LETTER FROM THE EDITOR

This issue starts with an update on the CMT Program. The recent addition of Bob Johnson to the Program is a step toward making a great program even better.

The rest of the issue is a collection of insights from practitioners in the field. Classic chart patterns still form the core of the discipline, but the patterns are being used in a number of different ways and the articles that follow will show just a small sample of the type of work technicians are doing today.

Please let us know what you think about Technically Speaking by sending an email to editor@mta.org.

Sincerely,

Michael Carr
BOB JOHNSON ON THE CMT PROGRAM
BY MIKE CARR, CMT

Recently the MTA hired Robert Johnson, Ph.D., CFA, CAIA, in a consulting capacity as Director, CMT Studies. This position was specifically created to enhance the professionalism of the CMT Program and Dr. Johnson seems tailor made to fill the new position.

He brings the skills and experience to the position that will be needed to bring the CMT Program to the next level. His education-related experience includes working with psychometric experts to identify and apply the best practices in testing and distance learning. His finance-related experience includes a Ph.D. in investments and professional certifications in the field.

In a recent conversation, Bob explained that he has just started reading the required books and reviewing the test materials but his first impression is favorable. He noted that what is missing from the Program is appropriate pedagogy (a term defined below). Bob has years of experience in professional certification programs and understands that it is normal for organizations like the MTA to develop a program without an emphasis on proper pedagogy. Generally, technical experts define the professional Body of Knowledge (BOK) as a first step in a certification program and that is what has happened with the CMT. That leads to a sound base for a testing and certification program.

The next step in the process is to develop the pedagogy, which is defined as “the study of being a teacher or the process of teaching.” Wikipedia helpfully adds that, “the term generally refers to strategies of instruction, or a style of instruction.”

Since its founding in 1973, the MTA has expanded beyond New York City and now includes more than 4,500 members in over 85 countries. That expansion has made it important to reconsider how candidates study for the CMT exams. Bob explained that the test preparation is now a series of books which serve as textbooks even though most were not written as textbooks. There are limited study aids available and this makes it difficult for some students to prepare for the exams in a distance learning environment. In addition, there are readings with duplicative and sometimes contradictory coverage. When he says his emphasis will be on the pedagogy of the CMT Program, Bob said, he means that his goal is to provide students with learning materials that are best suited for a global audience in a distance learning environment.

In his new role, Bob will direct the development and integration of CMT study materials, including the development of learning objectives and eventually may lead to a customized curriculum for CMT Program candidates.

In previous positions, Bob has worked on extensive distance learning projects and believes those skills will help him lead an effort to improve the CMT Program. He will not be focusing on what is tested. The subject matter experts within the MTA will define what knowledge and skills need to be...
tested. The MTA has been working with Thompson Prometric for several years to conduct job surveys and define what should be included in the BOK and ultimately tested. The CMT Board of Governors will continue to select the reading material. While all of these processes will continue, Bob will be working to make the process more effective from the candidate’s perspective.

Now, candidates are assigned readings and have no insight into what is most important in the readings. With learning objectives, the candidate will know precisely what they are to glean from any assigned reading. Test developers will be able to write detailed questions that thoroughly address the candidate’s knowledge of the assigned reading. In the end, the candidate will be better prepared to apply the BOK in the real world.

This is certainly not a short or quick process. It will take years to develop the foundation of a pedagogically sound distance learning program. In the interim, CMT candidates will continue with an outstanding program that develops their knowledge and ensures mastery of that knowledge. In the future, the Program will become more educationally sound to deal with the complexities of the global distance learning environment.

The MTA has been growing and improving for nearly 40 years and will continue growing and improving. It is an organization dedicated to continuous improvement and Dr. Johnson is now putting the CMT distance learning program on a path of pedagogical improvement.
Proportion is mathematical. This is why Elliott beautifully illustrates the proportional structures on markets. In this update we question some Elliott assumptions and highlight some observations on Dow Jones Industrial and overall market structure.

Fig. 1: This is a classic five wave structure from 1789 to 1990. The 1990 highs seemed like a top, but markets continued to extend more than a decade after the respective high well into 2000.

Fig. 2: Elliott Wave structures give 2000 top a high importance. This somewhere rests on the super cycle fourth wave low at 1982. If that low is assumed to be in 1975 and not in 1982, the count would change. This would suggest that the all-time top is still not in place and markets could extend higher above 2000 all-time highs.
Fig. 3: This is the five wave structure from 1932 lows.

Fig. 4: This is the five wave structure from 1975 lows. As one can see the time taken by the second wave is marginally smaller than the time taken by the IV cycle wave (3300 days). The difference appears large on a visual chart with an arithmetic scale, but on a log scale both price and time suggests that the Dec 1974 and Aug 1982 price structure (1 and 2 cycle wave) can be compared with the Jan 200 and March 2009 structure (III and IV cycle wave).

Fig. 5: All the above cases suggest that if we extend the channel high of the supercycle count (Fig. 3) the DOW structure can see an extension till 20,000. Terminal waves are very tricky and this is not any terminal wave. This is a terminal wave of all available history of markets. Two decades of error in a history of pattern watching and Elliot counting from Dark Ages in 1330 should be acceptable.
While 12,000 and 11,000 supports stand firm on DOW, this preferred stands firm for us.

MukulPal, is a Chartered Market Technician, MBA Finance and a member of the reputed Market Technicians Association (MTA). He has more than a decade of Capital Market experience dealing with derivatives and global assets. He has worked for Bombay Stock Exchange, multinational Banks and brokerage houses in leading research positions before starting on his own in 2005. He is the President of the MTA Central and Eastern European Chapter.
TWO BASIC PRICE ACTION SETUPS
BY MANUEL AMUNATEGUI, CMT

To most of us, price-action trading is closely related to technical analysis and stock charts. But to a subset of traders, it goes much further than the technical versus fundamental issue, it is about raw price. The rational is that a methodology that only uses price (avoiding indicators and optimization), is as fast as can be and effortlessly transferable to any market. Yet for me, watching price action is first and foremost about simplicity.

This article is a brief look at two simple and short-term setups. These can be incorporated into existing systems or used on their own in strong markets. By using a simple candlestick chart and monitoring market conditions and price patterns, we can easily find high-probability trades. As these setups only trade with the trend, the first part of the article discusses how to determine market trend and strength, and the second part digs into each strategy.

MARKET BEARINGS

Unlike mean-reverting or market-exhaustion strategies, these setups don’t look for tops or bottoms, instead they patiently wait for an agreement on the market’s direction. The market is a creature of habit and tends to favor continuation over change. Like eavesdropping on a conversation between bulls and bears, one side needs to prove strength and the other, weakness. With that knowledge, the odds are good for further continuation. This information has to be continually probed. Additionally, a trade is only taken when a propitious signal bar is confirmed. It is this constant analysis, taxing but inevitable, by which we stack odds in our favor that the market will continue its present course and make for a high-probability setup.

The first tool, and probably the most important, is a pattern based on a cluster of 3 or more strong bars in the overall direction of the market. These candle bars should be larger than average with long bodies and small tails, preferably all in the same direction and neither overlapping much. If the opposite side follows the cluster with weakness, we then know who is in control. The weak side can retrace into the cluster, but cannot violate it or show too much strength, as that would nullify the pattern.

In the example above, the first four bullish bars take control of the market and the subsequent weak bears confirm that the bulls own this market.

The second tool is the moving average. It isn’t used to generate trading signals, instead it provides a quick and easy read on the market’s direction and strength. Price meandering along the moving average, never being able
to take flight or drop, is to be sat out until life is blown back into that stock. I use the popular 20-period moving average, but this is a personal preference as I’ve watched it for many years. The point is to get a quick, high level view of the market and its strength, whatever one is familiar with will do the trick. The way a trending market bounces off the moving average is very telling, if it can’t touch it however many times it tries, the market is in a strong tear. On the other hand if it starts piercing it a little deeper each time and the average loses steepness, it is a warning that the trend is in trouble.

A very bullish market barely grazing the 20 period moving average.

The cluster pattern is key to both setups. The moving average is important but can be misleading during the market open when it gaps away from its previous session close (this is especially relevant for time frames smaller than the daily chart). With an ETF like the SPYDER, if it gaps significantly, the moving average will be out of whack. Some people rely on the 24-hour chart to smooth the price information by including pre-open data. Either way, the trader is faced with two different moving averages for the same period and product, and, at times, that information may be contradictory. When in doubt, do nothing, wait till things re-align.

The SPYDER ETF 24 hour chart on top shows a bearish bias at 9:30 AM while the regular session below at the same time, shows a bullish gap and subsequent bullish bias.
**DYNAMIC BIAS**

Here is the crux of this approach (and any other strategies that are momentum based): to always have a bias. We need to be asking the market, at every bar, and for the brave, at every tick, 'who is strong, who is weak?' This bias has to be continually available and therefore recalculated often. Without the knowledge that the market is dominated by one side or another, any trade is just a 50/50 toss.

If one is on top of the bias question, yet no bias is apparent, then the market is flat or narrowly trading, and that information is invaluable and a clear recommendation to sit it out for the time being.

**SETUPS**

Both setups rely on good signal bars before triggering a trade. The candle body should point in the direction of the trade and have short tails (or at the very least short in the direction of the trade). Just like with the bearing, the signal bar is very revealing and we want to keep stacking odds in our favor that the market will continue with the trend. The body of the bar should definitely be larger, look stronger, than those of the opposite weaker side.

Once the market direction is confirmed, via strength in one direction and weakness in the other, the next step is to be on the lookout for a trading signal. The first setup is loosely based on the flag/rectangle pattern. It looks for a rectangular shape where the strong side of the market delineates one side of the rectangle and the retracing weakness, the other side. The trade needs enough space to reach the profit target (the other side of the rectangle) in the direction of the trend:

![Flag/Rectangle Trade Diagram]

In the above example, the sixth bar ends the cluster of strength and marks the bottom of the rectangle. The arrow points to the signal bar, which marks the top of the rectangle. There is plenty of space for this short trade to profit without violating the bottom of the rectangle.

The second strategy relies on a stronger than average breakout bar, above or below a previous point of congestion or multi top/bottom. The signal bar should be large, full bodied, with little to no tail. I like the trade to trigger
immediately after the strong breakout bar. If the signal bar is followed by one or two inside bars before triggering, I’ll pass on the trade as it shows hesitancy:

**Breakout Trade**

The above example shows the cluster of bullish strength, a small retracement, and a breakout on a strong signal bar for a great trade.

Both setups are closely related and a flag/rectangle trade can become a breakout trade if the market is strong enough.

**PROFIT AND STOP-LOSS TARGETS**

In most circumstances, I rely on a 1:1 risk-reward ratio. It is imperative that odds are stacked in one’s favor with this type of aggressive ratio.

The signal bar that triggers a trade is the basis for the profit and stop-loss target. Trades on either setup are always entered on a stop order, a tick above or below the signal bar in the direction of the market. This is stacking the odds in our favor that the market agrees with our choice. The profit target is the height of the signal bar and the stop-loss is the same height but in the opposite direction from the entry point:

As the trade progresses, the stop-loss is adjusted a tick above or below every new bar, until the trade either reaches its profit target or is stopped out. By trailing the stop so tightly and as long as market strength is present, the losing trades rarely incur the full 1:1 loss.

Such trade management works best on highly liquid and complex financial products. It can work on large single equities but anything too erratic will risk stopping it out prematurely. Having the trade stopped out by a tick or two just to reverse and continue with the trend can be a very frustrating (and costly) experience. I use these setups mostly on the SPYDER ETF and only on the five minute time frame. Even though the concepts of market bearings apply to any time frame, the specific trade management style will
not work on the daily, or larger, time-frame. They are too erratic and full of gaps that would prematurely stop trades out.

Though this may be the subject of a future article, there are many ways of ameliorating the risk-reward ratio with tweaks on either the entry or the exit (such as entering after 2 bars to lock in less risk or letting the winners run further than the 1:1RR profit target).

TRADES

The complexity doesn’t lie in what to trade, but in what not to trade. The ability of sitting on ones hands, literally, is essential here. With any discretionary system, we are constantly balancing the need to wait for perfection and the desire to take trades. Even though each trade setup is different, with such an aggressive risk-reward ratio, it is important not to compromise too much.

We cannot do anything before we have ‘proof’ that the market has chosen a direction, and then we still can’t do anything until we have that strategic signal bar. These trading setups aren’t for the trigger-happy trader. Its success is due partly because it trades only occasionally. The SPYDER ETF 5 minute chart can have 2-3 trades a session on a really good day. This is about waiting for the obvious, waiting for the gift, anything less has to be ignored. Not easy to do when partial reads lead to missed successes, but this disciplinedoes pay off in the long run.

Above is a textbook-perfect example of a flag/rectangle trade. The market is already under the 20-period moving average, the bears are strong and the bulls are weak with lots of tails. This flag/rectangle trade morphs into a breakout trade.
Great example of a breakout trade. The market is in a trading range but the bulls show strength around 11:30 AM with a cluster of bullish bars.

The strong bullish cluster of bars around 2 PM forewarns the odds of continuation.

Clear flag/rectangle trade with great strength from the bulls and subsequent weakness from the bears.

OK flag/rectangle but the bear tail four bars before the signal may be a little unsettling as it could form a triple top and reverse.

FAILURES AND EXCEPTIONS
The above chart shows a failed flag/rectangle trade. The bias is clearly bearish but the market stops the short trade by one tick. A possible explanation is that the signal bar isn’t strong enough as its size easily compares with the bars from the weak leg up. Though we could interpret the big bearish bar after the failed flag/rectangle trade as a breakout trade, the fact that the bears showed hesitancy earlier is a bad omen and not worth the risk.

Tight channeling periods are always tough. Even though this a bona fide breakout trade, it is unfortunately also a shakeout to drop those traders with tight stops.

Full loss on a flag/rectangle trade. Not an ideal setup (cluster was on a news announcement and signal bar has a tail in the direction of the trade) but still a reminder that these trades can lose their full risk portion.
An interesting situation where an incomplete bearish flag/rectangle setup (there isn’t enough space to profit as a flag/rectangle trade) fails and therefore gives more credence to the bulls and the subsequent bull trade (though the bullish cluster isn’t great, it may be worth the risk with the additional information that the bears are weak).

**FINAL WORDS**

Time and time again, I have the unflattering habit of adding indicators on top of these setups. It gets to the point where things become so complicated, so contradictory, that I throw them all away to get back to the precise and unencumbered simplicity of the price action itself.

As with any dissertation on trading methodologies, the charts always look clear and obvious after the fact. Nothing here is meant to be taken at its word, but to invite research and testing with all or some of these concepts. Results will vary with different products, chart types and time frames.

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ARE PRECIOUS METALS FLASHING A BUY?
BY MATT BLACKMAN, CMT

Since bottoming in Q4-11, a number of stocks have been exhibiting some interesting stock patterns according to trader Dan Zanger. Market leaders include well-known stocks like Apple (AAPL), Priceline (PCLN), Las Vegas Sands (LVS), Lululemon (LULU) and Mastercard (MA) as well as some lesser-known names like Under Armour (UA), Fossil Inc (FOSL) and LinkedIn (LNKD). Even some of the previously beaten up financials and housing stocks are showing signs of life again he says.

“After stocks bottomed last fall, many have been slowly but surely grinding higher and they appear to have transitioned from a choppy trading range to climbing that proverbial wall of worry once again. Picking bottoms is difficult because in the early stages, rallies are punctuated by volatile drops as bulls and bears fight for dominance. But from that uncertainty comes the foundation of the next recovery and new powerful rallies to trade,” Zanger says.

Sitting at his trading desk day in and day out when markets are open, he has been seeing the telltale bullish patterns – cups and handles, rounding bottoms, double and triple bottoms – that tell him when the worst of a correction or bear market is over. And as the latest rally has gathered steam, he’s been seeing an increasing number of flag and pennant patterns. “Each new major rally has a new cast of market leaders. In the 1990s it was the Internet stocks. During the 2003-7 rally it was financial and housing stocks as well as a few Internet stocks like search giant Google. This time around technology stocks are again in the pack led by Apple.”

In 2004-5, Google was his single biggest winner earning Zanger a very respectable 8-figure profit.

Metals Finding Their Shine Again?

But there is another group that has also been getting his attention lately – precious metal exchange traded funds. Recently Dan has seen some strong evidence that the worst may be over for both gold and silver if their ETFs are any indication.

Since peaking at $48.35 in late April 2011, the iShares Silver Trust ETF (SLV) has been in a downtrend channel. But if you zoom in on the channel, there is a very interesting bullish pattern taking shape, according to Zanger.

As we see in Figure 1, SLV has put in the left shoulder and head of an inverse head & shoulders pattern and the right shoulder is in the process of forming with a neckline around $34.40. As Zanger commented in his March 26 Zanger Report, SLV is “a slow mover” but looks like it is getting ready to flash a buy signal. More conservative traders will be looking for the right shoulder to complete with a break through the neckline. Aggressive traders will be looking to buy on signs of strength and use the trendline from the
bottom of the head through the bottom of the right shoulder as an exit in case the downtrend resumes.

Zanger also highlighted a similar pattern forming in the Proshares Ultra Silver ETF (AGQ) seen in Figure 2 with the bottom of the left shoulder forming in October, head in late December, and what looks to be the bottom of the right shoulder on March 23.

Figure 1 – Daily chart from the March 25, 2012 Zanger Report newsletter showing an inverted head & shoulders pattern in the process of forming. Chart courtesy of ChartPattern.com

Figure 2 – Daily chart of Proshares Ultra Silver (AGQ) showing the inverted head & shoulders pattern forming with neckline around $73. Chart courtesy of ChartPattern.com
Zanger sees a similar pattern forming on the SPYDER Gold Trust (GLD) and the ProShares Ultra Gold ETF (UGL) which should be very good news for the gold bugs who know how to decipher chart patterns.

Volume supports these bottom patterns with spikes occurring during the formation of the left shoulders and lower volume during the formation of the heads. Zanger expects that volume will slowly but steadily build during the right shoulder rallies on gold and silver ETFs and volumes to spike when the necklines are broken. And the higher the volume accompanying the neckline break, the more bullish the signal will be.

“As long as interest rates remain low, money stays cheap and the economy keeps strengthening, gold and silver should be good bets,” Zanger says. “If the Federal Reserve announces another round of quantitative easing and another ramp up in the printing presses, the metals will look even better!”

Figure 3 – Daily chart of the SPYDER Gold Trust ETF (GLD) with another inverted head & shoulders pattern forming with neckline around $172. Chart courtesy of ChartPattern.com
Figure 4 – Daily chart of the Proshares Ultra Gold (UGL) also showing the inverted head & shoulders pattern with the bottom of the right shoulder forming on March 23. Chart courtesy of ChartPattern.com

Daniel Zanger is the author of the daily Zanger Report newsletter and host of ChartPattern.com which teach other traders his high octane, high momentum tactics. He was featured in a December 2000 Fortune Magazine article entitled “My Stocks Are Up 10,000%!“ But that’s only told part of the story. During an 18-month period he parlayed an $11,000 ante into $18 million and in the process set the world stock trading record with an annualized audited return of more than 29,000%.

More than a decade later, Zanger continues to utilize his two primary trading tools – chart patterns and volume to trade high beta stocks. Dan was the keynote speaker at the IFTA/MTA Conference in Vancouver in 2005. To learn more, including details of an upcoming seminar, visit www.chartpattern.com. MTA members can attend Dan’s seminar or subscribe to his newsletter at a discount.

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Investment Courses For Professionals

A sample of a growing list of fundamental and technical courses is shown below. The courses are associated with global destinations and dates, both for open and private client formats. They are produced by various knowledge vendors throughout the world. Details can be provided by contacting NYIF.COM, or John Palicka (palicka@pipeline.com).

Taught by John Palicka CFA CMT

FUSION ANALYSIS-
This is a professional approach that blends fundamental, technical, behavioral and quant strategies.

EQUITY PORTFOLIO MANAGER-
Serious managers will utilize this course to analyze leading Wall Street valuation models and investment strategies for equities using fundamental, behavioral/technical and quant approaches, and then study how these are modified by the best performing equity portfolio managers to produce risk-adjusted excess returns.

INVESTMENT FUND SELECTION-
This is a must attend course for all professionals involved in the selection and management of third-party investment managers.

TECHNICAL ANALYSIS CMT 1-
A must attend course for investment professionals wishing to gain the CMT Level I professional qualification in Technical Analysis from the Market Technicians Association (MTA).

INTRODUCTION TO STEALTH TRADING USING FUSION, ALGORITHMS, AND DERIVATIVES FOR PROFESSIONALS-

Today, portfolio managers increasingly must use stealth trading in order to disguise their intentions and thus benefit from best execution.

ADVANCED CAPITAL MARKETS ANALYSIS
Spot, forwards, futures, swaps, options, and statistical issues are discussed in dynamic capital market strategies.

STRATEGIC GOLD INVESTING
Gold has been one of the very few assets to have created wealth in the past several years. Gold offers investment opportunities for investors, traders, and financial engineers.

GLOBAL SMALL CAP INVESTING
Global small cap stocks offer investors the ability to participate in the world’s future big winners.

PORTABLE WEALTH INVESTING
Portable Wealth (PW) management offers investment opportunities for wealthy investors and their advisors. PW can generate attractive risk-adjusted excess returns to traditional and alternative investments.

Instructor John Palicka CFA CMT is a top-ranked portfolio manager of Global Emerging Growth Capital (WWW.GLGEGC.COM) with over 30 years experience of managing $ billions. He has doubled client money, on average, every 4 1/2 years since 1980*. His high course ratings from major investment firms reflect clear interpretations and practical applications of complex topics; knowledge applied to examples and cases found in the current worldwide and GCC marketplace; his experience with specific situations actually encountered in his career and consulting contracts that parallel the learning topics. John has an MBA from Columbia University and also teaches these courses for leading training institutions, including The New York Institute of Finance (WWW.NYIF.COM).

* Past performance is no guarantee of future results.
INTERVIEW WITH MATT BLACKMAN
BY AMBER HESTLA-BARNHART

How would you describe your job?

As a full-time freelance trading, finance and global markets writer, my job has two major components. First, find major market related events and trends that have the potential to impact markets and trading results and two, find technicians, traders, authors, software developers and market professionals that have a view, product or service that will interest traders and active investors and then help that individual/ company get their message out to the market via the financial and trading media.

What led you to look at futures markets instead of stocks or another tradable?

I track all of the five asset classes - stocks, futures, bonds, currencies and real estate. Markets ebb and flow so it is useful to be able to move between asset classes. For example, since 2000 US indexes such as the S&P500 are basically flat but many commodities (gold and silver for example) are way up. It’s easier to make money going long in a bull market then trying to short a correction for one big reason. The most the trader can make is 100% shorting an issue but that means it must go to zero which rarely happens. But in a raging bull market, traders have the potential to make a thousand percent or more.

Do you look at any fundamental or economic inputs to develop your opinions?

I am always on the hunt for fundamental factors that offer value when incorporated into a trading system or method. Most fundamental indicators are lagging so offer little value to traders in timing entries and exits other than exert a very short-term impact when the data are released. However, there are a few fundamental metrics and indicators that I have found to provide value and have the potential to be forward-looking - Charlie Kirkpatrick, CMT has just published a very interesting book entitled Time the Markets (John Wiley & Sons) that tests the value of a number of these indicators.

Can you share any longer term market opinions?

Currently (March 2012), markets appear to be in rally mode. Given where we in the fourth year of the election cycle and approaching a presidential election, stock markets have traditionally done well from April through August as the stimulus spigots are kicked into high gear. The real test will come when this stimulus is removed. My concern is that huge amounts of debt at all levels of the US and global economies will cause a growing drag on growth. Another concern is the aging population in industrialized economies that will further impact economic growth as baby boomers retire en mass. Yes, bull markets climb a wall of worry but it will be interesting to see how markets process these worries.
But taking a long-term view is a luxury most traders, other than those with a Warren Buffett ‘buy forever’ view can afford, for one simple reason. To paraphrase Keynes, markets can remain irrational much longer than most traders can remain solvent waiting for macro-economic factors to have the expected impact.

I have two favorite trading quotes that help me from falling into the opinion/belief trap when trading.

"Economic history is a never-ending series of episodes based on falsehoods and lies, not truths. It represents the path to big money. The object is to recognize the trend whose premise is false, ride that trend, and step off before it is discredited." - George Soros

The second comes from our very own Mike Epstein. "Ours is not to say what should be, but to analyze and exploit what is."

**What advice would you have for someone starting in the business today?**

I have the luxury of talking with successful traders on a regular basis and learning how they are adjusting to changing market conditions. Larry Williams and his son Dr. Jason Williams are writing a very interesting book due out in the fall of 2012 that examines the personality traits of successful traders that separate them from the herd. One overriding factor they have discovered is the way successful traders deal with emotions. They have found ways to control their anxiety of loss and euphoria when they win. Emotions, especially the gambler tendency to roll the dice while ignoring risk, cause more people to short-circuit in this business than any other factor in my experience.

Trading also takes years of training and commitment to be successful, requires a laser like focus and the ability to check your emotions at the door of your trading room. Another interesting trait of successful traders is their ability to not attach their sense of worth to trade outcomes - they don’t get depressed when they lose or euphoric when they win but instead realize that its probability that matters when approaching every trade.

Another factor that seems counter-intuitive but essential is to approach every trade expecting to lose. That way, as soon as the stop is hit, they exit. I can’t count how many times I’ve watched traders overstay their welcome in a trade, ignore stops and get creamed. Being an eternal optimist may work well in everyday life, but it’s a sure-fire way to go broke in the trading business!

Finally, trading can be a lonely business and once traders achieve success, many especially the more outgoing, want to offer their services or products to others as a way of giving back and sharing what they’ve learned. This means that they must develop a whole new set of skills such as learning how to promote themselves and get their message out to the right market. One of the best ways to accomplish this is by writing but that requires an ability to communicate your message effectively and get published in the right places. There is nothing more rewarding for me than helping someone with a powerful message, effectively communicate that message and achieve their goals.
Matt Blackman, CMT is the host of TradeSystemGuru.com. His articles have appeared in publications such as Technical Analysis of Stocks & Commodities magazine, SFO (Stocks, Futures & Options) Magazine, Trader Monthly Working Money, Physicians Money Digest, Laffer Economics, The Wellington Letter, Traders.com Advantage, Traders Mag (Europe) and Active Trader. He earned the Chartered Market Technician (CMT) designation and a B.Sc. (Honors) degree from Simon Fraser University. He can be reached at mattblackmancmt@gmail.com.

These questions and answers have been compiled by Amber Hestla-Barnhart, an independent market researcher. If you’d like to participate in a future interview, please contact her at amzhondacbr@yahoo.com.
MARKET TIMING USING THE VIX
BY LARRY CONNORS

The following was transcribed and edited from TraderTalk, a free, live, interactive workshop conducted for TradingMarkets members by Larry Connors. It originally appeared at http://go.mta.org/274 and is reprinted here with permission.

What Is The VIX?

In my opinion, the VIX is the best market-timing indicator available for short-term traders today. The VIX is, simply, a measurement of the implied volatility of the at-the-money OEX Index Options. High VIX readings usually occur after markets experience sharp sell-offs, when fear is rampant and sharp reversals to the upside tend to occur. Low VIX readings (as we are seeing now) usually occur when the market rises. This is a signal that there is complacency in the market and a sell-off is near.

Why Does The VIX Work?

These four rules will help you understand why VIX signals work:

1. All volatility is mean-reverting. This simply means that periods of low volatility will be followed by periods of high volatility, and vice versa. The academic world proved this nearly 50 years ago, and it's one of the few truisms of market behavior. The reason this is important is that when the VIX has a high reading and begins to revert to its mean, it's also accompanied by a market that begins to rally. Same thing for low VIX readings -- when it begins reverting to its mean, many times it's accompanied by market sell-offs. Keep that in mind whenever you're looking at a VIX chart in the future.

2. Volatility is auto-correlated. That means if the VIX rises today, it has a better-than-even chance of rising tomorrow. This is most significant at market extremes and right before reversals.

3. This is the one that gets most traders on Wall Street messed up (and if you only learn one thing from this session, this is the most important): The VIX is dynamic, not static. Simply saying that you buy the market when the VIX goes above 30, and sell the market when it trades around 20, is sheer B.S. The Press over the past couple of years has done a wonderful job of engraining this into traders' heads, but nothing could be further from the truth. Blindly entering the market because the VIX reaches some pre-determined level will eventually get you killed.

4. As mentioned before, the VIX measures fear. High VIX means that fear is high, low VIX readings mean that fear is low. History has proven (and the CVR signals have statistically proven) that approximately two out of three times, when these market expectations occur, a top or bottom is in place and we're going to look to fade these expectations as we know we will be right approximately 65% of the time.

CVR Signals
I will now teach you two of my 10 CVR strategies. Both of these strategies can be found nightly on our Market Bias page. Also, all the strategies can be found in my book Trading Connors’ VIX Reversals and in my nightly service. (Why do I feel like Landry right now, shamelessly plugging my stuff?)

The 10 CVR signals as a whole over the past nine years have correctly predicted two- to three-day market direction for the S&Ps approximately 65% of the time. The CVR 3 and the CVR 7 have correctly predicted direction nearly 70%. First, let's look at the CVR 1 signal, which is the most basic of signals, and then we’ll look at the CVR 3, which is one of my favorites.

**CVR 1 Signal**

The rules for the CVR 1 are simple: For market buys, we are looking for the VIX to make a 5-day high and close under its open. For sells, we are looking for the VIX to make a 5-day low and close above its open.

Let's talk conceptually about what is going on here. First, a 5-day high or low for the VIX tells us that the market on a short-term basis may be reaching some extreme. By waiting for it (for buy signals) to make a 5-day high and then at the same time closing below its open (remember rule #2: Volatility is auto-correlated), we are finding a market that may be experiencing a sentiment extreme and has a higher-than-average probability of reversing for the next two to three days.

Take a look at some of the CVR 1 buy signals that occurred during the month of December and helped us open up this year. As you can see, it did a good job of identifying swing lows throughout the month.
The CVR 1 correctly predicts market direction approximately 59% of the time (one of the lowest of all the CVR signals), but more importantly, I'm showing it to you for two reasons: one, for educational purposes to get you to better understand conceptually what is happening, and two, because the CVR 1 signal, when it's combined with the CVR 3 signal (and many other signals) tends to increase the percentage of the time that the signal is correct.

CVR 3 Signal

Now, let's move on to the CVR 3 signal and then we'll talk about entry and exit. My CVR 3 signal was co-created with Dave Landry. What we found is that when the VIX moved 10% away from its 10-day moving average, it identified a market that had been "stretched too far" and was likely to reverse. In fact, over the last nine years, it has correctly predicted a two- to three-day reversal better than 68% of the time.

The rules for the CVR 3 are as follows:

For Buys:

1. Today, the low of the VIX must be above its 10-day moving average.
2. Today, the VIX must close at least 10% above its 10-day moving average.
3. If rules 1 and 2 are met, buy the market on the close.
4. Exit (on the close) the day the VIX trades (intraday) below yesterday's 10-day moving average (reversion to the mean). Or exit within two to four days.

For Sells:

1. Today, the high of the VIX must be below its 10-day moving average.
2. Today, the VIX must close at least 10% below its 10-day moving average.
3. If rules 1 and 2 are met, sell on the close.
4. Exit (on the close) the day the VIX trades (intraday) above yesterday's 10-day moving average (reversion to the mean). Or exit within two to four days.
Again, let's look at this conceptually. For the VIX to move 10% away from its moving average, the market must have gone through some extreme one-way move. As we all know, the short-term moves are nearly always unsustainable, and the best reversals come from them. We have found that the best way to measure these extremes is with the CVR 3. On average, a CVR 3 signal occurs about once every two and a half weeks, and we look to exit within a two- to four-day period of time.

Multiple Signals

Before talking about which markets to trade and entry and exit, I want to cover one more thing. The CVR signals perform even better when you have multiple signals all pointed in the same direction. If you take the signals from our Market Bias page, you'll want to see at least two CVR signals pointing in the same direction. If you take the signals from my trading service, the ideal time is to wait for three or more signals pointing in the same direction.

Many traders have their own market-timing methods, some which are quite good. CVR signals combined with other internal signals will give further confirmation that those signals have an edge, and increases the odds that your trade will be successful.

Money Management

One caveat: No matter how sure you are that the market is going to move in one direction, you need to use protective stops and proper position size to manage the position. Even if you have a methodology that's right 70% of the time, it's more important to remember that it's wrong 30% of the time. The gains take care of themselves, it's how you manage that 30% wrong that will ultimately decide how successful you are with your trading.

Vehicles and Entries

Now let's talk about which markets to trade and how to enter positions. The majority of my testing (and real-world results) with the CVR signals have been with the S&P futures. This means that the best way to replicate the results is to trade S&P futures (E-minis) or SPDRs. For the S&P futures, had you traded one contract for every CVR signal since 1993, you would have earned approximately $1.8 million since this past summer. THERE IS NO
GUARANTEE THIS WILL HAPPEN AGAIN. But this should give you an idea of the cumulative effects of the CVR signals from 1993 up until recently.

With the SPDRs, you'll essentially be looking at the same results (percentage-wise).

**Alternative Markets**

For those of you who don't want to trade SPDRs or trade S&P futures, you should look at the [Market Bias page](#) and the CVR signals to guide you as to what the likely market direction will be for the next couple of days for the market. One of the things we have continuously preached on the site from Day 1 (in spite of the fact that it wasn't in vogue in 1999) was that we need to trade both sides of the market to fully take advantage of them. Too many methodologies out there are "bull-market-only" methodologies (or "bear-market-only") and all these guys got killed when the market turned on them. If you're not trading both sides of the market, you should strongly consider doing so. Dave Landry (there's that name again) wrote an [excellent article](#) on how to short stocks. Also, one of the advantages of trading SPDRs is that they do not require an up-tick so you can short them immediately, without worrying about violating the up-tick rule.

**CVR Signals And Options**

Probably the biggest edge with the VIX signals occurs in the options market, and I'll be the first to say after trading the CVR signals for nearly six years, I haven't come anywhere close to taking advantage of this edge. With that said, again let's talk about what's going on with the CVR signals, conceptually. For example, when a CVR buy signal occurs, and it is correct, it is correctly predicting price direction and volatility direction at the same time. It really doesn't get much better than this for option traders. There are multiple strategies to take advantage of such signals, ranging from selling naked puts (not advised, but certainly gives you the biggest edge) to trading verticals.

Let's take this one step further: By selling premium on a CVR buy signal, you will have price exploding on the underlying (which means your short premium is imploding in your favor), and you have volatility imploding which is causing further good erosion on your short position. Plus, because these signals are two to four days in nature, you also have theta (time) working in your favor. Again, it doesn't get much better than this.

Let's go to a CVR sell signal. The correct strategy here is to be long put premium. The reason is that when the signal is correct, price will move in your favor, increasing the value of your put, plus volatility is also moving in your favor, increasing the value of your put.

As with all these strategies, you want to be in the market approximately two to four days, and you'll want to make sure you use the correct stops to protect yourself when the signals are wrong. As far as the perfect strategy to trade with this, that is 100% up to you, you're the only one who knows what's best, based upon your trading style and risk tolerance.
Chairman and founder of The Connors Group, Larry Connors has over 28 years experience working in the financial markets industry. He started his career in 1982 at Merrill Lynch and later moved on to become a Vice President with Donaldson, Lufkin, Jenrette (DLJ). He has built two multi-million dollar financial market companies since 1995 including The Connors Group. In 2009 The Connors Group was twice awarded as the 10 fastest growing private companies by the Entrex Private Company Index.

Larry has authored top-selling books on market strategies and volatility trading, including *How Markets Really Work* and *Street Smarts* (with Linda Raschke). *Street Smarts* was selected by *Technical Analysis of Stocks and Commodities* magazine as one of "The Classics" for trading books written in the 20th century. His latest book, *High Probability ETF Trading* was selected by *SFO Magazine* as one of the Ten Best Investment and Trading Books for 2009. His books have been translated into German, Italian, Spanish, Russian, Japanese and Chinese.
In reading this book, I was struck by a similarity between the work of Connors and Alvarez and the original work of Ben Graham and David Dodd in their classic book, *Security Analysis*. Graham and Dodd defined the concept of investment to be completely different from the concept of speculation. An investment, according to the founding fathers of fundamental analysis, is a financial operation that is based upon thorough analysis, a margin of safety and a reasonable expectation of a satisfactory return. A speculation is a financial operation that lacks those principles. Connors and Alvarez have shown that short term trading can be considered an investment strategy rather than a risky speculation. They do this by delivering a thorough analysis of the techniques, showing a margin of safety is possible with correct entries and risk management strategies and showing that the disciplined application of their ideas offers a reasonable expectation of satisfactory returns.

Too many books on technical analysis are little more than a collection of well-selected examples of charts that support the author’s idea. The rest of the story is never addressed and the reader has no idea how often the strategy should be expected to work. Connors and Alvarez take a different approach. They look at basic questions traders face – for example, should I buy new highs? They then exhaustively test the idea and present the raw data for the reader’s analysis. Based on their interpretation of the results, they offer a conclusion as to whether or not the trading rule works. While you may very well agree with their analysis, by presenting the data the authors ensure that you have every opportunity to confirm their test results. Many technicians find their own ways to use a trading idea and the more data they have to work with the more likely they are to succeed in that endeavor.

In addition to answering the question of whether or not it is better from a trading perspective to buy new highs or lows, the book also tests widely held beliefs on market persistency, market breadth, volume, and large range moves among things. Each trading strategy is clearly defined and tested as an entry with precise exits. Traders can read the book and instantly begin trading the ideas if they choose to.

Connors is well known for strategies that involve using VIX as an indicator and the 2-day RSI as a timing tool. Both of those concepts are also presented here. The book concludes with practical rules for combining ideas and applying the strategies.
This is an update of the 2004 edition of the book and in addition to presenting new results it adds new work on volatility. The update is a worthwhile read for those who have read the original edition in addition to new readers.

Connors and Alvarez begin their book with a baseball analogy likening trading to *Moneyball: The Art of Winning an Unfair Game*. At the time of the first edition, moneyball was a book about baseball by Michael Lewis and since then has been made into a movie. Connors and Alvarez explain the essence of moneyball as a team’s management “knowing numbers and an understanding of the numbers of baseball provide the managers with an edge.” The teams that employed a moneyball strategy used analysis to discover which statistics had meaning and gave a team a statistically valid edge. Connors and Alvarez apply this idea to trading.

Surprisingly, baseball manager Tony LaRussa was recently quoted as saying that moneyball isn’t very useful once the game starts. He told Forbes, that it is “A useful, limited tool for pre-game preparation, how do our guys match up with their guys? It’s inaccurate for in-game strategy. When you actually get into the game, better to see what’s happening that day. Who is hot? What’s the weather?”

If LaRussa is correct, *How Markets Really Work* may be more useful than moneyball. It is a useful tool for planning what to do before the market opens and it can be used to prepare a detailed trading plan that will guide you through the market day. *How Markets Really Work* is published by Bloomberg Press.
A BULL MARKET IN THE UK
BY AMBER HESTLA-BARNHART AND MIKE CARR, CMT

Sovereign debt problems have dominated the news around the world. The issues are complex and seem to be influenced by immediate political concerns, short-term factors, and long-term economic trends. Fortunately traders can take positions without having to fully understand the news events.

This is especially useful when Greece is repeatedly pushing against the edge of disaster and no one beyond the immediate circle of participants could understand the full details of the problem. Although only large bondholders, central banks and politicians are involved in negotiations, countless analysts are expressing opinions on what caused the problems and what must be done to fix the financial system. Despite the dire news, global stock markets have been moving higher. This has surprised many of the analysts who think that the debt crisis should lead to a sustained market crash.

Traders actually aren’t surprised that stocks can go up despite daily headlines forecasting the end of the modern financial system. Old traders didn’t have computers to evaluate each market movement and had to rely on an intuitive feel of the markets. Among the many pieces of market wisdom they passed along was that ‘stocks climb a wall of worry.’ In other words stocks will go up when the news seems like it should be causing investors to panic and sell. Conversely, stocks can fall when the economic news is good.

In the universities, finance professors would attribute this to the fact that stock prices and markets in general, discount the future. Collectively, market participants are able to evaluate the news and develop a general understanding of the expected outcome. Their best guesses of the future are seen in the current market prices and the news should later prove the market right. If that view is correct, traders are saying they expect the debt problems to be brought under control in the future.

If stock markets are correct and the crisis will not bring down the global economic system, the question is how far stocks can advance. In the near-term, the answer seems to be that stock markets offer large potential gains.

The FTSE 100 has been moving higher since last August. Its price action has been relatively well contained by median lines, a trading tool that is also known as Andrews’ Pitchfork. The handle of the pitchfork is drawn from a significant market turning point, a low in this case. That forms the center line of the pitchfork. The tines of the fork are drawn from the first intermediate-term moves after the trend reverses. For the FTSE 100, the August low, October high and November reaction low form the base of the pitchfork (Figure 1).
Figure 1: Andrews’ Pitchfork shows that the FTSE 100 could reach 6400 by the summer. (Source: Trade Navigator)

Pitchforks often contain the price movement and provide a way for traders to identify potential trading targets. Prices should move back towards the median line and in a strong bull market will approach the upper line. A break below the lower line in the pitchfork will indicate that the trend has reversed, at least for the short-term. Using Andrews’ Pitchfork, we can see that the FTSE 100 should trade near 6400 before the end of the summer, offering traders an additional gain of about 8%.

Traders usually rely on several indicators to decide how to trade. In addition to the price pattern, momentum is also pointing to further gains in the FTSE 100. Momentum is shown as the rate of change (ROC) indicator in Figure 1. That indicator recently broke above its upper Bollinger Band. The Bands should contain about 95% of the movement of the indicator so breaks of the Bands indicate that something unusual is happening. Previous occasions when ROC moved above the upper Band indicated that the index was bullish and further gains were ahead.

We don’t know how the Greek sovereign debt crisis will be resolved, and we don’t know if the crisis will spread to other countries. The nice thing about being traders is that we don’t even have to pretend to know. The charts tell us whether we should be long or short and they tell us when to act. For now, the FTSE 100 is a buy.

Amber Hestla-Barnhart is an independent market researcher. She is a frequent contributor to Technically Speaking. Her work has also appeared in, SFO, Technical Analysis of Stocks & Commodities, and has previously been featured in Shares magazines.

This article was originally printed in Shares magazine (http://go.mta.org/273/) and is reprinted here with permission.
ENTHUSIASTIC RESPONSE TO HALF DAY LECTURE PROGRAM AT PACE UNIVERSITY
BY LAWRENCE LATERZA

On March 23rd Phil Roth and I had the pleasure of staging a half day lecture program on the campus of Pace University, just blocks away from the heart of the financial district in downtown New York City. The response exceeded all expectations, both in numbers and in the level of enthusiasm of those who attended.

The event was organized on campus by Bernardo Feitosa, an MTA student member, in conjunction with Pratibha Rajbhandari, president of the Pace Graduate Student Finance Club. Representatives from six different student business clubs on campus were among the attendees. Typically, events of this nature at Pace are considered successful if they attract 30 to 40 students. Initially, we were very pleased to be on a pace for 50 to 60 attendees. However, the final 48 hours saw a surge in last minute responses that caused the presentation to be relocated to a larger room which accommodated 85. Just about every seat was taken. Equally gratifying was seeing almost all students sit through the entire lecture. The very few who left appeared to be on their way to attend regular classes.

The program was structured in two sections that were designed to complement and reinforce each other. I conducted the first approximate two hour module which sought to provide a foundation and perspective on the topic of technical analysis through discussions of history, comparisons to other forms of analysis, Dow Theory, chart construction, pattern recognition, trend and momentum. Phil Roth conducted the second half of the program doing his usual fine job explaining the areas of market sentiment, supply/demand studies (flow of funds) and intermarket analysis.

The feedback at the end of the program was very encouraging. Several club representatives indicated that the lectures convinced them that a course on technical analysis belongs on the Pace campus. To that end, a plan would be enacted to move things along by organizing students to take up the matter with appropriate department chairs. Their objective is to get faculty decision makers to sit down in a meeting with foundation members.

The enthusiastic response made for an enjoyable and rewarding visit, as it appears a real opportunity exists to move the relationship with Pace University to the next level.

Pace University provides an education that combines exceptional academics with professional experience and the New York advantage. Pace has three campuses, in New York City, Westchester, and White Plains. A private metropolitan university, Pace enrolls approximately 13,500 students in bachelor’s, master’s, and doctoral programs in the Dyson College of Arts and Sciences, Lienhard School of Nursing, Lubin School of Business, School of Education, Seidenberg School of Computer Science and Information Systems, and School of Law.
BACK TO THE DRAWING BOARD: SEARCHING FOR THE TREND’S END
BY SCOTT HATHAWAY

For my 3rd and final article in this series I would like to present some geometric perspectives of a potential top in the NASDAQ 100, specifically relating current price to previous important points to see if they are harmonic, in keeping with one of the series’ themes. Lines, levels and circles will provide future harmonic areas for potential reversals as well.

I will introduce several approaches to do so: a ‘Fractional Harmonic’ approach to Speed Resistance Lines, multiple angle views of a vector circle, and a geometric fan based on a very special angle: 19.47 degrees. (See Appendix I for a detailed description)

The first chart shows that all major points (and many minor points) after the major low of ’02 are harmonically related to this unique angle and its resulting fan, as seen through a 72d (pentagonal) perspective:

A vector is drawn from the massive crash (4021.10 / 133W = 30.2338), then set at 72d by calculating the 45d vector ratio (‘Vr’) by dividing by tan72 (30.2338 / 3.0777 = 9.8326/W). Then a 19.47d angle is drawn by multiplying the 45d Vr by tan19.47 (9.8326/W x .3535 = 3.4729/W). Multiples of this angle are generated via the same process.

Current price has resistance at 22.5d, which is not harmonic with other tops/bottoms after the vector low. However, interestingly enough, 22.5 is half of 45d, and there is some S/R activity before the vector low from the 45d line. That activity can be described as sizable correction points before a final move of the larger trend down. Perhaps that is what is in store, if the NDX does indeed reverse here?
Notice that price moves between fractionally related 1/2 lines of 1.5 and 2.5, then drops to a ¼ line (.25), starting a new uptrend. A likely candidate for a major reversal is the next ¼ line at 1.25, which indicates further gains to the low 3000’s for the NDX. This is a common price target area throughout this article.

Moving on, I wonder if the 2 major uptrends are connected from a broader perspective, giving additional related points to the base of the current trend? (Consider this next technique to be like Speed Resistance Lines ‘on speed’):

Here, the vector height is fractionally divided (other than the traditional thirds), allowing for harmonic levels and angles which reveal a striking pattern:

*Not only does the first two trends start and end on the same harmonic going from a line to a level, but each uptrend successively goes up fractionally by 2: from 7th’s to 9th’s to 11th’s!*?! *(Take that, random walkers…)*

The next major top would occur at an 11th level, although the current trend started a hair closer to a level than a line, so perhaps 11th lines are to be considered as well.

Regarding dividing the range by 3rd’s (an early vector-based and fractionally harmonic concept!), let’s flip it on its head:

Here is a satisfying example of perfect fractional harmony that can be repeated. The 1/3 line is inverted by drawing it from the top left square point (‘0’) through the 2/3 level, giving the bottom at A1; while its parallel counter-part from the vector high (literally 1 full vector length to the right) gives the uptrend’s final resistance area at A2 (both green). Then by placing this angle at the ¼ point, it gives support for B1. Going forward the same amount as before (1 full vector length to the right), the harmonic resistance
line is given for B2. This adds support for higher prices up to the low 3000’s under the current trajectory, and followed by a harmonic top and a sizable correction, if the pattern repeats.

**Definitely worth noting is that this resistance angle hits the 4/11 resistance level of 3133.67 (from the previous chart) next month, May 2012, certainly a realistic possibility.**

Before I move on from this approach, it is certainly worth mentioning that Michael Jenkins advocates using ¼’s and ½ for speed lines, which when added to 1/3’s comprise the standard Gann divisions of a range. I am just adding smaller fractions (7th’s, etc.), inversions and of course, incorporating the concept of fractional harmonics.

And now, I obtain a very similar result from this same vector set-up using an entirely different approach: Circles. But, instead of conventionally drawing additional circles by multiplying the basic circle, I have a little something up my sleeve:

I think of this as bending the vector circle (thin black) by adjusting the vector alignment to various fractionally harmonic divisions of 360; in this case, 5, 6 & 7 (45d is 8). (Refer to the Appendix for a 3-chart series, explanation and additional analysis)

The analysis from this chart is pretty self-explanatory, especially since it is very similar in context from the previous chart.

**Except- Circle 5 is currently about 500 points higher than resistance at B2 from the parallel speed line, and this distance increases with time.** So much for technique alignment… This indicates that there is a probable second uptrend ending at Circle 5, following the correction. In this event, the expected correction at B2 is not going to be a continuation of the massive downtrend, but that the over-all larger trend is still up.

In conclusion, these analyses are in general agreement (with some slight rebuttals) of the NDX reaching the low 3000’s area for a reversal, via a smaller reversal for current price (if any) followed by a last move up with a harmonic top to the major bottom of 2008, then a correction of similar magnitude of the last major correction from A2 to B1, and then another uptrend to our blue Circle 5. Certainly no guarantee (insert usual disclaimer), but a likely scenario based on the work presented.

Still hungry? Gold for dessert again. Is the correction going to a lower low, or up from the 1523.90 bottom? Fractional Harmonics to the rescue again:
Simple fractional harmony from a range of 838.50, obtained from the major low price of 34.50 in 1971 with the massive high of 873 in 1980. The top is only $2.58 above resistance.

The major low of Aug ’99 of 253 and the double-bottom of Feb and Apr 2001 at 255 are at the ¼ level, yet each previous sizable correction is not at this harmonic, instead perfectly matching with 13th’s (’06 correction) and 5th’s (’08-’09 correction). Perfect harmony: but not with the bottom.

Currently, we are indeed at a correction that is harmonic with the bottom at ¼ levels. Matching support from the ¾ level counter-acts the all-time high at the ¼ level, with level 2 acting as regression, just as level 1 did for the previous correction with 5th’s. History repeating itself:

Corrections acting as fluctuations balanced around an important level and its multiple.

So, support at $1501.875 is expected to hold, which supports higher stock prices since they are still somewhat connected. If broken, then a possible move back down to ¼ at $1082.625. For higher targets, I’ll let you calculate a few... Back to the drawing board with ‘ya, but I need a break!? And thanks for reading.

APPENDIX I

When a tetrahedron (a 3 sided pyramid consisting of equilateral triangles with another for the base) pointing up is surrounded by a sphere with all points touching, the base contacts the sphere at 19.47 degrees (19.47d) latitude SE. Certainly this has to do with the sine function of 19.47d being exactly 1/3, a perfect fractional angle, so to speak. This means that anywhere you pick on this angle, the distance travelled from its origin is exactly 3 times the height (price).

Therefore, on the first chart, the low at point D, which is on the 19.47d angle, is exactly three times the distance from the vector low compare to its price difference from the low.

Interesting to note that this is the latitude where large spots occur on Jupiter and Neptune, concentrations of solar flares and sun-spots, all on the hemisphere opposing the emanation of the magnetic pole (N). Here on Earth, the most active volcano is near HiloHawaii, at 19.47d N.
Appendix II

Circle 6 is drawn by setting the vector to the hexagonal (6) angle of 60° (black), since $360° / 6 = 60$. Now, what is 45° (green) would actually be seen as 30° in the main chart. A smaller top was picked off in time by the intersection (arrow), as well as the circular resistance.

Circle 5 is drawn by setting the vector to the pentagonal (5) angle of 72° (black), since $360° / 5 = 72°$. Now, what is 45° would actually be seen as 18° in the main chart. The intersection (arrow) identifies the now expired month of March. If indeed price drops this month, then this is strong evidence for at least a small correction, based on the previous chart with circle 6.

Circle 7 is drawn a little differently, since it is analyzing a downtrend. Here, I set the vector at the inverse (from 90°) of the heptagonal (7) angle $51.428571…°$, which is $38.571428…°$, which are labeled by their 7th fractional name on the chart. Now, what is 45° would actually be seen as $51.428571…$ on the main chart. At the intersection (arrow), is an alternative scenario for current price: a brief sideways market, followed by a steep rally. This counter-acts the previously mentioned possible smaller correction.
Scott Hathaway has been developing new charting methods for several years, including an alternative geometric environment ‘Relative Charting’, unusual applications of square numbers and prime numbers for time and price, as well as several fan systems. His new website hathawayanalysis.com features some of his work. Scott is currently a CMT candidate.
MTAEF SPRING 2012 AUCTION
BY J. CODY TAFEL, CMT

The Market Technicians Association Educational Foundation (MTAEF) will hold an auction this May to raise funds for the mission of identifying and supporting educational programs in the field of technical analysis. The auction will run from May 1-11, and gives participants the opportunity to take a renowned technician to lunch. We are excited to have several new participants in the auction this year.

This is a great chance to get access to some of the top market minds, and the format of taking the expert to lunch or a 45 minute phone call will enable bidders to participate regardless of geographic location. More details on the auction are coming soon. We wish you the best of luck in your bidding and thank you sincerely for supporting a great cause.

The MTAEF Spring 2012 Auction Participants include:

- Rick Bensignor – New York, NY
- Marc Chaikin – Philadelphia, PA
- Jeff Cooper – Malibu, CA
- Tony Crescenzi – Orange County, CA
- David Fuller – London, England
- Todd Harrison – New York, NY
- David Keller – Boston, MA
- Jeff Kennedy – Atlanta, GA
- Walter Murphy – New York, NY
- Jon Najarian – Chicago, IL
- Mark Newton – New York, NY
- Jim Rogers – Singapore
- Linda Bradford Raschke – Chicago, IL
- Phil Roth – New York, NY
- Vic Sperandeo – Dallas, TX
- Katie Stockton – Greenwich, CT
- Frank Teixeira – Boston, MA
- Larry Williams – St. Croix, US Virgin Islands
- Louise Yamada – New York, NY
- Dan Zanger – Miami Beach, FL

Below is a brief look at some of the technicians you will be able to bid on. Complete details on the MTAEF Spring 2012 Auction can be found on the MTAEF website at www.mtaef.org

Victor Sperandeo serves as the President and CEO of Alpha Financial Technologies, LLC (AFT), is a founding partner of EAM Partners L.P. (EAM), and serves as the President and CEO of its general partner, EAM Corporation. Known as “Trader Vic”, Victor Sperandeo is a trader, index developer, and financial commentator based in Grapevine, Texas. He has over 45 years’ Wall Street experience trading both independently and for many notable investors such as George Soros and Leon Cooperman.

Todd Harrison, founder and CEO of Minyanville Media, Inc., has 20 years of experience on Wall Street. He spent 7 years on the worldwide equity derivative desk at Morgan Stanley as Vice President, was Managing Director of Derivatives at The Galleon Group, and was President of the $400 million hedge fund Cramer Berkowitz. He has appeared on FOX, CNBC, CNN, and Bloomberg TV, and in The Wall Street Journal, BusinessWeek, The New York Times, Worth, Fortune, Barron’s, Dow Jones MarketWatch, New York Magazine, and Canada’s National Post.

Jon ’DRJ’ Najarian is co-founder of optionMONSTER® and co-lead analyst for the InsideOptions™ trade idea alert systems. He spent the first 29 years of his trading career trading in and around the pits of the Chicago exchanges. Jon is a frequent contributor to CNBC, the Wall Street Journal, and other prominent financial media organizations. Mr. Najarian also co-developed the patented trading algorithm the Heat Seeker®, used to detect unusual trading activity.

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