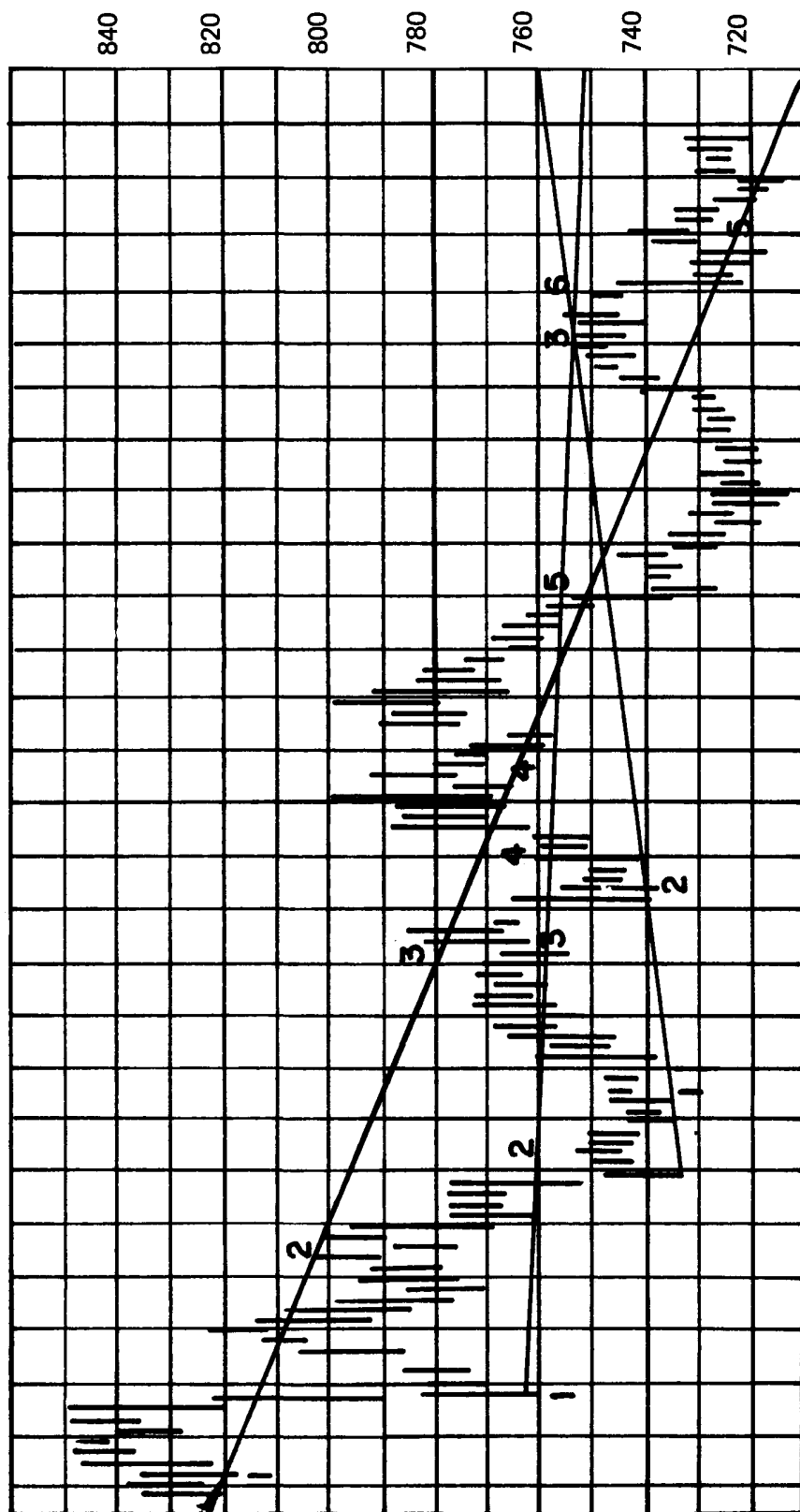


Chart furnished courtesy Commodity Perspective

PIVOT LINE TECHNIQUE OF FINDING CONGESTIONS

FIGURE 24
GAP LINES TO CONGESTION

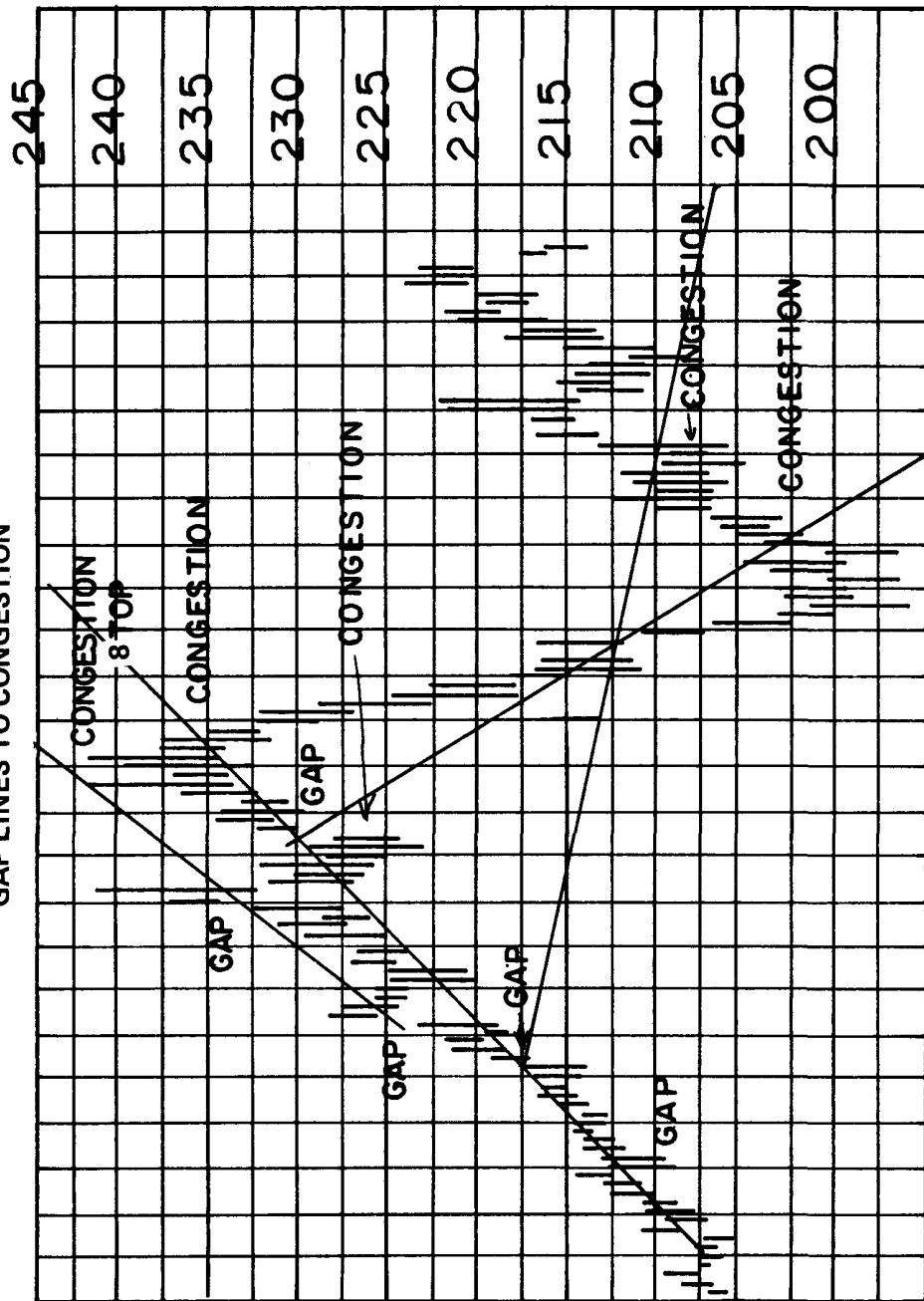


Chart furnished courtesy Commodity Perspective

FIGURE 25

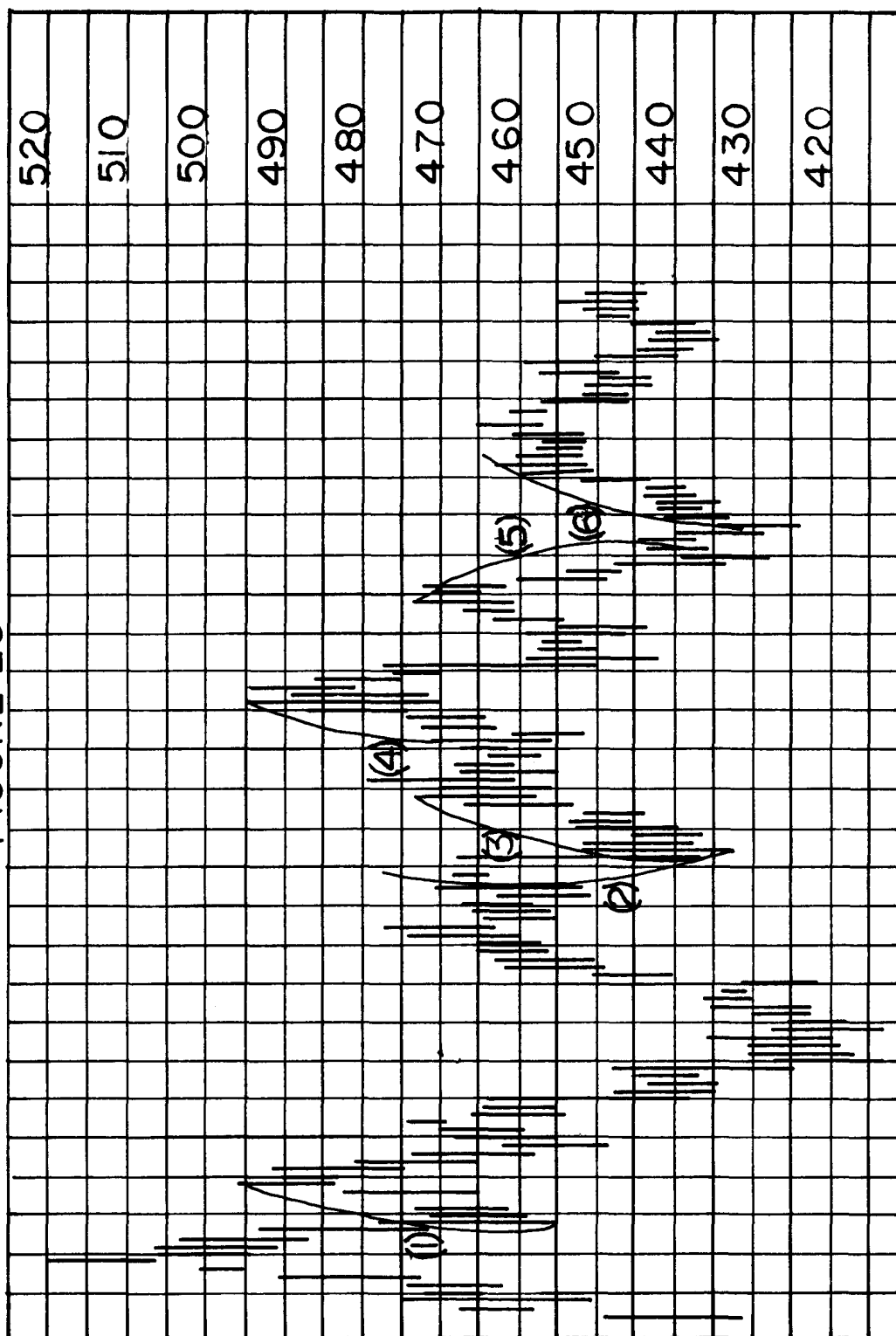


Chart furnished courtesy Commodity Perspective

SIX CONGESTIONS EQUAL DISTANCE APART

Chapter 11

HAP's Use of Elliott

WHO WAS ELLIOTT?

R. N. Elliott was an engineer who, in the mid-thirties, became ill and thus had a lot of time on his hands to think and study. Eventually, he began writing market advisory letters on a new theory he found while studying Dow and Fibonacci. He became successful and found a place among great market analysts for his contribution to market theory. *Elliott's Theory* made him famous.

Few people really appreciated Elliott or know how to benefit from his work. This is probably due to the fact that he did not set down simple rules to use with his theory. There are many fascinating refinements offered that are too complex for most to understand and which have not yet proved to be of any practical

HAP's Use of Elliott

value. Too many who write about Elliott dwell excessively on ratio analysis or on some of the exotic features of his theory which do little to help a trader.

Stated simply, Elliott said that natural laws of the universe and harmony in the world could also be found in the market. Man, as part of this, operates on principles of human behavior with recurring patterns. These patterns of greed, fear or caution are exhibited by waves of optimism or pessimism, with varying degrees between the two extremes. This causes a rhythm, or orderly sequence in the market, according to Elliott. He described and named the main patterns of price movement. He showed a way to label each part of the markets' price action based upon the Fibonacci series ratios. Perhaps later, more research and testing will prove that other formulas and equations offered by proponents of Elliott have more value. For now, it is best to only learn the simple Elliott wave count and the directional indicator formula, to be explained later.

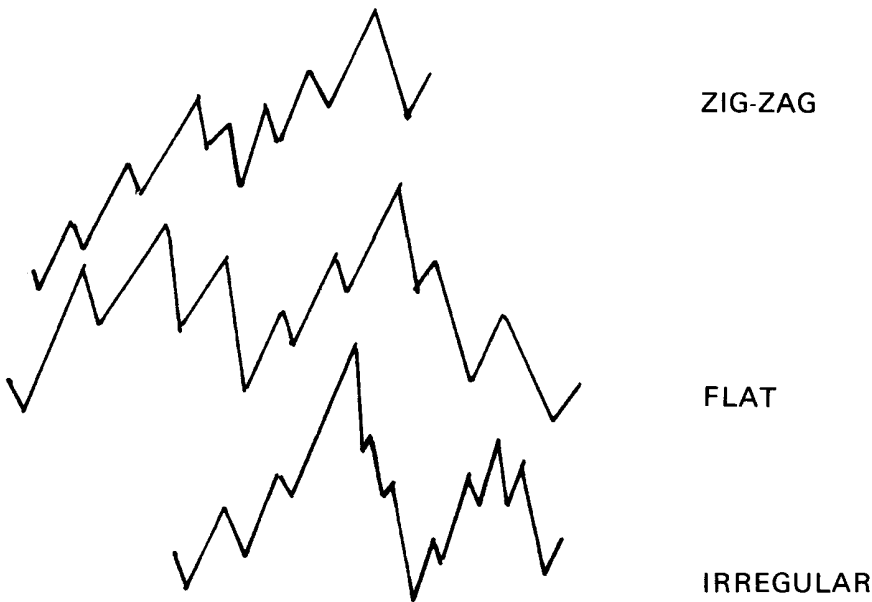
THE WAVE THEORY

Elliott claimed that five waves could be found in each direction of the market. Three of these waves would be in the main movement, and two would be in a contrary direction. There would be smaller waves within a larger one, but all proceeding on an orderly process, going on to gigantic waves of great magnitude. He divided the waves into three main thrusts in the main direction with five subwaves in each, going with this main direction; then on the counter thrusts, going against the main direction, there would only be three subwaves in each thrust. These subwaves were corrective moves. He used rhythm sequence to tell when the market was in a main move or a corrective wave. There are not supposed to be five leg corrections; a five leg rally in a bear market should mean a change of trend. This is where the ABC correction is found. Elliott assumed each succeeding upgoing wave would reach a higher place in the channel on the graph and that corrections would not go below the previous low of the former turning point.

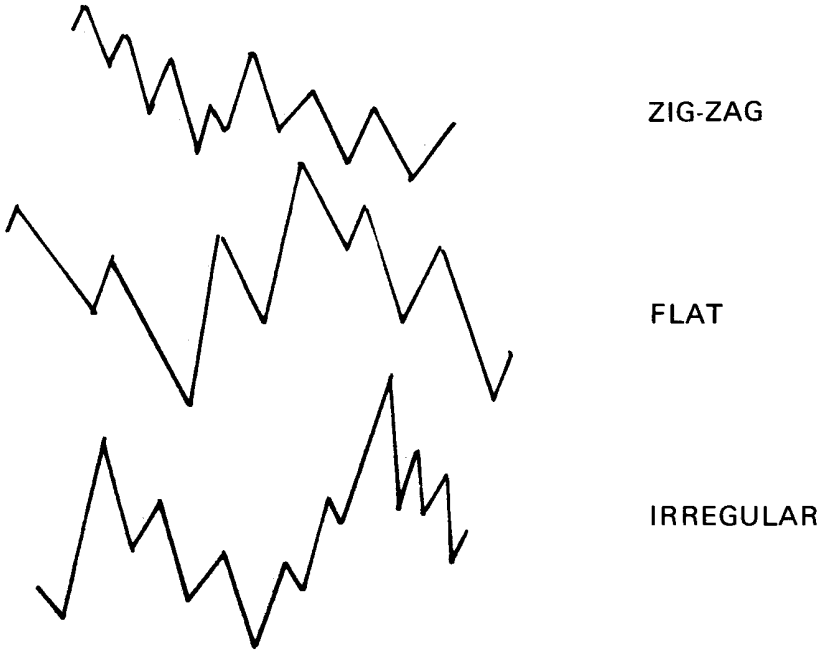
ELLIOTT'S MAIN PRICE PATTERNS

Market action was labeled as being in a swing, zig-zag type, a flat channel type, or an irregular uneven type that breaks out on both the top and the bottom (See illustration).

BULL MARKET PATTERNS



BEAR MARKET PATTERNS



PRACTICAL ELLIOTT WAVE COUNT

Elliott count can be helpful if used as a way to keep track of waves which are about the same size, and as a way to label market action. Develop the habit of using the same kind of number or letter for each size swing.* This way, when observing a chart if a number or letter is seen, such as "B," it is known that an "A" is somewhere on previous charts and a "C" is expected ahead when another swing of this size is made. For HAP purposes, count is to be made on waves of the same size, or fairly close to the same size. If a larger than usual swing appears, it is either part of a previous move's count, or a new count needs to be started. New count must be started off of all main highs and lows when it is determined they are made. Smaller or larger waves must each have a different size lettering or kind of number. In counting, the numbers "5" and "0" will be at the same place; with the "5" being the end of the previous move and the "0" being the beginning of the next move. There may be a large "V" and a small "o" designating the end of a large wave and the beginning of a small wave, or this could be reversed with a regular "5" and a large "0."

WAYS TO MAKE ELLIOTT COUNT EASY

1. Count on the weekly charts first (as this deletes a lot of minor swings), then transplant the figure onto the daily charts.
2. Use a simple ten day moving average and count the waves on the moving average; then count between these waves if necessary.
3. Use channeling to help.

CHANNELING METHODS FOR ELLIOTT WAVE COUNT

Draw connecting lines along the bottoms and tops of pivots which recur at about the same size, making a channel of price action between these lines. When price penetrates one of these channel lines, a new thrust is then in process. If, however, penetration does not occur, expect the price to go back to the other side of the channel. That way, previous corrections provide a way to measure the expected length of the next wave. See the example of the March (1979) Canadian Dollar.

* Definitions for swings and a legend for labeling swings can be found in our section "Definitions."

FIGURE 26
ELLIOTT WAVE CHANNELS AND COUNT

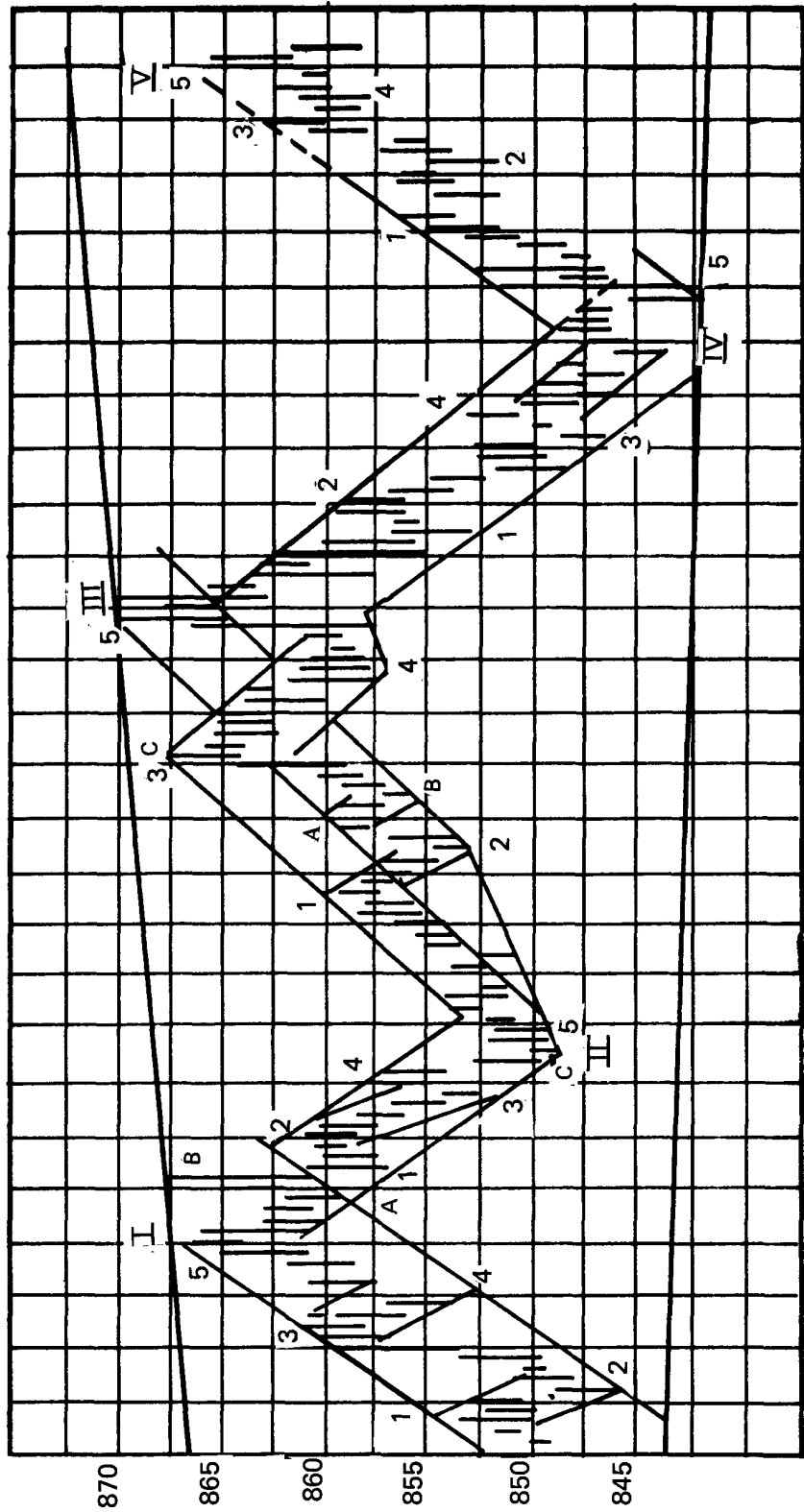
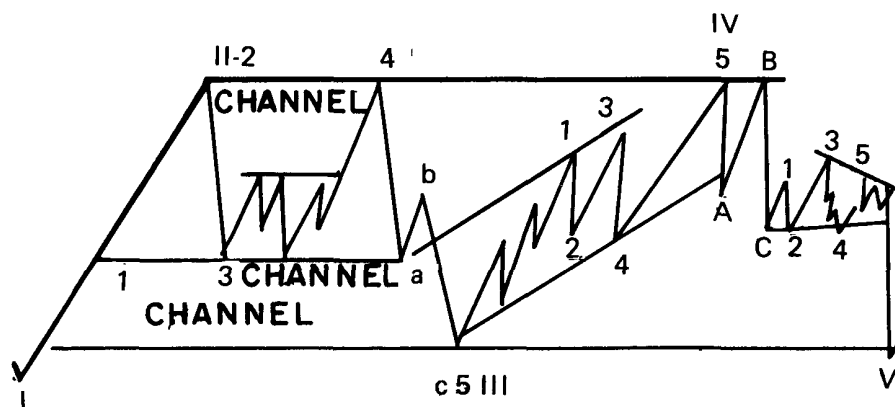


Chart furnished courtesy Commodity Perspective

HAP's Use Of Elliott

All that is necessary to clarify the count is to stay within the boundaries of each size channel. Start a new count when each channel is part of a larger channel. Channels generally double in size upon valid breaks. This is the reason the flop-over is used so much to help indicate where the price should go. See the illustration.



SOLVING PROBLEMS IN ELLIOTT WAVE COUNT

The main problem people experience in Elliott count is with extensions, or extensions of extensions. These will pose less of a problem if the following is remembered:

1. Extensions usually occur in new territory and are retraced twice.
2. An extension is seldom the end of a movement.

Another problem is the fact that there are times when there is absolutely no way to find a logical count. This should not cause a trader to be in a quandary or cause him to give up. If it happens, however, simply pass this section of the market for doing Elliott count and resume it later, when reason and order can be seen. Using different scaling will often cause the count to be more easily seen. On long term charts especially, a logarithmic scale may help.

Long, even, swinging markets or congestion areas are hard to count. Here it is necessary to draw a line through the congestion area and use it as one main leg. An important factor with this market is when highs or lows are being exceeded or surpassed, look for a line to trade. This is sometimes accomplished by making a line through the middle of a lot of choppy action.

Elliott's Rule Of Alternation helps clear counting problems by revealing more of a variation in the rhythm. He said there should not be more than two out of three patterns of the same design or type within each move or section of the market. One of the three main thrusts going up should be different. If there is a zig-zig twice, expect a flat next. On a smaller scale, within the subwaves, if there are two legs of about the same length, expect the next one to be different. If the first leg and second leg are different, expect the third to be like the first. Expect the five and three count to alternate. If there is an irregular top to a subwave, expect the next one to be regular. Looking for alternates will help in predicting and make the counting easier.

THE IMPORTANCE OF ELLIOTT THEORY

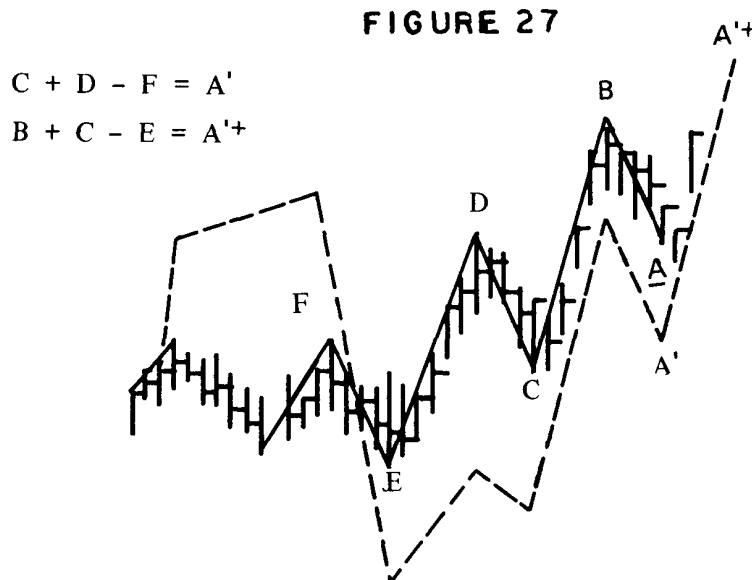
Although people cannot agree upon how to do Elliott wave count, this fact is not a valid reason for underestimating its value. Much good can be realized by using the Elliott wave properly. It will give a guideline to follow, point out the stage and type of market, give precautionary signals, and form the basis for labeling a market. Without labeling, it is impossible to work the directional indicator formula or use Elliott's "Best Money Maker" method. Remember, market prediction is an art and not a science. Due to the involvement of people (who are apt to change their methods and ways of trading as they learn or have a change of mood), a formula will not work one hundred percent of the time in dealing with the market. The waves being counted are really only recordings of human actions, which is not the same as a machine which will need nothing more than to be set and occasionally oiled. As with any social science, the larger the number of participants in a market, the more likely these rules will apply with good results. The laws of averages and probability work better with larger numbers. This is the reason cycles sometimes disappear and are hard to track. If there is a pause in a cycle or in the Elliott wave count, this does not mean it will not start again and be just as valid in the future.

THE ELLIOTT DIRECTIONAL INDICATOR

Since Elliott contended that the basic design of wave count is constant, several analysts have used his theory as a model from which to make comparisons or other interpretive formulas. So far, the only valuable formula we know is the one sometimes called "Zero Balance." This wave principle, with deviations from it, is used to calculate a plus or minus value. When the Balance Line goes above the peaks of a market, it is considered overbought; when the Balance Line goes below the previous lows or a main low, it is considered oversold. Traders who know how to use this will use it as a directional indicator, along with others, to decide the trend's direction or possible upcoming changes of trend.

Wave count must be done and each main pivot labeled, thus making the boundaries more clearly defined (See A, B, C, D, E, F). From where the market is at present (A), take the third (C) and fourth (D) pivot price amounts and add them ($C + D$); from this sum, subtract the sixth pivot price (F); the result is A' . ($C + D - F = A'$) If it is above A, the trend is up; if below A, the trend is down.

Next add second (B) and third (C) pivot price amounts ($B + C$) and from this sum, subtract the fifth pivot price (E); this result is A'^+ , which is the expected target or the new A' . ($B + C - E = A'^+$) Dr. Ralph Heiser of Switzerland worked out this formula many years ago. See illustration and formulas:



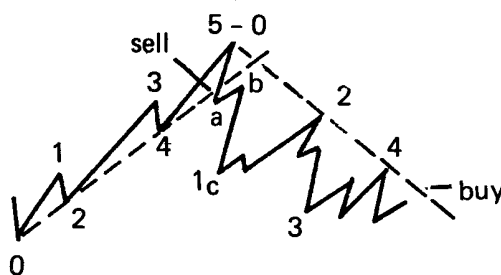
ZERO BALANCE EXAMPLE

ELLIOTT'S BEST MONEY MAKER

Knowing how to do Elliott wave count helps give good warning signals that a move may soon be over. If there have been five pivots of about the same pattern on a zig-zag, a correction is expected. The question remains, however, when to enter a trade with reliability. A trader may find doing the count and using 0-4 lines is the answer. If price starts turning around, indicating the end of a fifth leg, it is assumed there will be at least an ABC correction. Draw a line from the "0" number of the count, straight past the fourth pivot, letting it extend where it may be intersected by price. When price crosses this line, buy (or sell). Use only swings of the same size in the count. There may be several small 0-4 lines crossed or contained within a large 0-4 line. It could be possible to have both a small 0-4 line and a larger one crossing at the same time. These trades work with enough regularity that they could be traded successfully by those who learn to draw the line properly. The larger the 0-4 line, the more reliable it should be. HAP traders should know and use several other good indicators to support the 0-4 line trades; this will give more peace of mind to the trader using the technique.

Some traders draw lines over the tops and bottoms of any first three swings or two pivot line. Thus, the 0-2 line is made. If the 0-4 line is even with, or outside, the 0-2 line, this is a stronger indication of a good trade. If the number two pivot is protruding through the 0-4 line, the trade is usually not taken until there is further price action to indicate the proper trade.

The 0-4 line is drawn from a zero by the tip of the fourth pivot. Unless the #2 pivot is above or below the 0-4 line, the theory is to buy or sell when price goes beyond the 0-4 line. There may be major 0-4 lines coming off a large swing count, medium 0-4 lines from middle size swings, and small 0-4 lines from small swings. A trader may make money using nothing other than these 0-4 lines. It is a good technique and seems likely to have been the one used by Elliott to make a fortune (See illustration).



0-4 LINES

HAP's Use Of Elliott

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Beckman, Robert C., *Supertiming*, Library of Investment Study, P. O. Box 25177, Los Angeles, California, 90025.

Chapter 12

The Triad

VOLUME

Most volume and open interest techniques merely add up to the fact that more or less traders are in the market. However, there are some things worth remembering. Volume may help on what is called a large thrust day or climax day. This is a day with a broad range between the high and the low. If this climax day has a large amount of volume, it may be a reversal; especially if the price closes above the middle of the day's range.

Another case in point is when a day's thrust is small. It may be an inside day, but the thrust will be short. If an extra large amount of volume is recorded on a day

The Triad

like this, figure that supply is meeting demand and expect a reaction. This implies that price went until there were no more buyers to take the opposite direction. In a case like this, price has no place to go except the opposite direction. In order for price to advance, there have to be more losers ready to step up and take the place of the losers getting out of the market. Price can go nowhere unless there are buyers or sellers willing to participate. Top or bottom pickers often help propel price further than it should go as they come in, then get their stops hit. A situation like this is unusual, but when it develops it should be watched closely.

OPEN INTEREST

There are two main open interest situations that need to be watched. These work much better if price is in a trading range or congestion area. The first situation is where open interest has come off sharply or gone up sharply. Price will seldom make a fast move of any length unless there are commercials in the market. If price is going up fast along with open interest, then the commercials are willing to take the opposite side. It is the large traders and commercials who have enough money to buy when most others are selling, or to ride out a large deficit over a period of time. Ten or fifteen cents may not mean much to them, where it could wipe out a small trader. Watch the open interest line on the charts and beware of any sharp move either up or down. A sharp rise in open interest during a sideways movement of the market usually means that distribution is taking place. Expect this market to go down. A sharp drop in open interest during a sideways market condition means the commercials believe they can hedge higher. Expect this market to go up.

THE BUBBLE THEORY

Very few commodity traders know about the bubble theory. This is a sharp three day rise, then three day fall, on the open interest line. It makes a bubble-like appearance on the line. Thin markets should have more pronounced bubbles, while big markets like the grains may have bubbles that are barely noticeable. The thinner markets work better.

If there is a congestion area or long triangle, look to see if the open interest has

gone down sharply. Next check the CFTC commitment of trader's report to see if a lot of commercials are short. A sharp drop in open interest usually means the commercials are getting out, thinking they can get short a lot higher for their hedging at a much higher price. If there is a bubble on the open interest line, expect the market to reverse. On the other hand, if open interest goes up with a large number of commercials short and the bubble appears, this is a good indication the market will soon go down.

Since the CFTC report is usually at least thirty days old, the only way to make it of any value is to compare it with the open interest to interpret what is being done. Seasonal differences must be understood in open interest changes, or errors will occur.

If the market is going down with the open interest flat and a bubble appears, expect it to soon reverse. If the market is going down and open interest is declining sharply, there probably will not be much of a reaction from this pattern until a base is built. If the market is going down, open interest is going up, and the bubble appears, this should be suspect, as it may be only traders changing positions.

Experience using the bubble will reveal that price will usually change directions when a pronounced bubble occurs on a fairly flat open-interest line. See Figure 28.

FOLLOW THE LEADER

Learn which commodity in a group is the leader, then use this as a relative strength signal. Below are possible leaders or groups to watch so a leader may be found.

1. The Live Cattle and Feeder Cattle sometimes develop a leader.
2. Hogs and Pork Bellies often have one following the other.
3. Oats, Corn, and Wheat often go together, with a leader among the three.
4. Plywood often leads Lumber or vice versa.
5. The Bean complex will often have a leader.
6. Rapeseed usually leads Soybeans.
7. T-Bills, T-Bonds, and GNMA's often develop a leader.
8. Cotton, Lumber, and Copper often move together, since they are all subject to the economy of the country.
9. Reverse leadership may come in, as was the case with the interest rate markets and metals for awhile.

The Triad

10. Increasing interest rates and deflationary methods usually cause commodities to go down.

11. Increasing interest rates will cause the back months of commodities being stored to gain on the front months, as the higher interest rates are charged to the commodities.

12. Rising interest rates will eventually influence the foreign currencies to go down.

13. Inflationary hedges like Gold will often lead other commodities in a price rise.

14. For a long time Silver followed Gold, at other times Platinum led the metals. Gold went opposite from the Dow Jones Average for a long time.

15. Foreign currencies gaining on the dollar will mean higher overseas prices for their commodities like Sugar, Cocoa, and Coffee; but imports bought by the cheaper U. S. dollars will buy more.

16. The price of oil has been leading all commodities.

17. Higher prices of oil have been pushing up the price of Cotton, as the synthetics made from oil become more expensive.

When watching a leader of a complex or group, changes in open interest must also be monitored. Changes in the leader may not mean much unless accompanied by a sharp change in open interest.

FIGURE 28
THE BUBBLE METHOD

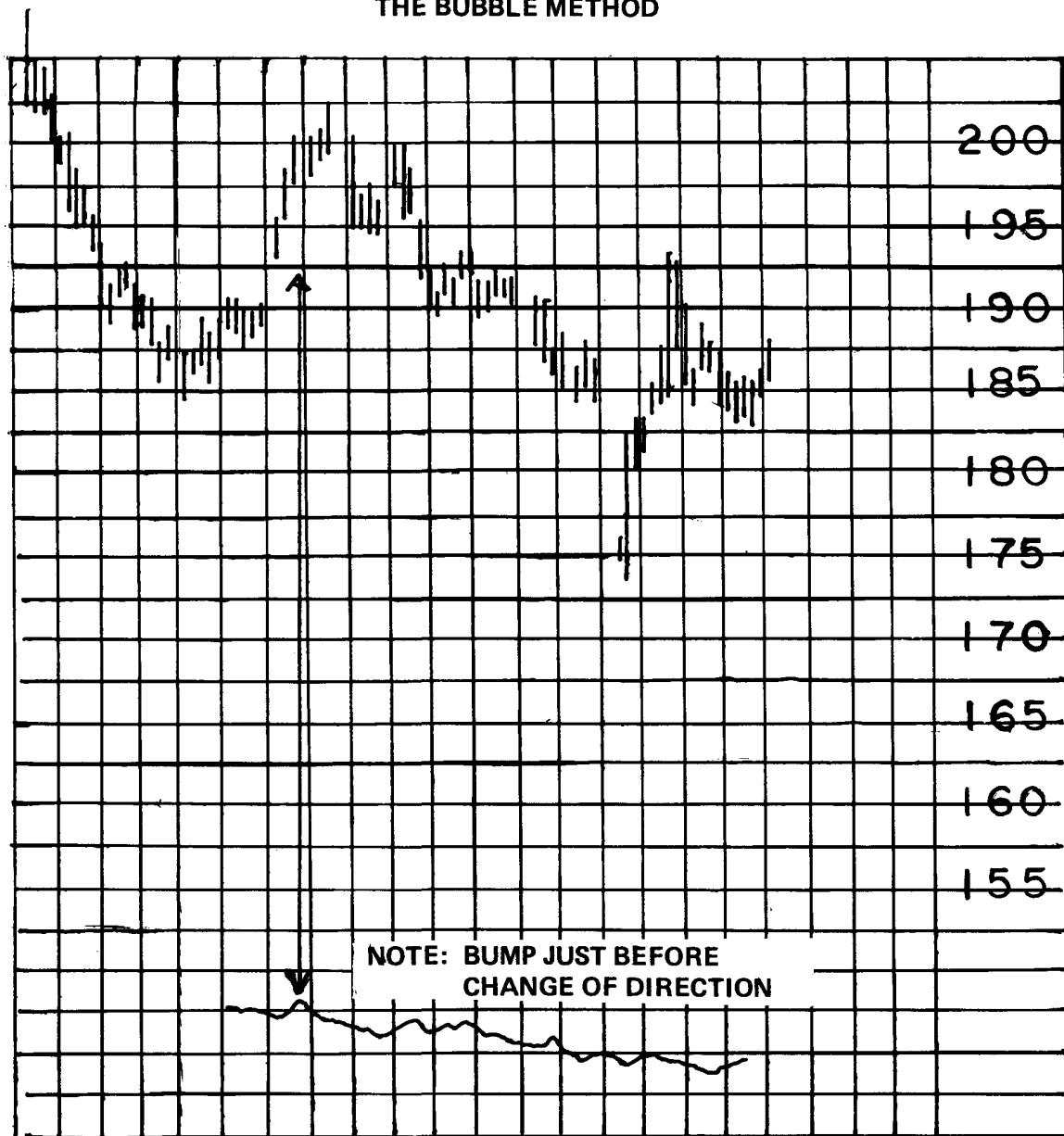


Chart furnished courtesy Commodity Perspective

Chapter 13

Market Markers

REVERSAL PRICE PATTERNS

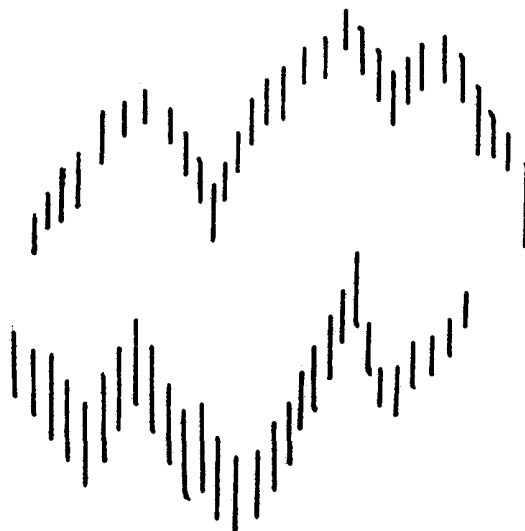
1. The Island Reversal has a gap on both sides of the turning point and is a very reliable reversal.

2. The Gap Reversal has a gap after the turning point. It does not test out as good as the Island Reversal but is better in runaway, large swinging, and labored move markets. It is not as reliable in congestion areas or choppy markets.



Market Markers

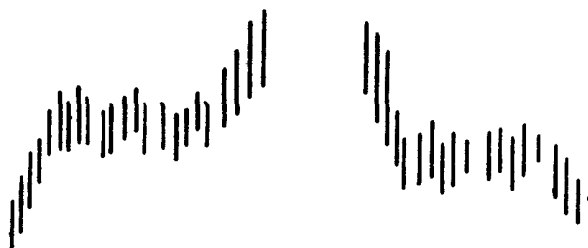
3. The Head and Shoulders price pattern is usually a winner. It takes more time to unfold, but when it can be seen, it usually is good.



These were the only price reversal patterns that tested out good enough to be reliable.

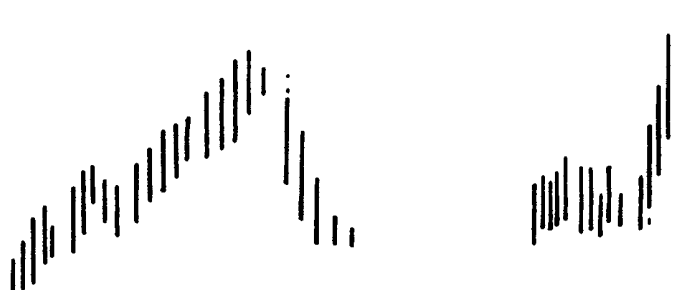
PRICE CONTINUATION PATTERNS

1. With a congestion area after a runaway market, price should continue on the way it came in.

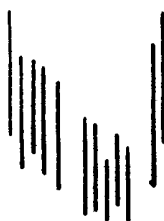


Market Markers

2. A break from a labored move should go enough to warrant a trade.



3. Down Flag pattern should go up.



4. Up Flag pattern should go down.



Market Markers

KINDS OF LINES

1. A pivot line goes by the tip of two or more pivots.
2. A multi-pivot line is two or more pivot lines merging or being used together.
3. A trendline is a line going with a designated trend.
4. The peak to low lines go from a top turning point to a bottom pivot.
5. The parallel line is even with a trendline or channel line.
6. A flop-over line is a parallel line out the same distance as the width of a channel.
7. Curved lines may be made with french curves. A french curve is close to the Fibonacci progression numbers and is a quick way to tell if prices are staying in the Fib ratio boundaries.
8. Curved channels, or envelopes, are parallel lines following a sloping price channel.
9. Skewed channels are not parallel, but rectangular lines along main price highs and lows.
10. Resistance or support lines are pivot lines or trendlines designated as an area of support or resistance when met by price.
11. Speed lines spread out from one point on designated angles of various degree, according to a predetermined pattern given by a set of instructions.
12. Balance lines are lines between balance points of market price action.

USING PIVOT LINES

Most technical traders use trendlines. Long ago it was found that a line drawn by the tip of pivots on out to where it could be intersected by price would often be a turning place. Three or more tips being touched by a line proved better than two. Trendlines from different angles converging where price may intercept is more reliable. If price should hit at the spot where trendlines converge, this is believed to be the strongest of pivot lines. This works on commodities that are not too volatile (See Figure 30).

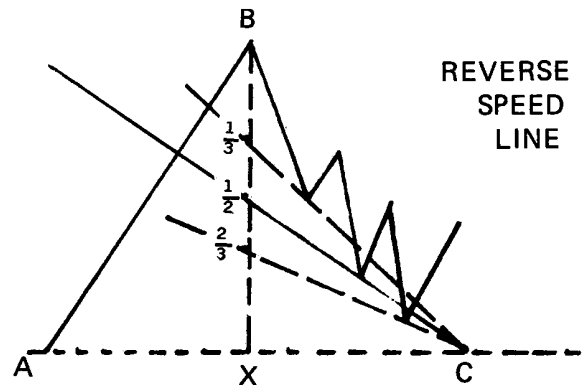
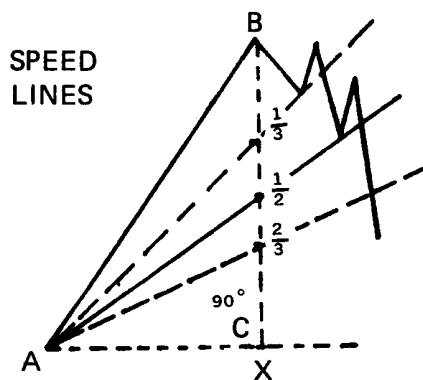
These lines, like moving averages, need testing on a regular basis to see what is working best. Some commodities are better than others for using these lines. Trendlines on weekly charts are usually more reliable. There are conditions when a trendline will work better. For instance, the stage of a market makes a difference. As with all technical analysis, it must be remembered that the market

does not recognize lines. It goes where supply and demand dictate. Trendlines can help—if used with discretion. Some traders, like the tape readers, have developed a feel for trendlines. HAP has found that lines by congestion areas or through gaps are better. The more congestion areas that are parallel with oncoming price, the more probability the line will hold. Equal distance parallels from these lines can be of help, too.

Those who know how to make balance point lines may use them with trend lines. Sometimes a BPL will turn into a trendline, or a trendline will turn into a BPL. This is called a Balance Point trendline and is the strongest kind of trendline known by HAP. Note, in Figure 29, how two or three pivot-lines will often find other pivots.

DIFFERENT SPEED LINES

Speed lines have been used for many years by market analysts. To make speed lines, the thrust or amount from the peak to the base on a 90 degree angle is divided in half, then into thirds.



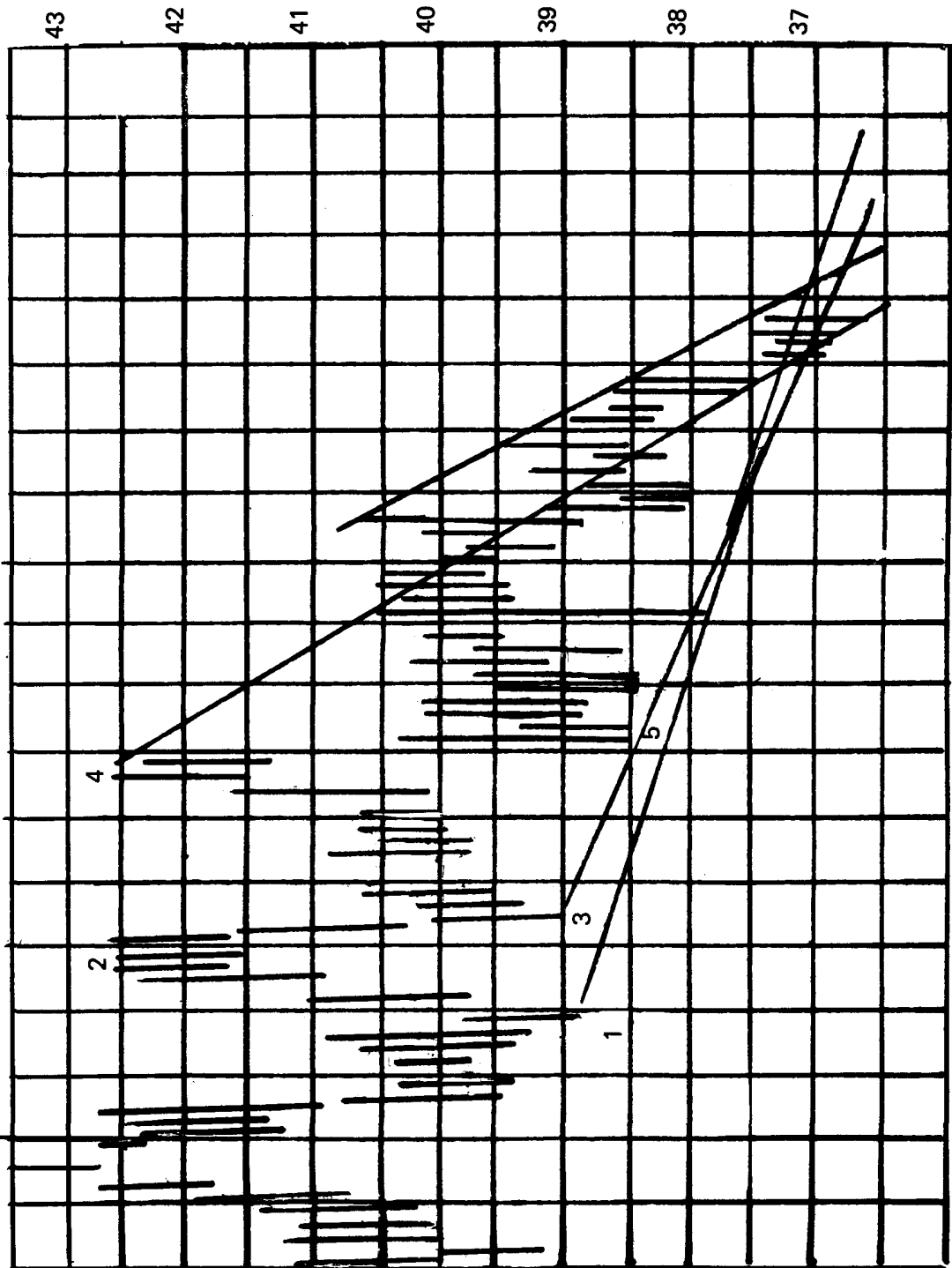


FIGURE 29

Chart furnished courtesy Commodity Perspective

FIGURE 30
MAY 1980 COTTON

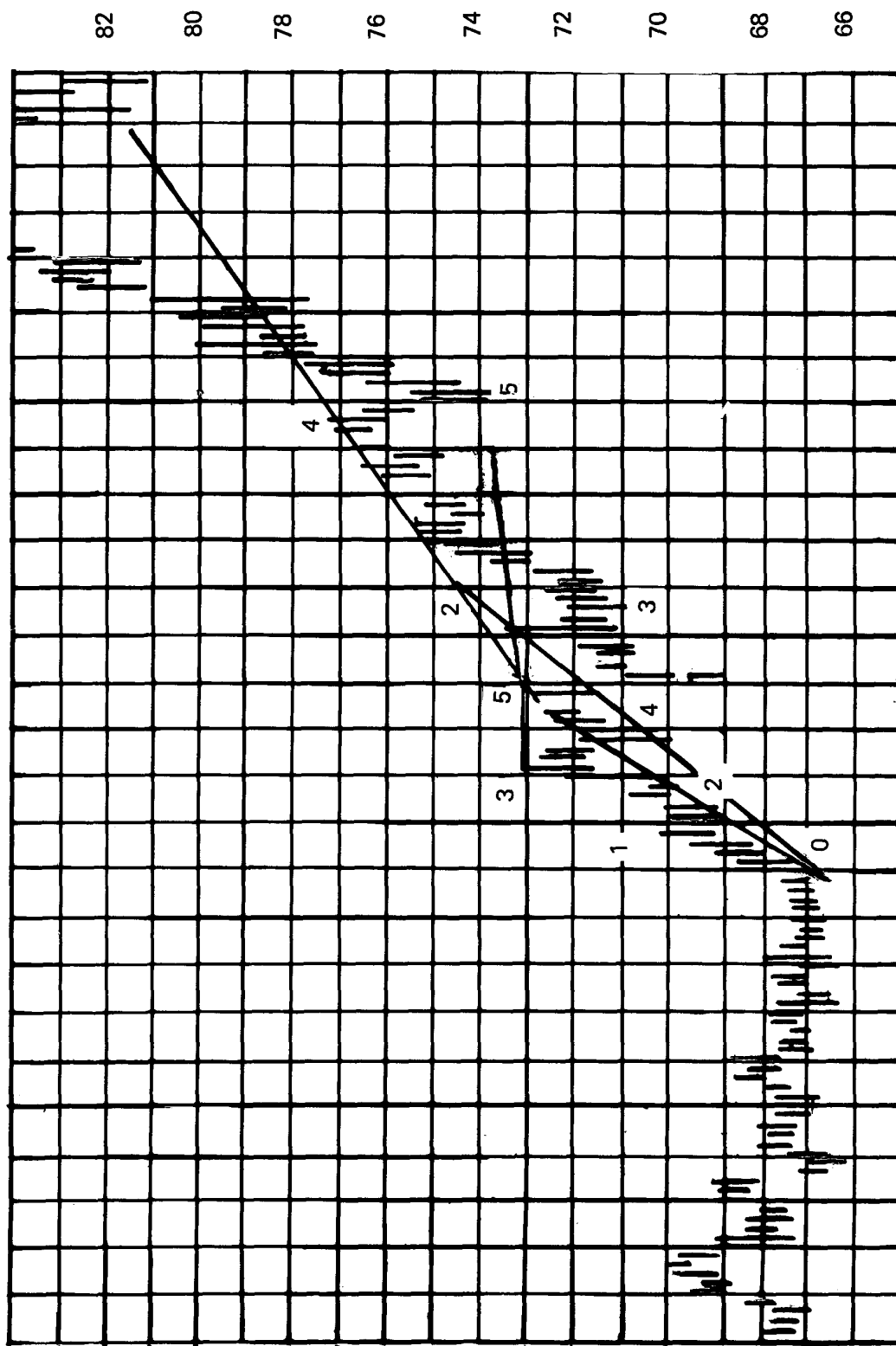


Chart furnished courtesy Commodity Perspective

USING TWO-PIVOT LINES

This shows that any time a two-pivot line is broken, one stands a good chance of winning if you buy (or sell).
(See using Pivot Lines pg. 118)

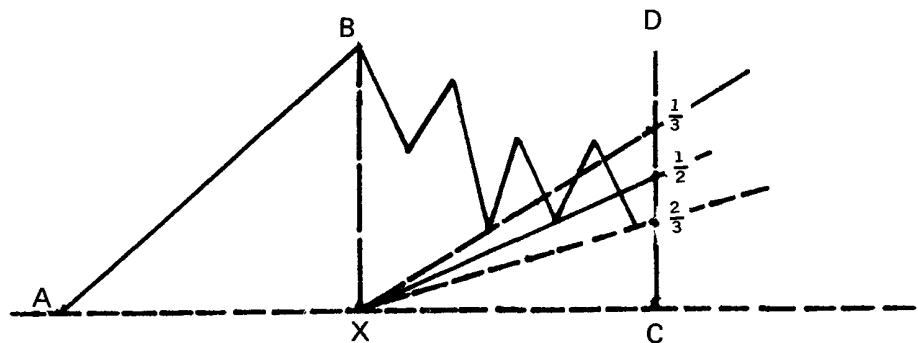
Market Markers

Reverse speed lines are sometimes used, and are made by extending the base horizontal line on an equal distance, then bringing the lines up from this reverse position. In the illustration, see that the peak to low line AB has a thrust line BX. The BX line is divided, so that lines from A can be drawn to extend out for price to intersect. Reverse lines start from C and bring the lines up from the opposite direction, an equal distance out from AX.

HAP research spent months checking these lines to see what value could be found. Price does meet resistance or support when encountering these lines—with about a forty percent expectancy. There are other values found in the lines. They can help keep in focus the strength or weakness of price action. Fast action will hit a line quicker. Sideways motion takes longer, but the line is coming up more each day, making the distance to the line closer. There is a tendency for price to test its former highs or lows. These lines reveal how close price is to these natural resistance points.

Using the action-reaction theory of force lines out on equal distances, it was found that the base horizontal line extended out for the reverse speed line could be brought up on a 90 degree vertical and used effectively. Note the CD line, which is out an equal distance away from the thrust line used, to regulate the speed lines. This phantom thrust line may also be divided for speed lines and used just as effectively for price prediction.

EXAMPLE OF SLIDE-OVER



Much work was done to understand why these lines should help. One reason found is that Fibonacci series numbers may be found close to the degree of angle

of these lines. Fib numbers brought around on a circle do not hit the lines very often; but when they do meet with price this is a more powerful resistance point. The phantom thrust line CD, with speed lines from X, was found to be more helpful than regular speed lines—if price had already made one unsuccessful attempt to go back to the base; and especially if price had gone to the two-thirds line from the top and started up again. This is a little like the flop-over parallel lines that are used by a lot of technicians, except this is a slide-over. Here, speed lines are brought out an equal distance where price may intercept them. This gives a better reference line from which to compare the strength or weakness of price action, which is the object of the speed lines.

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Chapter 14

Entry-Exit Methods

WALL THEORY TRADING

Definition of a Wall

A wall is built when price trades between any previous high and low of the previous swing. Wall lines may go back to any pivot point of a previous swing. There may be larger walls over or under smaller walls, making tiers above or below the present price.

When two walls come close to each other, an average price or middle line should be drawn. Close means within one cent for meats, cotton, sugar, copper; three cents for grains, woods, other foods; silver, gold, platinum, and

Entry-Exit Methods

the like should be \$1.50; and interest rates or foreign currencies should be 50 points.

Old wall lines from previous price are important if they pass close by two pivot points or two congestion areas. A Gap is considered here to be the same as a pivot point. Any two-pivot line must be entered within any new wall as it is constructed. These lines are considered to have equal strength as wall lines.

Use of the Walls

In trading, price action between each wall must be calculated separately from the next larger wall lines until this wall is overcome. New counts of rhythm, cycles, or Fib numbers should start within a smaller wall. Also, Elliott wave count must restart within these boundaries.

Previous highs, lows, or congestion area boundaries will probably cause a congestion area or support-resistance area at those levels.

When Walls Are Considered Broken or Are to be Abandoned

A wall, surpassed by as much as 30 percent of the size of the previous wall dimensions, is broken if price closes above the 50 percent mark of the day's range. If price closes below the middle of the day's range, wait until price closes above the previous close and also above its middle range.

If an Island Reversal or Gap Reversal pattern is formed above or below a wall line, the wall is broken.

If price goes through a wall line, but not more than 30 percent, or price does not close above the wall line and then comes back near the center of the wall area and reverses to go through the wall line, consider the wall broken.

Walls are considered broken if a 0-4 line is crossed.

If an Elliott wave count of five is seen, expect reversal rather than a broken wall.

Get out and wait for a new entry signal when good relative strength reversal signals are flashed.

Overbought or oversold signals act as warnings and stops should be brought in closer.

Any time three out of five indicators signal a reversal, get out and wait for new reentry indications.

If Rhythm count, Fib count, and square of time and price count come on the same day, expect a reversal and plan to act accordingly. Use day trading tactics for this day, if possible.

If price comes together with any two valid lines, expect a reversal. This

includes equilibrium lines, balance lines, multi-pivot lines, wall lines, or balance-line parallels.

Note: A good example of Wall Theory trading is in the chapter, "*How to Organize a Trading Plan.*"

THE RHYTHM METHOD

If a trader will learn how to find the rhythm of a market, he will greatly improve his money making ability. Most commodities have a certain number of days, on the average, that can be found to repeat enough for a trader to increase his profitability considerably. Few traders know about this simple technique. It works best in choppy markets, but may be a help to enter a runaway stage. Learn to use the rhythm count, then follow some simple rules and make more money in trading.

Finding the Rhythm Count

There are several ways to find the rhythm of a market. Cycles may be used to help. Others use the fifty percent rule; some know Fourier analysis. The harder but more certain way is to simply count the days between pivots until it is found. Look for a close amount of repetition of the same number of days between pivots. Actual days traded are used for this count, not time spans, as in cycles. Each rhythm amount found in a commodity has a long count, and one half of that is the short count. Once found, the rhythm will stay fairly close for the life of a contract. If a runaway market should develop, expect the long count to be reached before any reversal or congestion.

Any time a certain number of days between pivots keep repeating themselves close enough for a trader to trade the short count and make money, this is the market to trade. Choppy markets and congestion areas are best for this method. Congestion markets must be swinging enough for getting in and out with a profit. Usually, a trader only stays in the market a short time, unless a breakout from the congestion area occurs; or as advised by HAP, use this only as an entrance technique, with other indicators giving the buy or sell signals. Figure 31 is an example of finding the Rhythm.

Note how the beans have a twelve and six day rhythm. To find the count, start at some significant turning point. If several cycle dates should fall on a turning point, this should be added confirmation of the place to start. Also, if a turning point has been the price where several previous fifty percent reversals have occurred, this helps confirm the starting place. If an odd number is the rhythm

FIGURE 31
FINDING THE RHYTHM COUNT

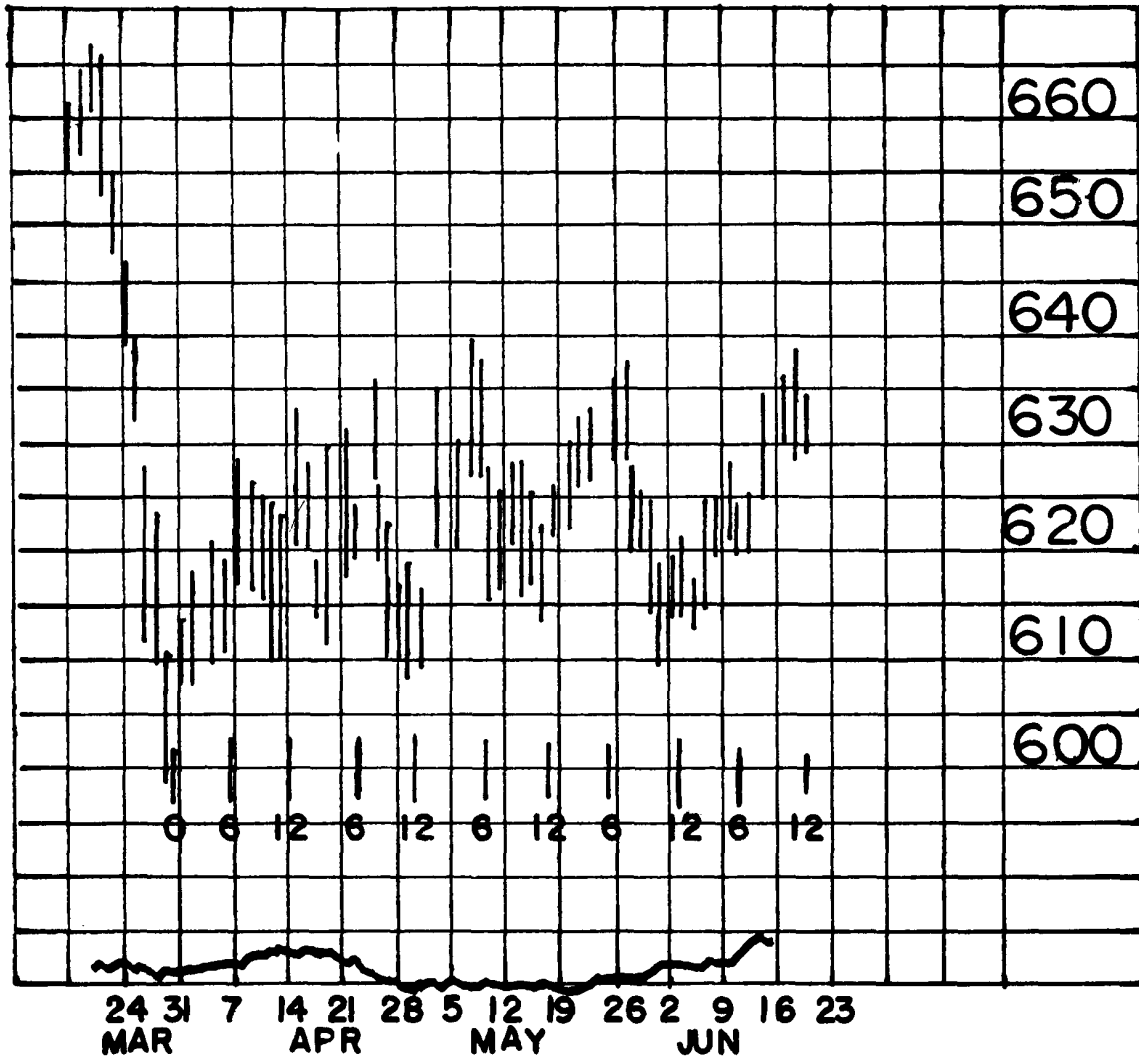


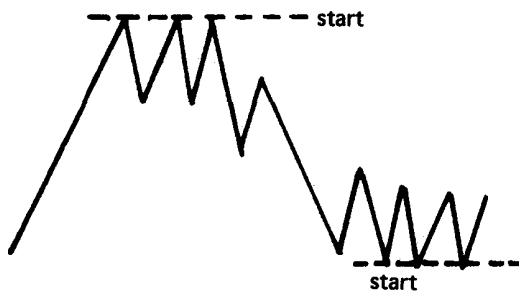
Chart furnished courtesy Commodity Perspective

number, expect the short count to consist of alternating days around its middle. To verify the numbers, start in the middle of a choppy area at a pivot, then count both backwards and forwards. If this works out, then it is a good count.

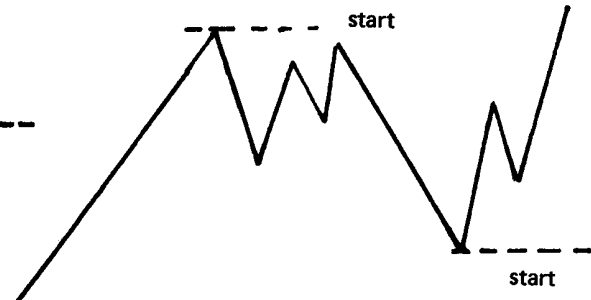
There are two special instances for the start of a new count. These are:

1. If a new low (or a new high) exceeds the previous two lows (or two highs), and if this low (or high) is contrary to the main trend, start a new count from here.
2. If a low (or high) makes a lower high (or higher low) and proceeds contrary to the previous trend, start a new count from here, but start from the lowest low of the two.

EXAMPLE #1



EXAMPLE #2



How to Trade

1. Buy or sell after long count day with two closes reversed. This is a third lower day from close to close when selling, or a third higher day on the close when buying.
2. Most of the time, entry will be made on the close.
3. After entry, count the days from the long count day. If there are profits after one-half of the count, then exit with these profits and wait for the next long count day to reenter.
4. If there is no profit and no stop out on the one-half count day, wait for the long count day to exit or be stopped out.
5. Exit on the long count day even if it is a loss, unless a favorable breakout occurs, followed by a runaway market.

Entry-Exit Methods

6. Stops should be 3½ cents above or below the long count day (OCO) on close only.

7. In starting, try to use a reversal chart pattern. This may be one with new highs protruding above the old highs, then a close below the previous close and on the low for the day.

8. The Fibonacci count is also good for helping find a place to start the count.

9. Do not stay in mini or macro swings that come back on the trade. Get out at even money.

Summary of Rhythm Method

Use this primarily as an entry-exit method to get more money on trades. This method has been used for trading choppy areas, with very good results. HAP knows of traders who use this type of indicator as their main way of trading and have been making money with it.

Below are some of the current Rhythm amounts:

1. Grains	12/6
2. Meats	10/5
3. Lumber	7/3
4. Cotton	8/4

If this is used as an indicator, it should not be for a directional prediction. A change can be expected after the long count, but it may be sideways. Use price reversal patterns and other indicators to foretell the direction. In a runaway market, the change may be rather brief.

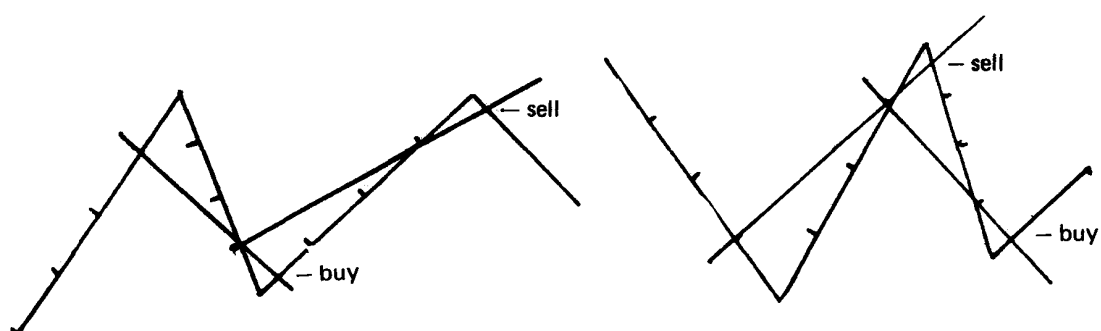
Refinements for use of this technique are still being tested. It appears to warrant much further consideration, with many potential improvements still possible.

REVERSE SWING METHOD

HAP trading rules require a number of good indicators to give a signal before trading. When a trading signal occurs, finding the best entry point is necessary. The Reverse Swing method gives exact entry and exit places.

How to Make Reverse Swing Lines

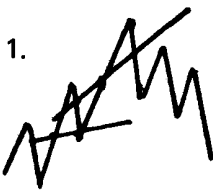
A line is drawn from the opposite part of the next-to-the-last swing through the other part of the last swing. Decide upon a percentage mark off of two swings back, and go through a percentage point of the last swing. See the illustrations below:



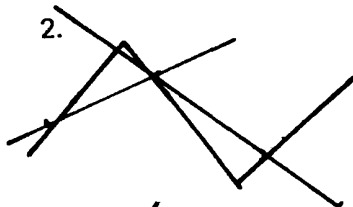
This technique requires working with the last two swings. Getting in too fast may cause more losses, but the stops are closer and the losses are smaller. Getting in too slow will sacrifice profits in event of a good trade, will have a bigger loss on bad trades, but will keep down the number of trades. Well-funded traders trade differently than those less fortunate, but remember that no one wins if he changes his rules while trading. So decide upon the rules, test them out, then stick to them.

Entry-Exit Methods

Examples of Various Market Patterns



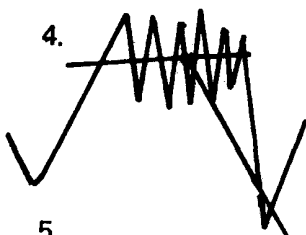
On Elliott's zig-zag preceding up above a 45° line, make the swing line from the top one-fourth through the one-half. Try to stay in for the long haul.



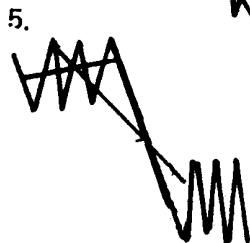
On a flat price pattern, make the line from one-fourth to one-fourth.



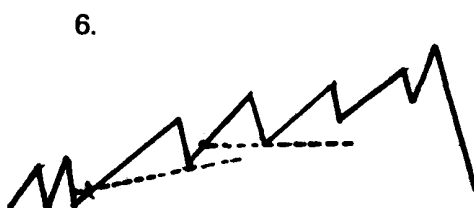
If there is an irregular bull pattern, make the line one-half to one-fourth. On the bear irregular, make it one-fourth to one-half.



If in a congestion to leg move, divide the entire congestion in parts as one leg. If the leg down from the congestion is lengthy, go from one-half of the congestion line to one-fourth of the leg.



If a flag or pennant has developed after a congestion, divide the congestion line and go from one-half to one-half.



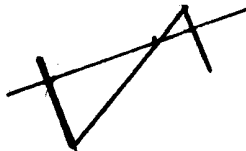
If a zig-zag pattern is proceeding up at less than a 45 degree angle, make the line from one-fourth and go by the bottom of the first correction until stopped out when price comes back through this line.

General Rules to Follow on the Reverse Angle Method

1. Do not trade if there is a narrow range congestion pattern.
2. Generally, if going from a long line to a short line, start the trading line from the middle of the long swing.



3. If going from a short swing to a long swing, start the trading line from the top part of the short swing.



4. Keep a daily angle trading line each day, in case the market reverses. If your main indicators still give a signal for this direction, wait for a reentry signal. If the directional indicators have signalled a reversal, then reverse with the daily angle crossing.

5. If going from a flat angle to a steep or sharp angle, go from the middle of the flat to one-fourth of the steep.



6. If going from a sharp or steep angle to a flat angle, go from the middle of the steep to one-fourth of the flat.



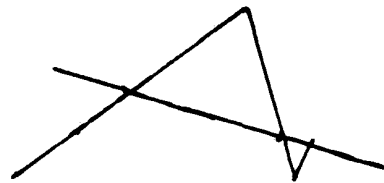
Entry-Exit Methods

7. Reverse the previous zig-zag instructions for bear markets.
8. Change all previous methods according to the flatness-steepness rules numbered four and five.

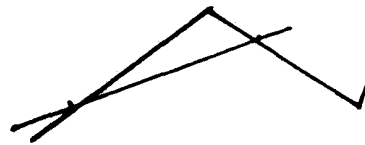
a. Sharp to flat = $\frac{1}{4}$ to $\frac{1}{2}$



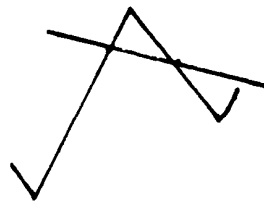
b. Flat to sharp = $\frac{1}{2}$ to $\frac{1}{4}$



c. Flat to flat = $\frac{1}{4}$ to $\frac{1}{4}$



d. Sharp to sharp = $\frac{1}{4}$ to $\frac{1}{2}$



REVERSE SWING EXAMPLES

Draw lines from peaks to lows on all the swings of any consequence back on previous price action charts, so that you include the majority of the last choppy market. Divide these swings into one-halves; then divide the swings into one-fourths. Use your proportional dividers to do this rapidly. See the example in Figure 32.

If the last swing were an up-swing, draw a line from one fourth of the second swing's low up to the three-fourths mark from the last swing's low. On an up-swing go from the low to the high quarter. On down swings go from the high to the low quarter. Letting the line extend on out so that future price action should hit this line, sell or buy after the line is penetrated. Slow the Reverse Swing down by using one-thirds, rather than one-fourths, if desired. There can be a lot of variations, such as going from the one-third to the one-fourth, or going from the one-half to the one-third.

FIGURE 32
EXAMPLES OF REVERSE SWING ENTRY-EXIT METHOD

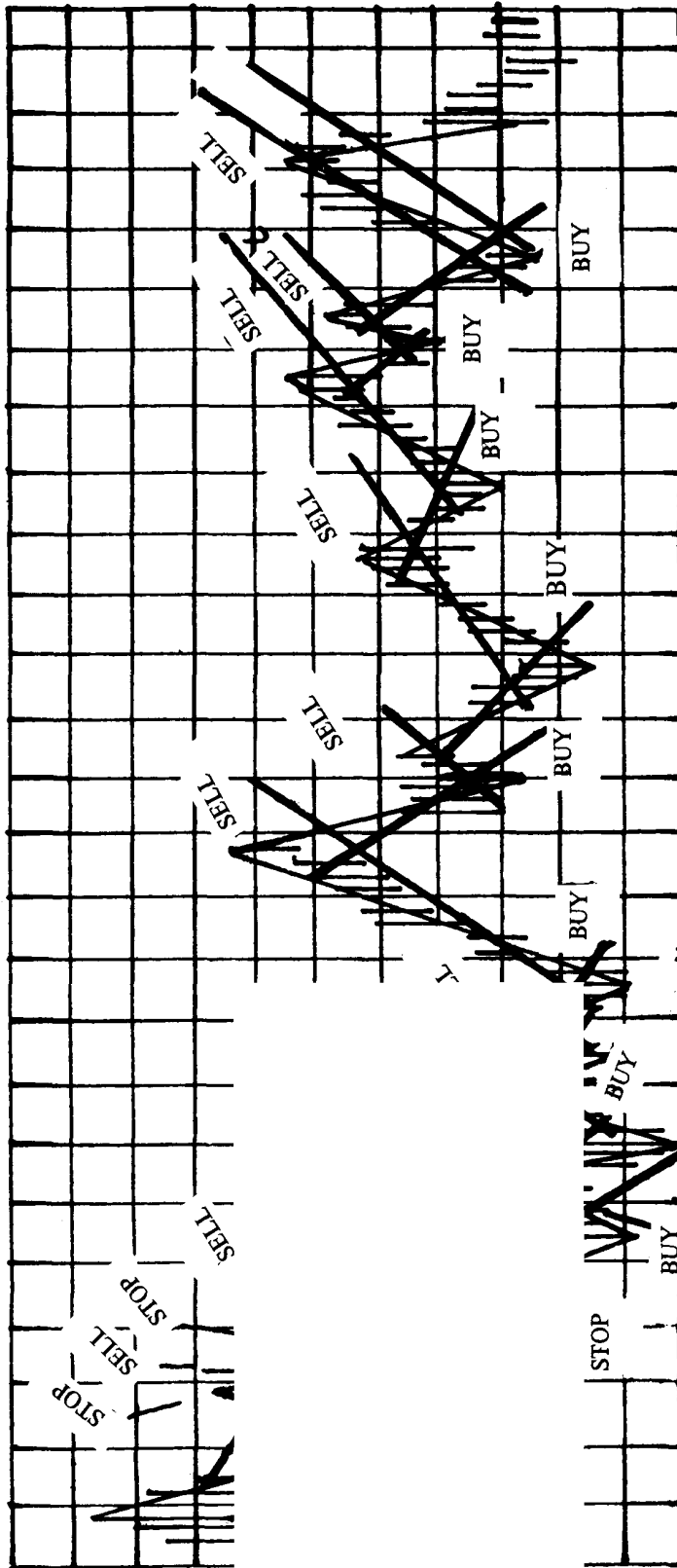


Chart furnished courtesy Commodity Perspective

USING ON-BALANCE VOLUME

Theory

On-balance volume tabulates volume as the market goes up or down, adding or subtracting the amount of volume over some given period. When counting on daily charts, add or subtract the volume from the previous total. On down days, subtract—on up days, add. An on-balance moving average of ten days, or a moving total of the short cycle, may be used. More buyers push the total up or more sellers push it down. It is those times when the market moves on low volume or fails to move on extra high volume that make a difference. On-balance gives a picture of the dominating force over the period of time being analyzed. On a daily basis, the signals do not come very often, but do help to call the turns.

This can be done with intra-day up-ticks or down-ticks if a counter is put on a quoting machine. Some interesting results may be obtained by keeping track of up-ticks opposed to down-ticks.

Using Intra-Day, On-Balance Volume

Intra-day, on-balance volume may be used several ways. A good way is by making point and figure charts from these numbers. Another way is to pick the leader of a complex, then put the counter on this leader for comparison with another member of the complex. See Figure 33 for an example of intra-day, on-balance volume.

Things to Be Done

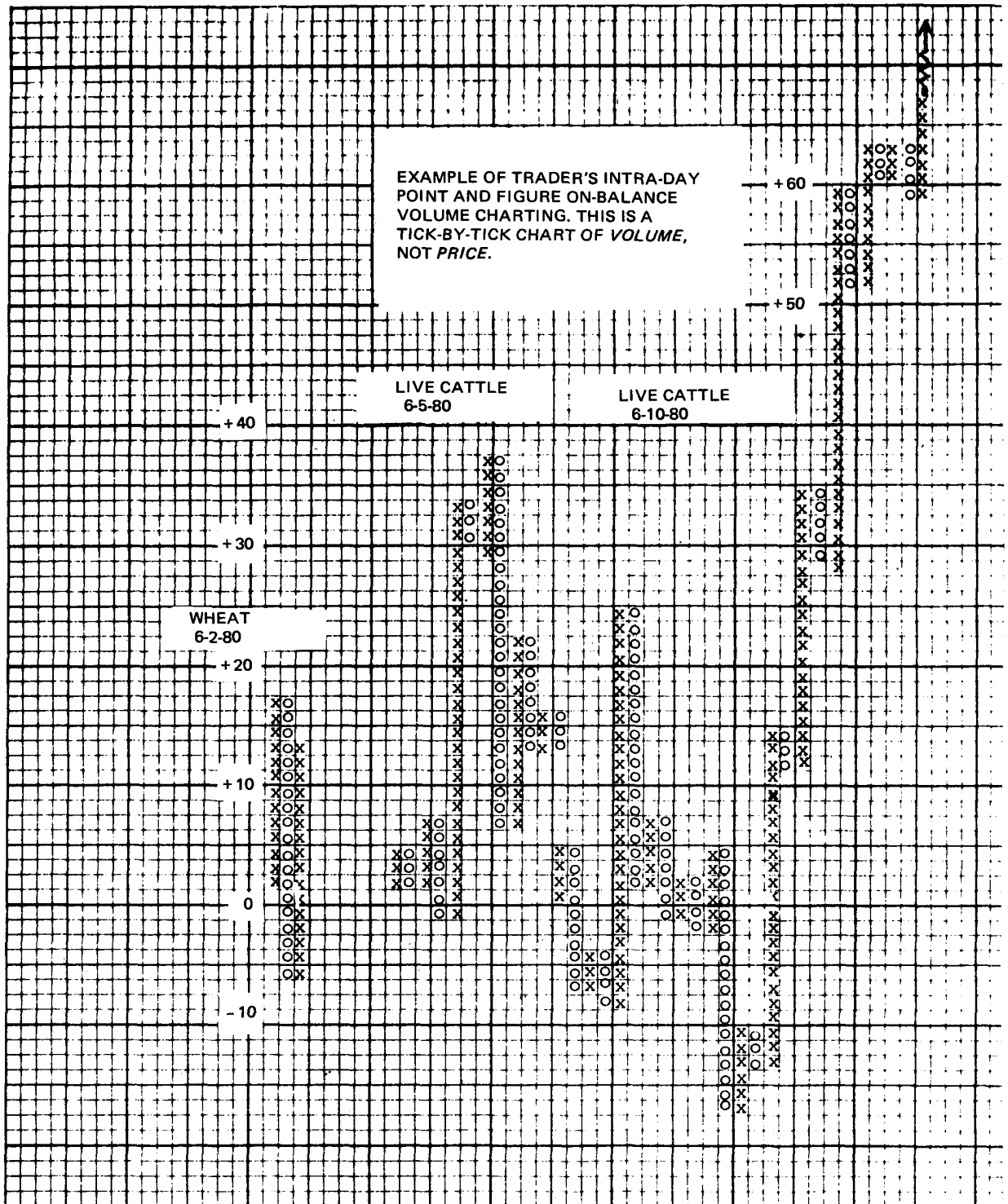
1. Count all months of a commodity.
2. Compare each commodity in a complex with the others, such as the grain complex or the metals, to find leaders.
3. Note the months with the largest open-interest.
4. Mark this information on the chart so it will be remembered.
5. Find the main trend, with HAP directional indicators, and plan to only trade with the trend.

TRADING WITH INTRA-DAY, ON-BALANCE VOLUME

Using Point and Figure Charting Techniques

Regular point and figure, three count reversal techniques may be used with the

FIGURE 33
EXAMPLE OF TRADER'S INTRA-DAY POINT AND FIGURE ON-BALANCE
VOLUME CHARTING. THIS IS A
ON-BALANCE CHARTING
TICK-BY-TICK CHART OF VOLUME,
NOT PRICE.



on-balance numbers. Congestion areas will appear on the charts and breakouts will occur. See the chart on the previous page (Figure 33) for examples of real time charting experiences done by a trader.

The Fast Moving Counter

There are times when the counter will really move. If the trader is watching at this time, profits can usually be made by getting in on this plunging or surging market. Usually, either the front months or the back months will be making the counter move at the beginning, so the trader may get a good fill on a middle month that has not moved much.

USING THE LEADER OF A COMPLEX

Intra-day use of the counter is to get better fills, or to day trade. Longer term trading help may be obtained from the tick-by-tick counter, however. This is done by picking a leader of a complex on which to put the counter when the other indicators have given a signal to trade. A good entrance is desired. For longer term trading, a more distant month is also desired. When the leader gives a good signal on the counter, trades may be made in a back month, or in some other member of the complex that is following the leader. By a good signal on the counter is meant a count of about eighty that changes very rapidly back to zero in about thirty minutes. This indicates that big buyers or sellers are entering the market. It is like the old tape readers seeing big blocks coming across the tape. This is one of the best signals found to verify supply or demand in the market. It may be used for refinement of an overbought-oversold oscillator, or for a momentum oscillator.

LEADERS FROM PREVIOUS TIMES THAT MAY LEAD AGAIN

1. The Live Cows and Feeder Cattle sometimes develop a leader, with one of these following the other.
2. The Hogs and the Pork Bellies will often have a leader between them.
3. The three members of the Bean complex will often develop a leader among them, with the others following.
4. The Oats and the Corn often go together; also, at times, Wheat will be a member of these other grains with leadership.

Entry-Exit Methods

5. Plywood and Lumber may be used with success at times.
6. T-Bills, GNMA's and T-Bonds will quite often develop a leader.
7. For a long time Silver followed Gold.
8. Rapeseed usually leads the Beans.
9. Reverse leadership, or doing the opposite, may come in with some commodities. For a long time the interest rate commodities went opposite to the metals.
10. During some markets, increasing interest rates or decreasing futures indicate that deflationary efforts are in effect by the Fed, which may cause commodities to go down.
11. Increasing interest rates will cause the back months of all commodities being stored to gain on the front months, as the higher interest is charged to the stored commodity.
12. Rising interest rates will eventually influence the foreign currencies to go down.
13. Gold and the metals are often the leaders of all commodities, as this is an indication of inflation hedging and inflation means higher commodities.
14. Cotton, Lumber and Copper often move together, as they are based upon the economy of the country.
15. Increasing foreign currencies will mean higher overseas prices for Sugar, Cocoa, and Coffee since cheaper dollars can buy less of these. But for imports coming into the U. S., the cheaper dollar will buy more.

MAKE MORE IN TRADES WITH THIS DAY TRADING TECHNIQUE

To emphasize the importance of this new technique as a method for entry-exit, I will repeat, word for word, the method heretofore mentioned on Pages 30 and 31, and illustrated in Figure 4.

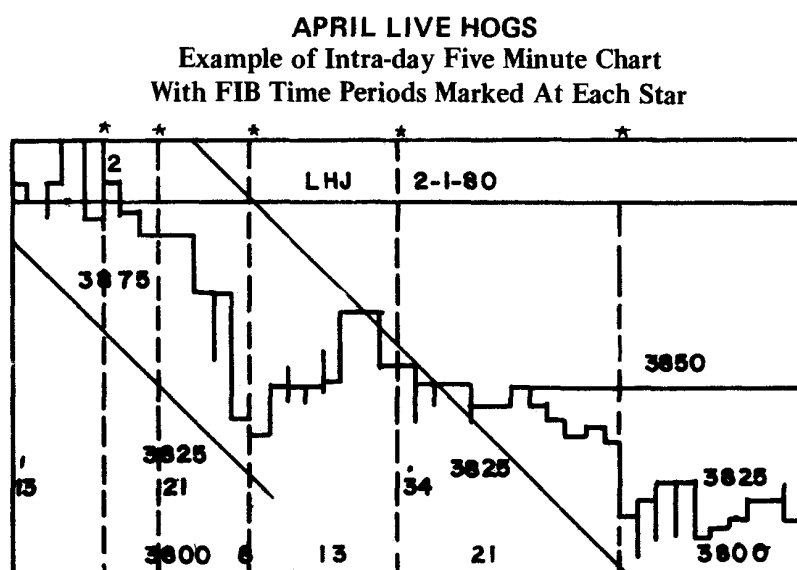
In daily trading, it has become evident to some traders that price actions often change close to certain times during each day. Knowing how to detect these times of change can mean a great deal of money to a trader by getting better fills or by day trading. The secret of these vibrations is found in the use of Fibonacci numbers. Make five minute bar charts during the day. (Live Cattle works well with this system). Count the Fibonacci series by fives, starting five minutes after the exact time of the opening. These numbers, or minutes from the opening are: 5, 10, 15, 25, 40, 65, 105, 170, 275. If these numbers are posted in a special color on the chart ahead of time, it is easy to see how they do when price and time catch up with the charting.

On an average of 60 percent, price will change at a time on or near these numbers. The changes can be from down to sideways; from sideways to either up or down; from up to either down or sideways. Starting from the opening there are six possibilities of market action.

Most of the time no trading would be done for the first fifteen minutes, while the market is settling down and establishing a daily trend. When a market goes into a sideways action it will usually extend out the same direction from which it entered the congestion area. Charting techniques used on daily charts can also be used on five minute charts, working as well there as on the daily ones.

EXAMPLE OF DAY TRADING

Entries and exits should be done on a day trade basis. Count from the opening bell a Fibonacci series by fives. Note 40, 65, 105, 170, and 275 minutes on a five minute chart. For the Cattle, the times that would apply on Central Standard Time are: 9:45; 10:10; 10:50; and 11:55 A.M. Expect a change in these times. Trade like a daily chart. Following these time periods will greatly increase the amount of returns by procuring better fills and getting in better.



Entry-Exit Methods

The HAP traders believe they can estimate the odds in favor of a change of market direction just as well, or better than, those who estimate seasonal odds. In fact, Fibonacci odds should be more accurate and dependable. (By change is meant new lows and a lower close in an up trend; or new highs and a higher close in a down trend).

Chapter 15

HAP Indices

HOW TO USE THESE TECHNIQUES

Entry-Exit Methods

1. Wall Method
2. Rhythm Method
3. Reverse Swing
4. On-Balance Volume
5. Five Minute Fibonacci Count

Resistance or Support Indicators

1. Balance Point Method

HAP Indices

2. Improved Speed Lines
3. Equilibrium Rules
4. Pivot Finder Index
5. Balancing Price and Time
6. Techniques for Finding Congestion Areas

Reversal Indicators

1. HAP Odds
2. Cycles
3. Price Reversal Index
4. High or Low Lines
5. The Bubble Theory
6. Relative Composite Strength Index
7. Rhythm Count

Directional Indicators

1. Balance Point Methods
2. Recurring Angles
3. Elliott's Directional Indicator

Overbought-Oversold

1. HAP OB-OS Index
2. Time and Price Balancing
3. HAP's ODDS

MEANING OF CYBERNETIC METHOD

About twenty years ago, N. Wiener published a method of combining common theory or properties of varied methods or components: *Cybernetics*. This is the use of two or more methods to help in the control and understanding of both. This has been applied to psychology and mechanical devices, as well as to market theory and use. Nothing about this requires a gigantic mechanism or several complex systems. It has been and can be applied to more simple and smaller things. Traders can learn to take a number of methods, techniques and theories, and merge them to communicate to him in a unique way. It does not require a large computer or data base as some want to believe. There are simple methods that

can be used in a cybernetic manner. It is hoped that traders will learn to keep things simple and not let the big machinery, and machinery salesmen intimidate them.

HOW TO MAKE CHECK LISTS

Every trader needs worksheet forms so that he can check off various pertinent items before making a trade. In trading, it is necessary to get as many odds in favor of the trade as is possible. Forgetting or overlooking some point can result in an unnecessary loss. Speeches by top government officials which could affect a commodity must be analyzed both before and after the speech. Reports of the CFTC or Industry reports must be judged. To be safe, always stand aside in front of a major report or speech. The status of the economy in general should be known, since this can alter the trading momentum swings.

Check lists need to be made for the personal trading plan of the individual. Following are some examples which can help give guidelines from which to work.

We have made this check list a separate page for your convenience.

HAP Indices

CHECK LIST OF THINGS TO CONSIDER BEFORE ENTERING THE MARKET

1. What are the main trend indications and what stage or size is expected?
2. Kind of market involved?
 - a. Swinging Toppy?
 - b. Congestion Area near historical lows?
 - c. Congestion Area after runaway?
 - d. Congestion Area after swinging or choppy?
 - e. Labored move near its beginning?
3. Is a significant reversal pattern evident?
 - a. Head and Shoulder?
 - b. Double Bottom or Top?
 - c. Major 0-4 break?
 - d. Favorable Relative Strength?
4. When are reports or speeches due?
5. What do the appropriate indicators say?
 - a. How strong is the Commodity Selection Index ratio?
 - b. Are the Vital Indicators in agreement?

COMMODITY SELECTION INDEX

(Buying Reaction or Selling Rally)

1.	Relative Strength	
a.	Leader favorable	5 %
b.	3-D favorable (see next section)	15 %
c.	Higher highs or lower lows	5 %
2.	Overbought-Oversold	
a.	Cycle	5 %
b.	Balance of Time and Price	12½%
c.	Momentum favorable	7½%
3.	Trend Indicators	
a.	Balance Point line favorable	12½%
b.	Recurring Angle favorable	5 %
c.	Elliott's Directional Indicator	7½%
4.	Entrance Signals	
a.	Reverse Angle	5 %
b.	Wall Method	5 %
c.	Rhythm	10 %
d.	On-balance Volume method	<u>5 %</u>
	Total	100 %

COMMODITY SELECTION INDEX
(Trading Reversals or Picking Tops and Bottoms)

1.	Reversal Price Pattern	
a.	Balance Point Indicators favorable	10 %
b.	Cycles	2½%
c.	HAP Odds	2½%
d.	Bubble	5 %
e.	Momentum Index	5 %
2.	Square of Time and Price	
a.	With 45-degree angles	5 %
b.	With Fibonacci numbers	10 %
c.	Square of Circle Breakout	2½%
d.	Counting Lines	7½%
3.	If after new high (or new rally)	
a.	Reaction (or rally)	25 %
4.	Overbought-Oversold	
a.	Cycles	5 %
b.	Momentum Index	5 %
c.	HAP Odds	5 %
d.	Fibonacci square of time and price	<u>10 %</u>
	Total	100 %

HAP'S PIVOT FINDER INDEX

		Value %	Up	Down
1.	HAP Odds	20%		
2.	Balance Point Reversal Rules	20%		
3.	Ohama 3-D	10%		
4.	Momentum			
	Slow	+10%		
	Normal	0%		
	Fast	-10%		
5.	Reversal Price Pattern	10%		
6.	Old Highs or Lows	10%		
7.	Square of Time and Price	10%		
8.	Rhythm Count	10%		
	Totals	80% to 100%		

HAP Indices

HAP'S PRICE REVERSAL INDEX

	Value %	Up	Down
1. The Bubble Theory	15%		
2. The Equilibrium Rules	10%		
3. Reversal Price Pattern	5%		
4. Leader Change	10%		
5. Pivot Finder Index	10%		
6. 0-4 Lines	10%		
7. Fib Count	5%		
8. Square of Time & Price	10%		
9. 3-D	15%		
10. Old High or Lows Crossed	10%		
Totals	100%		
Results			

A COMPOSITE RELATIVE STRENGTH INDEX

Indicators Used

In using Relative Strength, HAP has found that the 3-D methods of Bill Ohama are very good. Mr. Ohama has given HAP permission to use his method. If any one does not know how to use this method, he may write and it will be sent to him. Bill Ohama is a broker with Shearson in Beverly Hills.

Along with using the 3-D method, it is good to know the leader of a group. If the main trend of a leader is up, other members of a complex should follow. Should a member of the group not follow, this is the one to sell when a reaction occurs. A variation of this method is to compare a commodity with a group composite index, like those published by "Commodities Report" or "Commodity Research Bureau." If a group index turns up, this is more important than just having one commodity turn up.

A third method is to look for higher highs and higher lows, or lower highs and lower lows, on swings. This is especially true if a main high or low is being compared with a current swing high or low. Dow originated this theory, and many of the best market analysts use it.

An example of a composite Relative Strength Index using all three of these is to assign values to each. HAP suggests (1) 3-D — 40% (2) Leader — 30%; (3) Dow — 30%.

BIBLIOGRAPHY

Ohama, Bill, 888 W. Sixth Street, Los Angeles, California, 90017.

Chapter 16

Organizing A Trading Plan

WARNING

1. No single indicator or trading technique is sufficient by itself.
2. Let no persuasion ever instill trust or belief in some simple, easy trading plan.
3. All mechanical systems will generate a lot of losses. If using one, the only way it is possible to win is to have enough capital to be widely diversified and sustain large losses before hitting a winning streak.
4. If a mechanical trading method is publicly known and liked, it will soon be traded so much that no one can win. So never use a bought trading plan just as it is.

Organizing A Trading Plan

5. Trading is a skill to be learned, like playing tennis or golf. Success depends upon a trader's mental and emotional discipline.

6. Always make up a personal trading plan by using various indicators personally liked, but in a sequence or manner not known to anyone else.

7. This is the reason there are a lot of indicators included with HAP. Anyone using these must decide which to use, what sequence to use, and what values to place on each indicator being used.

8. Trading methods revealed by HAP are only examples. None should be followed without personal testing, personal changes in order and manner of use, and changing things so that a secret trading method being used is known only to the user.

9. It is essential that HAP's new material, like HAP Odds, be kept confidential. HAP Odds are price patterns used with Fibonacci numbers. If these are passed around with too many using them, they will become worthless. Since this cannot be controlled, no one should assume that the future use of these indicators will work like they have in the past.

GUIDELINES FOR ORGANIZING A TRADING PLAN

1. Test out and decide upon indicators thought to be best.
2. Test out and decide what value to place on each indicator.
3. Decide what length of trade is desired. Some people get nervous if they stay in over a weekend. Short term, day trading, long term or intermediate term—each must be approached in a different manner. Before trading it is important to have an objective.
4. Decide upon reversal rules that are to go with the plan.
5. Decide upon an entry-exit method. For example, the Reverse Swing Method is a good entry-exit technique.
6. Go over the check list and revise it to comply with your particular plan.
7. Revise the Selection Index for this plan.
8. Work out a stop loss according to where it is least likely to be hit. Do not enter trades unless the stop can be placed properly and within the amount of money financially feasible. No more than 5 percent of an account should be risked per contract on any trade.
9. Work out a target. Only trade if the amount of money expected to be gained is a lot more than that which may be lost.

10. Plan to examine every trade each day with the indicators and selection index. If the trade falls below the standard set for the trading plan, get out. For example, it may be decided that a 75 percent rating on the Commodity Selection Index must exist before entering or continuing a trade.

EXAMPLES OF TRADING METHODS

The Wall Plan (A Suggested Trading Method)

1. Any significant high and low, with price coming between, is considered a “Wall” which must be overcome before the move is completely over.
2. A reversal pattern may be used in anticipation of a new wall, especially if other indicators agree.
3. There is a constant watch for signs of reversal within the wall. Unlike other “Wall” traders, do not wait for the walls to be broken to get out or reverse. Smaller walls within a larger wall may become important if a congestion phase develops.
4. The original stops are above (or below) the wall, and sliding stops may be used when trading indicators suggest them. Let the market reveal the target, but try to get out at break-even if a reversal occurs.
5. Indicators used are:
 - a. Price reversal patterns
 - b. Fibonacci count starting at the wall, and on a circle with the high or low as the pivot point and starting place for the count on the circle
 - c. Equilibrium Rules
 - d. Square of Time and Price
 1. By using 45 degree angles
 2. By using Fibonacci count
 - e. Balance Point Reversal Rules (where they apply)
 - f. Rhythm Count
 - g. Momentum Oscillator
 - h. Cycle Count
 - i. Elliott Wave Directional Indicator
 - j. Elliott’s Best Money Maker
 - k. Pivot Finder Index

Organizing A Trading Plan

1. Relative Strength
 1. Leader of a Complex
 2. Ohama 3-D Technique
 3. Dow Theory
- m. On Balance Volume
- n. The Bubble Method
- o. Recurring Angle Method
6. Before starting, the size of the *Wall* or swing to trade must be decided upon by the traders.
7. Eight out of the fifteen indicators must agree.
8. There are five out of the fifteen that *must* agree before putting on a trade. These are:
 - a. Price Reversal Patterns
 - b. Time and Price Favorable
 - c. Relative Strength (two out of these three must agree)
 - d. Balance Point line favorable
 - e. Rhythm Count
9. Old resistance and/or support levels are considered very important and are used.
10. The directional indicators of the Balance Point rules and the Recurring Angle rules give trends. This trade is primarily short term, but never trade against both long term and intermediate term trends. (If day-trading, make an exception to this). When indications agree, enter the market on a day-trade basis, especially if at a main top or bottom. (By main top or bottom is meant a swing or leg that has gone about twice the distance as the ones near it or preceding it).

The Reverse Angle Entry Method

1. This method follows the same principles as the wall plan above and uses the same indicators, except that the Reverse moving angle lines are followed for entry purposes.

Note: See Method one of Entry-Exit section for more detail on trading the Wall Theory.

HOW TO DO A SIMPLE CYBERNETIC ANALYSIS

General Information

1. If there is any doubt, find the direction of the market.
2. Check the level of the market against historical highs and lows. This is to determine if accumulation-distribution indicators are needed.
3. Determine the kind of market. Is it choppy, labored, flat triangle, zigzag, or what?
4. Determine the kind of indicators to use. This information should be enough for selection of proper tools to analyze. For example, you shouldn't use congestion area methods on a labored move.

How To Keep Things Simple

1. Have clearly in mind the steps necessary for analysis.
2. Make sure of the proper order of work. There is no need to use accumulation-distribution indicators in a new runaway market. The first thing is to find the kind and direction of a market. This will eliminate a lot of unnecessary work.
3. Have indicators and analysis aids on plastic rulers or transparent overlays. Use proportional dividers, plastic cycle finders, parallel rulers, or other tools for quick checking on a chart.
4. Have check lists. A computer is not needed to tell if spreads are narrow or wide. Relative strength can be checked quickly by looking at price tables or several charts. At least twenty-one different things can be checked in less than an hour if the proper tools and knowledge are used.

Selection Of Trade

1. Which market can be entered more safely?
2. Which has the lowest margin?
3. Which has the best price projection ratio?
4. Which has the best price patterns?
5. Which has the most reliable indicators signaling a trade?
6. Can stops be put in a safe place, in proper perspective?

Entry-Exit Method

1. Analyze the market to determine the best entrance method.
2. Plan for exit at the time of entrance. Have a target.
3. Use timing tools for entrance.

Organizing A Trading Plan

Summary

This is simply finding the direction of the market, getting the proper tools and indicators to use, and selecting the best market to use to get the most out of the money invested. When these indicators give a go-ahead, pick the proper entry method and make sure reasonable safeguards are taken.

What to Do

1. Use directional indicators or methods.
2. Analyze the market to know which indicators or tools to use.
3. Apply commodity selection methods.
4. Check money management requirements.
5. Find proper entrance technique.

HAP has been doing this with about twenty-one indicators on about ten commodities, taking only about eight hours a week. Many simple, easy methods can be used to do a lot of checking and analysis in a short period of time.

For further study on *Cybernetics* in trading read:

Felsen, Jerry, Ph. D., *Decision Making Under Uncertainty*, CDS Publishing Co., 8413 168 Street, Jamaica, New York, 11432

Felsen, Jerry, Ph. D., *Cybernetic Approach To Stock Market Analysis*, Exposition Press, 900 South Oyster Bay Road, Hicksville, New York 11801

APPENDICES

Appendix I

Definitions

Acceleration—rate of change in speed of thrust.

Amplitude—amount of vertical rise or fall in price; or change up and down.

Balance Point—pivotal price of the market.

Balance Point Line—line drawn through halfway point of two or more swings.

Bear—market going down.

Break-out—overcoming resistance, especially from a congestion area.

Bull—market going up.

Congestion—short, choppy price range.

Climax Day—daily reversal pattern having long thrust and closing near the high (or low) for the day.

CFTC—Commodity Futures Trading Commission.

Cycles—recurring price changes of equal time spans.

Dow Theory—higher highs with higher lows, or lower highs with lower lows from previous swing, indicating change of direction.

Fib—abbreviation for Fibonacci.

Flop Over—a new parallel, same width as previous channel.

Fourier—high math method.

Gap—an opening left on price charts. A gap is where there would be a turning point. The force of the market causes price to jump over this normal pivot spot. For this reason, lines through gaps are considered as through turning points.

Inside Day—a day with both the high and the low between the previous day's high and low.

Leg—same as swing—a distance between two pivots or turning points of the market.

Labored Move—price pattern confined to a slanting narrow channel.

Moving Average—method of filtering or smoothing price action.

Momentum—HAP will use momentum and acceleration as synonyms. The mass generally associated with momentum is the bullish consensus behind a move.

Odds—percent of expected change of the market price.

Outside Day—a day with both high and low beyond the previous day's high and low.

Pivot—reversing or change of direction—same as turning point.

Price Action—commodity price movement, on graphs, for a day or some other time period.

Range—also called thrust, swing or leg. It is the distance between two pivots.

Resistance area—place where price meets a lot of buying or selling and stalls in its thrust.

Runaway Market—fast move of price in one direction.

Shake-out—stops being run, but with no continuation. A false break-out.

Short Covering or Long Covering—changing from a position, which entails getting twice the amount if reversing.

Support Area—same as resistance area, except they each are at opposite sides of buying or selling pressure.

Swing—distance between two pivots.

Swing sizes—if using weekly charts, or charts for longer periods of time, there are major swings and larger maxi swings. These larger swings last from one to five years and carry price from yearly highs on to the all time highs or lows ever made by a commodity. Most work, however, will concern itself primarily with main, minor or median, mini, and, to a lesser extent, micro swings.

A *Main Swing* is the largest swing in our field of analysis. It is characterized by the following:

1. It retraces a previous main swing by 62%.
2. It is continuous if not interrupted by more than a 62% retracement; if this occurs, a new main swing begins.
3. It may contain any number of minor swings and mini swings, which may move in an opposite direction from the main swing, but must not go above the high nor below the low of the last main swing.
4. It is labeled with a Roman numeral in Elliott Wave count.

A *Minor or Median Swing* is the next largest swing of analysis, characterized by the following:

1. It is a reversal from the direction of the main swing and is less than 62% of the main swing.
2. It is continuous, unless there is a 62% retracement of main swing, or unless it reverses again to go beyond its beginning.
3. It is part of a main swing.
4. It is labeled with a capital letter in Elliott Wave count.

A *Mini Swing* is characterized by the following:

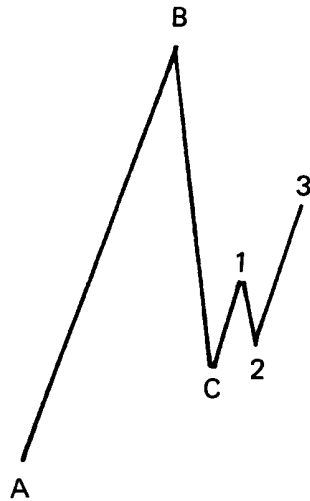
1. It is a move within a minor swing; its size is 10% to 33% of the main swing. It remains a mini swing unless going more than 33% when it becomes a minor swing.
2. If a mini swing turns and goes to the level of its turning point, it should go much more, since it did not retrace 33% of the main swing.
3. It is continuous until it has crossed one of the larger turning points of a minor swing.
4. It is part of a minor swing.
5. It is labeled with Arabic numbers in Elliott Wave count.
6. It is usually used by short term traders.

A *Micro Swing* is characterized by the following:

1. Its size is less than 10% of a main swing.
2. It is continuous until it exceeds a previous high (or low).
3. It is part of a mini swing.
4. Most micro swings are irregularities in mini swings.
5. It is labeled with small letters in Elliott Wave count.

6. It is usually used by day traders.
7. It may or may not be of any importance.

Illustration of Main, Minor, Mini and Micro swings:



- (1) All price between A and B is Main Swing Price action.
- (2) All price between B and C is Minor Swing Price action.
- (3) All price between C and 1 is Mini Swing Price action.
- (4) All price action less than a Mini Swing is Micro Swing price action.

Appendix II

Types Of Pivot Lines And Trendlines

List of Various Lines

1. A pivot line goes by the tip of two or more pivots.
2. A multi-pivot line is two or more pivot lines merging or being used together.
3. A trendline is a line going with a designated trend.
4. The peak to low lines go from a top turning point to a bottom pivot.
5. The parallel line is even with a trendline or channel.
6. A flop-over line is a parallel line out the same distance as the width of a channel.
7. Curved lines may be made with french curves. A french curve is close to the Fibonacci progression numbers, and is a quick way to tell if prices are staying in the Fib ratio boundaries.
8. Curved channels, or envelopes, are parallel lines following a sloping price channel.
9. Skewed channels are not parallel, but rectangular, lines along main price highs and lows.
10. Resistance or support lines are pivot lines or trend lines designated as an area of support or resistance when met by price.
11. Speed lines spread out from one point on designated angles of various degree, according to a pre-determined pattern given by a set of instructions.
12. Balance lines are lines between balance points of market price action.

Legend for the Use of Pivot Lines

1. The first number with a colon or comma after it designates how many lines are to be used, or included.

2. The next two or three numbers separated by a dash represent specific pivots or places on a chart. To be exact, a date may be used in place of a number or letter, such as: 5/19—5/30 meaning price between 5/19 and 5/30.

If using numbers, have a code to make clear what size swing is indicated. We use Roman numerals like I, II, III, IV to designate main swings; capital letters to designate middle size swings, arabic numerals like 1, 2, 3 to show small swings; and small letters for micro swings.

A zero "0" may be included as a third number, to designate that lines will merge at zero.

3. After these two or three numbers showing pivot dates comes an "x," meaning times, then a number like "3," which tells when to trade or how many times the trader should allow price to go through the line before taking a trade.

4. If the number after the times mark is in brackets, this indicates to use it with the main trend. Without the number being enclosed or having quotes around it, the trade is to be taken on the designated crossing, regardless of which direction the market is traveling. This must be a successful attempt. Price must go over one cent in meats and three cents in grains or the attempt is not considered successful.

5. Examples:

a. 2, 0-2-0 x 1 means that two 0-2 lines will merge and should be traded on the first intersection with price.

One of the preferred uses of lines is that strong resistance lines are merging with price.

b. 0-4 x '2' leaves out the first number since it is only one. The 0-4 means the small swing pivots numbered 0-4 are to be used and traded on the second crossing of price and trading with the main trend.

If an "O-IV" had been used it would have designated a main swing; "O-D", an intermediate or middle-sized, "o-d", a mini swing.

An 0-4 line is not traded on the first crossing when the #2 pivot protrudes through the 0-4 line.

Occasionally there may be an 0-6 line, if price keeps making small swings. An example might be: 0-6 x '3' to mean that since both the two and four pivots are above the 0-6 line, it must not be traded until the third crossing of price, and traded with the main trend.

Appendix III

Types of Traders

It makes some traders nervous to stay in the market overnight, while others may stay in for a year or more. Each person must find the type of trading that suits his personality. Anyone who is not sure about this must do a lot of personal analysis and study until he knows what he likes best. This book is for non-spreading speculators who may trade various lengths of time. Part of being a good trader is knowing how long to stay in a trade. A lot of help is given in the previous chapters.

Large commercials are often forced to hedge their product with futures. Most commercials are short the market, since those who might need to hedge from the long side, such as the processors, can usually pass along price changes to their customers. The producers and manufacturing industries find this harder to do. Hedgers may sell futures against their cash product; spread traders buy one commodity, or month of a commodity, and sell another against this, hoping that the difference between the two will work in their favor. Hedgers, spreaders and speculators each must use different methods.

Traders are also classified according to how long they stay in the market. Day traders exit the market by the close of the day. Short term traders try to catch small swings; intermediate traders look for medium-sized swings; and long term or position traders try to find a major move and stay with it. When we say day trader, we mean one who plans to take a small profit and be out before the end of the day; short term may be from three days to three weeks; intermediate should be from three weeks to three months; and major or long term trades, from three months to three years.