The No.1 Trading Plan

By [illegible]

SAFETY IN THE MARKET
SPECIALISTS IN TRADING & STOCK MARKET EDUCATION

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Contents

Acknowledgments

I felt there was a need for a simple series courses on trading - Courses that worked. In The Number One Trading Plan my goal is to extend your knowledge beyond the foundation laid by the *Smarter Starter Pack*. I have had the pleasure of meeting many fantastic people and traders over my years in this business. Special thanks go to old friends like Tony Morgan, Denise O'Gorman and Max Clarke who have provided their experience for us all to learn from. For all of my students, I am grateful to you all.

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... And finally, to my wife Pauline, my sons Dan and Chris - what can I say. They have stood beside me all the way. My heart felt thanks to you all.

David E. Bowden

Welcome to the Number One Trading Plan

In this section we will cover

- **My Story**
- **Common Factors of Success**
- **The Course Structure**

The Number One Trading Plan is designed as a logical extension to the *Smarter Starter Pack*. It adds both breadth and depth, in that new material is included, and the original key concepts are explained in greater detail. In addition, this course allows you to test yourself to ensure you have grasped these essential concepts before taking on the market in real-life trading, where real dollars are involved.

The story so far

I started trading futures markets in 1985. My apprenticeship period consisted of just two weeks of trading with an old friend, and then I was on my own. I had some early success and this gave me the old "unrealistic expectations" problem.

I had been introduced to the works of W.D. Gann before I had considered trading futures markets. I was impressed by his amazing track record, so when I began trading I also purchased all of Gann's books, plus the *W.D. Gann Commodities Course*. The results were both good and bad. I certainly had enough reading material, but as many of you know, Gann's message is somewhat hard to comprehend at times - especially when you are first setting out as a trader. His books, while not being models of simplicity, were certainly easier going than the complete course!

After just three months of trading on my own, I was basically knocked out of the ring on a "Balance of Payments" day. It was at this point in time that I decided to make some sense of this Gann stuff before continuing my career as a trader. I could easily have walked away from the game at that point, but I accepted that it was my lack of knowledge that was the source of my problems - and I felt I had the solution in my bookcase. I decided to take as long as was necessary to get my act together. I resolved that I would not trade again until I had my act together. What follows is a description of how I went about this, as close as I can recall, and some of the outcomes.

Getting my act together

Late in 1985 I had attempted to develop and document a trading plan based on my knowledge of Gann's research technique and some other little gems that I had picked up in my travels. I felt that in order to call an assembly of market information a "trading plan" it must be able to be put on paper as a series of instructions. What I envisaged was a series of guidelines that would cover any market eventuality, and which could be passed on to a second party. I expected it to be clear enough to be able to be programmed into a computer. I was back to the old "unrealistic expectations" situation again.

On reflection, what I had assembled was just the basic philosophy that if the market moved my way, I wanted to be in there, and if it went the other way I did not want to know about it. That was the sum of my market knowledge. I had no mathematical formula to thank when I was right and no psychological rules to fall back on when I was wrong. I had no system whatsoever, yet **I called myself a professional commodities trader**. It makes you smile, doesn't it!

It was at this point in time that I really started to pull Gann's works apart. I isolated the sections of it that I could understand. This did not take very long as there were not many parts that I did comprehend! I also read about many of the great operators of the past. I looked for points where they were in agreement - where they shared a common denominator. I noticed that the works of one Ralph Nelson Elliott were regularly referred to. I am not often linked with his work and quite rightly so. There are many who are far more expert than I am on his complex theory, but as his work had some effect on my eventual result, I must make reference to its existence.

A thing you will come to understand about analysis of the stock or commodities markets is that the whole process is like politics or religion. If a system is good, it will most likely contain parts of other established systems. If a system is bad, it will stand alone.

We like to believe that we have a monopoly over market wisdom. We are all swimming in the one direction. If we are trend followers we all try to get on a trend early and stay on it for as long as possible. It is a matter of balance.

Those who are right, and those who are wrong, have the same ultimate objectives, but a different interpretation. This discussion is about how two traders can use the same system on the same market with vastly different results. It is usually the filters that give a trader success or failure, not the system. The ultimate filter is to not trade. Your trading system is only a system of filters, placed over raw data. As your skill develops, your choice of filters will, of course, alter.

William F. Eng, in *The Technical Analysis of Stocks, Options and Futures*, Probus Publishing, claims that swing charting is based on a study of Gann methods. Gann certainly perfected them to an art form. He was the first to use different trading periods to construct a series of swing charts, which he used as leading-lagging indicators in his trading. Indeed, he did this in his early twenties. It would be easy for me to wax on about W.D. Gann and his accomplishments, but I feel that it would be of absolutely no advantage to you at this stage.

Gann introduced harmonics to technical analysis as early as 1909. My interpretation of Gann's works is that harmonics plus swing charts equaled, to him, a change of trend. He taught his students that by creating a series of sine waves, one could call the price and time of future market movements. He called these sine waves "vibrations", which are just pulses. He claimed that since history did repeat, we could know in advance what a stock or commodity could do by simply checking its position in the current cycle. In the *Smarter Starter Pack* Third Edition we are just measuring the vibrations and dividing these vibrations into natural divisions. In Gann's days, they were expressed as fractions. Today we express them as percentages. Either way, it means the same.

There were three apparent reasons why I based the *Smarter Starter Pack* on these principles:

- They worked for me
- They could be comprehended by an absolute beginner
- They were the basis for a trading plan and a student's future development

Over the years there have been many others who have come up with similar thoughts. These are, I believe, the basis of all profitable technical analysis packages. The problem is that along the way, many theorists have complicated these to the degree that they are now practically useless. Some could even be rated as a hindrance. **Clarity, not complication, is the hallmark of excellence.**

The Big Picture

In the *Smarter Starter Pack* program we use two chart types to paint ourselves a picture of the market. These are called bar charts and swing charts. In the case of bar charts, regular interval bars are plotted for any range fluctuations, no matter how large or small. Swing charts, on the other hand, ignore all movements of less than a specified size. The specified size can be defined by way of a time frame, for example one day, two days or a week; or by a specified price fluctuation, say nine points. No attention is paid to time periods or price fluctuations of lesser dimensions than the predetermined time period or price range.

Swing-style charting was first used around 1881, in the form of what was then called "figure charts". These were the forerunner of our current swing charts. In 1889, an anonymous writer who called himself "Hoyle", published a book called *The Game in Wall Street*. It seems to be the first publication concerning figure charts. Associates of Charles Dow say Dow used figure charts between 1891 and 1901. In an editorial published 20 July 1901, entitled **Methods of Reading the Market**, he called figure charts "the book method" and said that he had kept them for a period of some 15 years at that time.

The "book method" was designated the "One, Two and Three Tread Register" by Joseph N. Klein in a course of instruction he published in 1904. This was the forerunner of my ABC trading. W.D. Gann had started trading in 1902. Klein stated that figure charts had been used for a period of 23 years, so that takes us back to about 1881.

In 1933 R.D. Wyckoff published a course called *Tape Reading and Active Trading*. At the same time Victor de Villiers published two studies, the first of them called *The Point and Figure Method*, followed by his second study *Advanced Theory and Practice of the Point and Figure Method*. Both of these gentlemen were associated and their works, while including numerous variations in interpretation, were regarded as the primary ideas unchanged from those clearly outlined by Klein. Klein is said to have been associated with the anonymous "Hoyle".

Jessie Livermore had been trading for some time in the 1930s and was an excellent operator. His "Livermore Key" rated the market by a series of swings which were termed either "natural" or "secondary" reactions.

Livermore's trading technique was to take positions only in the direction of the major trend. The trend was defined by confirming higher highs and higher lows (the up trend) or lower highs and lower lows (the down trend). Gann did not rate Livermore's mathematical prowess very highly, although he respected him as a person.

In 1934 R.N. Elliott assembled his principles into one theory which became known as the Wave Principle. As I mentioned earlier, by the mid-1930s there were numerous authors writing constructive theses on technical analysis. I have always thought that a loss produces more thought than a profit, so perhaps the bear market of 1929 to 1934 was what was required to crystallize these authors' thoughts - or perhaps some just needed the money!

Common Denominator

What I am saying is that this is the common denominator of three of the all-time greats of technical analysis and the basis of ABC Trading, which is what the *Smarter Starter Pack* is all about.

What association Elliott and Gann had, if any, I do not know. Their concepts of a series of waves or legs in the markets were quite similar. Between the time of Elliott's assembly of knowledge in 1934 and the publication of his "Wave Principle" in 1938, Major L.L.B. Angas published a book called *Investment for Appreciation*, which largely dealt with cycles similar to Gann's stages and Elliott's waves.

One area of agreement between Elliott and Gann is that two of Elliott's impulse waves in a five wave sequence will tend towards equality in time and magnitude. They differed with respect to the possible magnitude of the retracement. Gann based his calculations on the inverse power of two, whereas Elliott based his calculations on the Fibonacci ratios (0.618 and 0.382). As indicated above, both used prior moves or ranges as the basis of predicting the length of future waves.

Another respected publication in the 1930s was R.W. Schabacker's extremely well-researched course called *The Stock Market Theory and Practice*, which was some 700 pages long. Of a similar vein was *Profit in the Stock Market* by H.M. Gartley. Each had their own followers and to the followers, these works were the *Bible*. As I said earlier, there are remarkable similarities in our business between these theories, politics and religion.

In 1954 William Dunnigan combined the Dow Theory with swing charts to present his "thrust method". In it he looked for a substantial move within a predefined time interval to create his "thrust". For him it was a breakthrough. In essence he allowed each commodity to develop its natural pattern of moves, or waves. This came well after Gann produced his book *How to Make Profits in Commodities*, which devoted a large section to swing charts and included many examples of markets prior to Dunnigan's work.

Another theory was the "Law of Proportion", espoused by Tubbs, which was a well-defined action and reaction theory. What Tubbs had to say about the relationship of moves was that "...aggregates and individual stocks tend to run on half, two-thirds, three-quarters of previous moves. First in relation to the previous move which was made. Then in relation to the move preceding that". Using this law, Tubbs found that he could set up a number of price objectives. His methods were clearly set out; the plan was comparatively simple; and his mathematics were basically the same as Gann had published in the 1920s. Again, if a system is good, it will most likely contain parts of other established systems.

In 1975 Charles Lindsay introduced his trading system which was regarded by most as a trend-following, wave-trading concept. He advised the trader to buy precisely at the 25-percent point of a previous range, and sell at the 75-percent point, which he regarded as a selling point. He used a series of primary, intermediate and major waves which at the time were said to relate to the Elliott Wave Principle mentioned earlier. Elliott had claimed that two of the impulse waves in a five-wave sequence should be of equal magnitude, while the others will vary by a set ratio. In later writings on the Elliott Wave, Frost and Prechter pointed out that this guideline of equality is often extremely accurate. (See *Elliott Wave Principle*, pages 59 and 60). Lindsay based his rules on the established swing-chart principles of trading only with the trend and buying 50-percent pullbacks. He only used ranges so the all-time high and low of any commodity were not part of his analysis. His courses did not cover stocks.

I received much of my inspiration from Chapter Four, **Percentage of High and Low Prices** of W.D. Gann's *45 Years in Wall Street.* I must admit the very start of the chapter caught my attention early in my trading career when help was most needed. Gann stated:

One of the greatest discoveries I ever made was how to figure the percentage of high and low prices on the averages and individual stocks. The percentages of extreme high and low levels indicate future resistance levels.

There is a relation between every low price to some future high price, and a percentage of the low price indicates what levels to expect the next high price. At this price you can sell out long stocks and sell short with limited risk.

Gann, W.D, ***45 Years in Wall Street,*** 1949, p.30

(See the **Prime Numbers** lesson, on page 143)

Gann then goes on to show how these theories apply over a fifty-year period.

Most of the concepts covered in this section are reviewed in Perry Kaufman's excellent book *The New Commodity Trading Systems and Methods.*

I regard all of these theories as different interpretations of the primary ideas of Gann and Elliott. The one weakness common to many of the theorists was that they thought their concept was the complete answer and they could not accept it as being part of a much larger scheme. In these series of lessons I will try to make this point clear for you. It is only right that you end up with a clearly-defined, stand-alone system. You must realize, however, that there are other elements you can add to this price action and reaction plan as your skills develop. The element of time is only briefly mentioned, but is the blood brother of price in any market analysis - just as W.D. Gann stated so many years ago.

The Number One Trading Plan

The Number One Trading Plan will enhance your learning, however it cannot replace it. In the final analysis, learning anything for the first time requires effort and discipline on the part of the learner. The bottom line is that if you are not sufficiently motivated or disciplined to complete the tasks specified, it is unlikely that you will succeed as a trader. **Preparation for trading requires considerably more perspiration than inspiration!**

This program is as much about learning as it is about trading. Efficient and effective learning about trading leads to efficient and effective trading. You must be able to continue learning about trading long after you have mastered the *Smarter Starter Pack* program.

When you completed your secondary school education, and maybe a university degree, you were almost certainly left with the belief that 50-percent is a "pass". A 50-percent mastery of any proven trading system will leave you penniless! Mastery is the aim of this program. Anything less is simply not good enough.

Allocate a fixed amount of time, regularly each day, to your study program. Ensure that you have all of your requirements before you commence a lesson, and make sure you study in a well lit, comfortable (but not TOO comfortable) environment, free from distractions.

Super traders NEVER complete their market education.

Let us commence!

Section 1 Review

In this section we have covered

The struggles involved in my success

The common factors in the success of famous traders

Understanding how the Number One Trading Plan fits together

Course Introduction

In this section we will cover

The Value of Forecasting Potential Market Tops and Bottoms

Suggested Approach

Once again I had to face the temptation of complicating this whole “trading process”. I believe, however, that I have successfully resisted this seduction. Certainly, my aim has been to expand and extend your knowledge and skills, without unnecessarily complicating the process.

If, at the end of this series of lessons, you cannot grasp the nature of this trading package, it is I that has failed, not you. You must provide the momentum, otherwise what I have written will only be words on a page. You are the “volume” in this equation. My role is to show you how; your role is to do it. This is our agreement.

Background

I see myself as a technical trader rather than a technical analyst. I believe trading is where the benefits lie. To me the joy and the benefits lie in the doing. Few will argue that the check book indicator is the strongest indicator - far better than any theories. I think that when you can coldly look at your analysis and rate your skill in the clear light of day that only the market produces, you have clearly passed an important milestone in your career as an analyst, trader or whatever you call yourself - but it sometimes takes a few hits, that the market gladly provides, to reach this point.

I can say this much, I have been involved in trading and training now for twenty years and its been a ton of fun for me - and for plenty of those around me. I look for the traders in any group and I value their input. When I started out my primary goal was to make a good living from trading. In those days I quantified that in the $200,000 per annum area. If I were starting out today I would set my sights higher. Why do I look at it this way? Because the money is there to be earned and I believe that is how you keep score of the game. Let someone else earn the Nobel Peace Prize, me, I'm happy to put my profits in the bank. For that reason, I basically trade for myself.

I conduct seminars because I enjoy them. Traders pay me to speak about something I love. The truth is I would gladly run seminars for nothing. Before I organized my own company, this is basically what I did! Like my trading I, once again, ran my seminars myself. There is no fertilizer like the sweat of the ploughman.

As I said earlier, it's been a good way of life. When I'm trading I find I must have time alone to assemble my thoughts. My style of trading is basically trend-following, but when my time frames come up I measure the optimism/pessimism of the crowd and basically do the opposite of what the mob does. At that point I'm a contrarian. What I'm saying is that during a run in any stock or commodity, the mob is not always wrong. But history shows they are **always** wrong at any major **turning points**. This leads me to the point of picking tops and bottoms.

The life of a Top and Bottom Picker

The run-of-the-mill top and bottom picker invariably has a miserable existence. He or she is usually taking positions against the trend throughout any major bull or bear campaign and so is flailed into submission by the market. The most important shortcoming of his or her style of trading is that when a decent change of trend emerges, the trader has dispersed all of his or her fire power. The psychological and financial resources are spent. I witnessed this in the 1987 bull run. At any time throughout that whole campaign, the biggest in history, you could always rely on some to declare, "it's a short, it's a short". When the greatest short of a lifetime clearly poked its head up, very few were in the financial or psychological condition to take advantage of the opportunity. As I say, at any major top or bottom the mob is always in the wrong way. Sadly the ones who are wrong all the time often do a lot of work and so spend a lot of time and money in getting themselves into this unenviable situation.

How Does One Succeed?

You start with a plan that is committed to paper. Your plan must be tested and revised until it is in the briefest possible form. It must be simple. You must have faith in it. It must be a mix of formulae and strategies. **Most importantly, you must put it to work.**

There is no "one" way to make money in the market any more than there is "one" way to lose it. I will tell you about my way. From the beginning, long before I ever took a position in the market, I was impressed by W.D. Gann as a person and as a trader. So many of the thoughts that I pass on here are his thoughts. His thoughts and my thoughts are now hopelessly entwined. I must say that in most cases he had the thoughts first. There is no doubt he, like R.N. Elliott, is a legend. I often have cause to smile at the odd trader who knocks him. I mean Gann died in 1955 and yet forty years after his death you mention the name Gann amongst traders anywhere in the world, and everyone knows that you are talking about W.D. Gann, the legend. I wonder if, forty years after the passing of some of these genii, whether their names will even be known in their home town, much less as a legend! It is so easy to be critical. I have traveled all over the world and I've never seen a monument erected to a critic, but a portrait of W.D. Gann hangs in the Chicago Board of Trade.

Gann was known to call exact turning points in the market long before they happened. He first used the words "Black Friday" in 1928, when describing the panic that would envelope the American stock market. He also said that the market would peak on 3 September 1929, which it did. That's what makes him a legend. Now if you are that good you need read no further. Just go off and trade tops and bottoms at your leisure. For you others, here's a plan... and I believe you must have a plan.

For me there are two main elements in technical analysis, "time" and "price".

In studying time and price the chart only gives you a picture of what has happened. You must do the work, then transpose the work onto your working chart. I feel you should draw the chart and transpose your work manually when you begin. There seems to be some coordination between the pen and the eye that does not occur when a computer is used. At least that has been my experience and I have witnessed this with hundreds, if not thousands, of traders. All of my Super Traders began by hand-drawing charts. It's part of the gaining of wisdom. They can measure the results in dollars. As I said earlier, that's how you score the game. The proof of the pudding is in the eating. I have had a few servings - both good and bad. This qualifies me to go on. Heaven help one who follows the advice of another who has not had his fair share of puddings.

I often think that the only way to respect money is to have it and lose it. It certainly is one way to introduce an element of discipline to your trading, or anything else for that matter.

As price is the first element to be mastered we will exercise a small amount of discipline and confine our lesson to this subject. You can trade very successfully using either price or time, but I think you should be the master of both. Then it follows that price and time are your servants.

As you have probably gathered, I have a deep respect for the psychology a trader must apply when practicing his craft. I have dealt with some of the most respected psychologists associated with trading but I rate expertise in technical analysis as highly and every bit as necessary as a sound psychological base. I know some say the psychological background is the most important aspect. I feel that is because they have never mastered the art or science of analysis to the degree that the analysis actually gives them the psychological advantage, or to put it another way, the guts to take the trade. I mean, that's why I advocate putting the work in on a trade, so that you'll have the guts to take a position and hold it and not go off half cocked at every minor reaction.

I know many luminaries in this business who say it is just not possible to call market turns in advance. They say it just can't be done. I feel it would be more correct of them to simply say that they can't do it. I believe that you develop this skill by following the past masters. I have been game, time and time again, to put my name on the line by forecasting markets sometimes years in advance. I've been right - and sure I've been wrong. But I've been right a lot more times than I've been wrong. When I'm wrong, my stops get me out and sometimes reverse my position - automatically. The success or otherwise of my plan is measured by my trading account. Remember, that's the way we score the game.

Together we must accept the market as reality, not theories or interpretations. This may be new to you if you are used to having a form of control over others. Perhaps you are in a position to sack staff, or at least to move people around if they do not go along with your theories. If so, never forget that the market does not care about your predispositions or predictions. The price is always right in this game.

Perhaps up to now you have gone through life successfully influencing outcomes by throwing some form of tantrum or using emotional blackmail. Once again, the market is "cold and hard" and will not be affected by these mental gymnastics. Much is made of this in many of the latest books on trading psychology, but if you turn to page 25 of *45 Years in Wall Street* by W.D. Gann, you will find some very good advice under the heading **Human Element the Greatest Weakness**. This was written in 1949, yet Gann was talking about you and me.

These are but a few of the facts you must face as you commence this study program. I had to face these realities on the run as I learned my craft. You may do it while studying these lessons, but make no mistake about it - you will face these facts if you are to be a complete trader.

This brings up the old question of relevance. What is of most importance to today's trader - trading rules or psychological rules? The very best that I can do for you is to walk you through my own experience. I am sure of this much - one is useless without the other. They feed off each other. They are interdependent.

When we talk about psychological rules such as accepting complete responsibility; not associating with losing traders; and so on, we are looking for a direct means of maintaining confidence or well-being. Therefore, we are saying that if you break these rules you will suffer from a lack of confidence, which will result in a feeling of confusion or anxiety. Confusion or anxiety will, in turn, result in a disorganized approach to your trading, or no approach at all. As a result you will not take a trade although one is triggered by your trading strategy. All this is very true.

There would not be one successful trader who disagrees with the above - but there is another side to the equation. If your technical strategies are faulty, or not clearly defined, the actual trigger for taking a trade will result in a higher than acceptable number of losses.

Clearly, you need to mesh the psychological rules and the trading rules into a cohesive whole. This is more akin to an art than a science. I give each a 50-percent weighting. I feel that traders who give the psychological rules an 80- to 90-percent rating do so because they have never developed their technical approach to an art form. They may have a psychological problem, in as much as they do not believe that technical analysis can be developed to this degree. If this is their sincere belief, in their case, they are correct.

What I propose to do in this series of lessons is to give you the steps I took in organizing my trading and research. I will then introduce you to the strategy that resulted from this organization process. I do not claim for one minute that this series of lessons is the last word in psychological or technical excellence, but I do say that they are the very best grounding for success in trading stocks or commodities that I can provide at this time. If you successfully complete these lessons there is much more that I can share with you and I am happy to do just that. First, however, you must do the work - this is our agreement.

This is your start in learning how to learn. Your first step should be to purchase the books listed under the other references. I will give you specific areas to scrutinize from time to time, so you will need these books to obtain maximum benefit from this program. To give you a solid grounding, I suggest you read pages one to 18 of *How to Make Profits in Commodities* by W.D. Gann, ending with the section **Normal or Average Advances or Declines**.

A big discovery I made was that in many cases students had to learn how to learn, including how to study the works of W.D. Gann. They had to discover the "combination" of his combination lock on knowledge. After this "initiation", they have the ability to enter his knowledge vault.

Suggested Approach

Well congratulations on taking the next step.

To assist you in your comprehension of the concepts laid done in the *Smarter Starter Pack* and *Number One Trading Plan* I have included a suggested approach to your studies.

1. As the *Number One Trading Plan* builds on the *Smarter Starter Pack*, please ensure you have completed the first steps listed. Depending on how long ago you studied the *Smarter Starter Pack*, you may decide to revisit it to refresh your memory. Remember, the best professional athletes do the most basic of drills every single day. There should never be any shame in practicing the basics, as doing them flawlessly is what makes people great.

2. Read and understand the concepts contained in the *Smarter Starter Pack* manual from start to finish. Watch and understand the lessons on the DVD. I suggest you review both before from beginning to end before continuing to step 3.

3. Complete the three trading exercises in the *Smarter Starter Pack* manual on the charting paper originally included. This process can be short-cut via the *Smarter Starter Pack CD-Rom*, however I suggest that for best results, the old fashioned way is the best method of ensuring you are at one with the charting method.

   Make sure you have a quality source of data. These days websites, software and data providers are far more reliable and cost effective than in years gone by. Of course I suggest that the *Safety in the Market* software packages are best suited to your needs. In my opinion these packages are the best way forward for you as you will be able to apply the concepts you learn quickly and easily, with assistance on navigation when required.

I have included a list of exchange websites around the world for stocks, futures and options, refer to page 33. These are the best place to confirm queries on trading hours, contract specifications for futures or options and daily price data for those without software.

4. Read the books outlined in the Suggested Reading for both the *Smarter Starter Pack* and the *Number One Trading Plan* (p. 34).
5. Read and understand the concepts contained in this manual from start to finish to gain an overview.
6. Complete the trading exercises in this manual via the software, CD-Rom or on the charting paper provided.
7. Complete the **Questions** for each section in the manual. Confirm the correct answers from the **Answers to Questions** section at the end of this manual. Ensure that you understand where you went wrong before proceeding to the next lesson. The **Answers to Questions** section is an important learning tool - use it wisely.

Section 2 Review

In this section we have covered

Poor psychology is the demise of many would-be traders and forecasters

Success requires hard work and a clearly defined plan

This course is best studied via a systematic approach

Course Introduction Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. The *Number One Trading Plan* is designed to:
   a. Guide your study in a systematic, efficient, educationally-sound manner
   b. Focus on the most important knowledge and/or skills required
   c. Ensure that more advanced study is built on a solid, proven framework
   d. All of the above
2. The amount of knowledge and skill you will gain by completing *Number One Trading Plan* is directly proportional to the:
   a. Capital that you invest in the markets
   b. Amount of serious study that you undertake
   c. Number of trading books that you read
   d. All of the above
3. Ideally the data you obtain should be:
   a. Inexpensive
   b. Readily available
   c. Accurate
   d. All of the above
4. Which of the following is NOT required when drawing the 'bar' of a bar chart:
   a. Volume
   b. Lowest price
   c. Closing price
   d. Highest price
5. When a series of consecutive 'bars' on a bar chart have higher tops and higher bottoms, the market is most likely to be a:
   a. Primary market
   b. Secondary market
   c. Bull market
   d. Bear market

6. Which of the following is the LEAST effective method of improving your knowledge of trading:
    a. Reading high-quality books about trading
    b. Updating your bar charts on a daily basis
    c. Learning essential terms and trading rules
    d. Practicing applying trading rules using old data
7. 'Volume' is best defined as the:
    a. 'Temperature' of the market during a given period
    b. Number of shares or contracts traded in a security during a given period
    c. Highest price anyone wants to pay for a security, at a given time
    d. Difference between the high and the low price for a given period
8. A bar chart of a given stock, plotted over a reasonable period of time, graphically displays:
    a. Price bars
    b. Bull and bear trends
    c. High and low prices
    d. All of the above

The Nature of the Game

In this section we will cover

Short-term trading

Dealing with market terminology

Trading the big moves

In order to win in any game, it is important to understand its nature. This is especially true when it comes to trading. The best orientation I can offer you is my own experience and what has worked for me.

Not everyone will agree with my approach or views, but that is their prerogative. The nature of the game also requires there be all types of people and traders. That's what is required to make a market.

The Place to Start

The place to start this lesson on the nature of the market is on page 25 of *45 Years in Wall Street*, where W.D. Gann talks about what traders DO NOT want to know about themselves and about the market. The trading game is made up of people interacting with the market. The moral of Gann's instructions here is to learn about the business of trading and about yourself before entering the trading arena. This complete program is called *The Number One Trading Plan*, so I acknowledge that many of you are starting out and can, from time to time, feel a bit intimidated by the prospect of trading.

The way to overcome any feeling of intimidation is to set yourself a series of small, achievable goals so as to be able to monitor your progress, and to give you a feeling of well-being. Perhaps the first of these could be to understand the basic terminology of the market. Do not expect everyone to change the language to suit you. In Lesson One, I stressed that you must accept that the market is always right. I now ask you to accept and understand market terminology. These are market REALITIES.

When you begin to summarize and learn market terminology, try to group the terms so that a term is learnt at the same time as its opposite. This will help you to "put a handle" on the definitions. For example, learning the term "overbought" helps you to understand the term "oversold"; "ask" as opposed to "bid"; "bull" versus "bear", and so on. This is where you start to gain the knowledge that you will require if you are to become a professional trader.

I am going to give you an overview of what you are going to be doing. You all want to be big-time traders - driving the Porsche and yelling orders to buy and sell into the mobile phone. I believe that I can make a trader out of you, if you are prepared to accept certain methods and do the work.

Over the years I have been blessed with the opportunity to study the performance of hundreds of traders, both good and bad. Long before I ever dreamt of conducting a seminar or writing a book on the subject of trading, I was a student. I studied the failings of those around me, along with their strengths.

Without a doubt the biggest shortcoming of new entrants to the stock and commodities markets is their propensity to get lured into short-term trading. While a case can be made, and is made, of the opportunity to execute trades with close stops, thus limiting losses, very little is said about the same plan's limitations.

The first problem is the effect commission and slippage have on the overall profits in short-term trading. **I can tell you it's not beneficial.** The second problem concerns the much higher cost of the "live" data you need.

The next problem is that short-term trading (or "day trading", as it is often called) takes you out of the long runs. I have found that "overnight money" is the sweetest money in the market. If you add to these reasons the additional pressure exerted on your decision-making by the constant small changes of trend, you have a recipe for disaster. This is in your early days of trading. Short-term trading should be treated with extreme caution in the first twelve months. In my first five years of trading I often existed on the profits I made from watching the market on a tick-by-tick basis. I often lived for the drama and excitement. Without exception my experience, and that of those around me, was that substantial profits came when traders based their decision-making on the trades signaled using a combination of daily and weekly charts.

I am going to get you to trade the big moves. The large moves stand out because their chart patterns are clear and you will know how to trade them. You cannot do this, however, until I teach you the theory of trading - that is, how it can be done. All the rules are contained in pages 29 to 55 of *How to Make Profits in Commodities.* All the pressure points are listed and I will build on them to have you trading the big moves. I will also show you how to manage a position.

I established my reputation by calling exact turning points in the market - Gann was famous for that. The *Smarter Starter Pack* program shows you how to do it with price. Price information backed up by volume gives a very reliable means of forecasting. When you have completed the practical real-time trading sections, you will be ready for more growth.

The Number One Trading Plan is not just about doing in the second cycle what happened in the first. The program is about picking the cycle. This is the message contained in the lessons.

This might be your one and only chance to get it right - it might be your one chance to learn to trade properly. It might be the only chance you will ever get. If you do not give it your best effort, you may regret this lack of application for the rest of your life. As I said at the start of the *Smarter Starter Pack* manual, sometimes I will make you a little angry, but if you go right through to the end, I know we will end up friends. I have done it so often before. The secret is in trading the large moves.

Buyers and sellers are conditioned or "trained" like a flea in a flea circus. Part of the reason why the rhythm develops in a stock or commodity market is that once the thing has occurred, "the mob" as we call it, wants the same result next time. Without knowing it, they try and force it to the point of moving that rhythm to oblivion.

You should think of this whole system as just the way of measuring normal and abnormal markets - Gann did all of his life. You will recall that in the *Smarter Starter Pack* I told you that intraday trading is not for you yet. Nevertheless, you are serving your apprenticeship even as you study this lesson.

The charts and the analysis are all the same. All you need to do is drop the time scale off the bottom of the chart. By the time you finish this program you will be able to work your own examples. In doing so, you will prove it to your own satisfaction. This will be your test. You see, every chart is just a people pattern. The bubble that bursts is just a delusion - the extremes are written up in the newspaper, because that is what we want to read. It is the reason that only the worst of forecasts are published.

We talk about the market being smart - I do not know if that is a correct definition. If anything, it is psychotic. By that I mean market moves are characterized by alternatives between extreme confidence and deep depression. No doubt this occurs because the market is made up of people just like you and me - all doing their best.

The end result of all of these lessons should be that you are capable of holding a position in a trending market. The public is conditioned to buy at a certain point of a cycle and they keep buying until they get punished. Then they do not ever want to do it again. They do not really work on odds, they work on emotion and instant gratification. It is emotion that reinforces these patterns. **We are really charting emotion.**

The market will move in rational ways as long as there is a balance of buyers and sellers. It is the irrational grouping of either buyers or sellers that gives us abnormal markets. The Road Map Chart has a balance point between normal and abnormal markets. Watch the selling panic at the end of a bear run, or the panic buying at the top of a bull market. The mob can only be right for a comparatively short period of time. We should do our analysis to extend that period of time for us. We must aim to be right longer than the mob. There are ways of measuring the extremes.

All of these emotions, mixed together, gives the market characteristics that we can recognize. We can see when things are drawing to a conclusion. Clearly, **the art or skill in trading is in getting as close as we can to these changes of trend.**

Trading the Big Moves

The biggest moves are produced from a constant, orderly chart pattern. So a big move must be a clean move. You need this perspective in your technical analysis. I have found that the big moves are the easiest to get on when you know what you are looking for. It is the small moves that may cause you trouble. What I am saying is that a weekly chart smoothes out a lot of the hiccups, just as the quarter-hour chart magnifies them. That might be one of our first market truths - that **the clear moves give us the set ups!** You need a clear distinction between minor and major trends. I have said that every contract and share is an entity. It has unique characteristics. Your job is to get to know these characteristics and your way of doing this is by using technical analysis.

I really think that the biggest mistake that new traders make is that they place too much emphasis on short-term charts. **We should spend 85 percent of our time identifying trending markets, and then stay with these markets until the markets' characteristics change, because once you lose those characteristics, you have a different market.** That is why you need a written trading plan that clearly defines the trend so that you are not reinventing the wheel every time you take a trade.

People rate a rally on what they have seen. That is why Livermore used his "key" - which was based on what he called normal and abnormal reactions. The idea of the *Smarter Starter Pack* program is to identify the consistency of these rallies. When you lose the ABC consistencies, you must change your opinion. You are in a different season. You can only recognize these "changes of seasons" if you do your work when the market is closed. **You need some time alone - some thinking time.**

There is always someone testing the market. There is always a seller letting off a few contracts on the way up. It is, however, when the season changes, that the aggressive selling comes in. Loss of profit is the reason for the anxiety selling, which turns into an absolute panic near the bottom of a run.

The market is a very fickle friend, as all of its movements are based on a perception. One day we have an onrush of buyers and a shortage of sellers so the price rises, but don't be fooled. Just because they are clamoring to buy a stock, does not mean that their offer will be on the table later. The fundamentals do not have to change; just the mob's perception of the market. The buyers will disappear to be magically replaced by a group of equally vocal sellers and the price will go down. Your job, therefore, is to pick this balance point; this change of emotion; this change of season, and then to go with the tide - or suffer the consequences.

Your overall view of the market must take all of these things into consideration. You must be aware that **the markets are driven by emotion - because this is the nature of the game!**

Trading Tip

Learn to extract the essential information from the tons of garbage that is spewed out by the news services and brokers under the guise of "service".

All you should really care about an individual market is how much it pays per point.

Section 3 Review

In this section we have covered

Short-term trading is the demise of many new traders

Understanding market terminology is highly important

Trading the big moves is where big profits can be found

Markets are driven by emotion

The Nature of the Game Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. A "provider" is primarily a:
   a. Trader who is a net loser
   b. Hedger
   c. Speculator
   d. Day trader
2. Speculators:
   a. Trade on a longer time frame than day traders
   b. Prefer to watch the market rather than trade
   c. Are usually greedy people who are after quick profits
   d. Prefer to trade soft commodities
3. Which of the following is a day trader?
   a. A pit trader
   b. A floor trader
   c. A scalper
   d. All of the above
4. A trader who is "long" is expecting the market to:
   a. Rise
   b. Trade in a horizontal price channel
   c. Fall
   d. Consolidate
5. During a period of accumulation:
   a. Professional investors are buying
   b. The public is buying
   c. The market is trading strongly upwards
   d. All of the above
6. To "take a bath" is to:
   a. Take an option in Bath Inc
   b. Cleanse one's trading soul
   c. Accept a poor price
   d. Take a large loss

7. Which of the following best describes a short sale:
    a. Selling fewer than the total number of shares owned
    b. Selling a small parcel of shares owned
    c. Selling shares that you do not own
    d. All of the above
8. A put option would generally be purchased when a trader believes that the market is likely to move:
    a. Upwards
    b. Sideways
    c. Downwards
    d. In a horizontal price channel
9. The time value of an option, at the time of expiry, is:
    a. Zero
    b. Dependent upon the intrinsic value
    c. Dependent upon whether it is a put or a call option
    d. dependent upon whether it is a stock or commodity option
10. Which of the following is a technical analyst LEAST likely to use?
    a. A bar chart of stock X
    b. An analysis of the trading volume of company X's shares
    c. An analysis of company X's profit and loss statement
    d. A table of company X's share prices over time
11. A market is said to be oversold when:
    a. The market's prices have risen too steeply and too fast
    b. The market's prices have declined too steeply and too fast
    c. The market's prices have remained in a horizontal price channel for too long
    d. The number of contracts sold exceeds the number bought at any one time
12. To calculate a daily range for a commodity, you:
    a. Find the average of its opening and closing prices
    b. Find the average of its high and low prices
    c. Subtract the low price from the high price
    d. Subtract the opening price from the closing price
13. A market order is executed:
    a. When the market reaches a designated price
    b. At, or as near as possible to, the close of the day's trading
    c. At the best price obtainable after the order is presented in the exchange
    d. In stock exchanges only

14. The opposite of “resistance” is:
    a. “Divergence”
    b. “Support”
    c. “Consolidation”
    d. “Congestion”
15. Most trading systems are trend-following systems.
    This means that they attempt to:
    a. Incorporate the latest technical trend indicators
    b. Get the trader to anticipate the next change in trend
    c. Keep the trader trading with the trend
    d. All of the above

Your Personal Trading Plan

In this section we will cover

Creating a Trading System

The Human Factor of any System

Finding Market Information and Data

Recommended Reading

A personal trading plan is key to long-term longevity in the trading game. Clearly defined triggers and money management helps promote confidence and discipline. While this will probably sound elementary or even amusing, I suggest that the first rule of your trading plan is to only take trades that meet the criteria for a trade outlined in your plan.

The following chapter covers the concepts I have found important in my trading experience.

Personal Trading Plan

A personal trading plan is really just the structuring of market wisdom into a formula or equation to suit the user at a particular time. Implied in this definition is the notion that a trading plan must contain a strategy to change one's attack in line with the flow of the market, or in other words, REALITY.

Perhaps your first assignment should be to study the section on **Becoming the Complete Trader** (pages 221-227) of the *Smarter Starter Pack*. Along the line it pays to challenge yourself, set yourself goals to rate your progress. Once you get to the point of opening a trading account, the increase or decrease in the balance of your account at the end of each month will tell the story. I call it the check-book indicator, but here are some tips to help you along the way.

It stands to reason that once you have identified what you want to do in life, you should do everything within you power to get there. You are responsible of your success or your lack of it. With that in mind I challenge you to make this part of your daily routine for the next thirty days. At the end of each day make a list of what you could have achieved and another list, side by side, of what you actually did achieve. Taking that there is a difference, at the end of each day also, write down what action you are prepared to take to realize **your full potential in the pursuit of your goals**. What I am basically asking you to do is to explain to yourself the difference in the two lists, just for one month. I accept that each of our goals and aspirations will be different. Failure to achieve your full potential not only lets you down, but also everybody else who supports you. At the end of this "trial" month, allow half of one working day to review you goals.

I accept that I am an uncompromising person and that my view of the world does not correspond with everyone's perspective. But the market is tough and uncompromising. As I have said before, I want to teach you to hunt in the jungle, not to be zoo animals. With that in mind I feel a dose of this medicine occasionally is a necessity for a trader to maintain anything like good health.

I am attempting to take some of the pain out of the development process for you. Nevertheless, you will have to add the self-discipline and emotional control at a later stage if you are to succeed. First, however, you should ask yourself a number of basic, yet important, questions:

Question:	What are we setting out to do here?
Answer:	Create a trading system.
Question:	What is a system?
Answer:	The grouping of a number of methods, or "market wisdom".
Question:	What should the system contain?
Answer:	A trading method. A measurement of risk/reward. Money-management rules.

If you can come to grips with the above three components of a trading system, you will have peace of mind. **One of the primary tasks of the technical research I conducted while developing *The Number One Trading Plan*, was to determine the optimum parameter values of a method for beginners.**

Even the name indicated that it had to be a system that could be developed further over a period of time. We had to have you working in your own "comfort zone".

The other key requirement, however, was that it had to work from the word go. It could not just be limited to advice. There is plenty of advice around. You can always get the advice to "buy low; sell high", but any method or system must include specific details of how to do that. Can you see the distinction? The method had to be specific enough to allow a group of traders to determine "buy" and "sell" triggers clearly.

At a later stage of your development it is conceivable that a degree of subjectivity will come into your trading plan, but for now, you need specific operating orders, or basically signals that do not require the personal judgment of the trader. For the new trader, anything that requires personal judgment is neither a method, nor a system. Without guidance you may initially seek a well-defined system that has no losses, whereas with or without guidance over a period of time, you will soon realize that most profit, loss, and risk decisions are all interdependent.

In the real world you should structure your trading plan or system to have either frequent small losses and the occasional large profit, or frequent small profits with the occasional smaller average losses. The trader must make a decision between frequency of profits to losses and the size of these profits and losses. Your plan must include a way of constantly reviewing this data. For example, I trade stock indices and currencies for a living. Now one could select a method that maximizes profits in say, the 1987 crash, but that same method would have shown minimal returns, or perhaps losses, the following year.

What we are looking for is a form of consistency. Just as we need consistency in our study if we are to grow, we need consistency in our trading if we are to stay in the game.

Later in this program I am going to expand on the *Smarter Starter Pack* message. I am going to introduce new elements to your decision-making. You must incorporate these advancements into your own trading plan when you are ready for them. The original plan has a consistency of profits and three options in its rules.

Perhaps you already have a trading plan but you need to adjust parameters to bring it into line with your current skills. You are seeking a balance. The points to consider are that as you gear up your system to produce more trading opportunities, you increase the risk of a loss. If you seek larger profits per trade, you must be prepared to enter the market less frequently. You are always looking for the correct balance.

The Human Factor

Computer analysis, or more particularly computer optimization, will not necessarily produce the ideal plan. Optimization will show you how maximum profits could have been extracted from any previous market formation. What it does not take into account, however, is the human factor. In order to maximize YOUR profits, you must build into your trading system a factor for your own particular emotional reaction to the market. We may see that by increasing the time frame of the swing chart from one day to one week, for example, our profits for a particular two-year period would have increased by, say, 25 percent. At first glance this looks good. The downside of this supposedly more profitable system is that as we now have to wait for a weekly swing chart to generate our trade. The initial stops could be $5000 to $7000 from our point of entry. If we are to adhere to our money-management rules, as we must if we are to survive, we must have $50,000 to $70,000 in our trading account in order to trade the large swings, which will produce fewer, but larger, profits.

Can our emotions stand four $5,000 losses in a row? The computer assumes that the answer to this question is an emphatic "yes". Personally I do not know if you can, or even want to, go through that sort of pain in order to increase your already acceptable profit. It is all a matter of balance. **A system that produces a number of large draw downs can put you out of business before you make the large profit that you were pursuing!**

On the other hand, if a stock or commodity is increasing its trading range on each successive move, you will not feel very fulfilled by jumping in for 25 or 50 percent of the previous move. You have to adjust your strategy in line with the reality of an expanding (or contracting) market. This is what I call balance.

It is important that your short-range trading strategies remain in line with your long-term plan for trading. For example, if you see yourself at a future date trading only the large swings and hence only executing six to eight trades per year, it would not be smart to limit your decision-making to an intra-day chart. If, on the other hand, your goal is to be a day trader (scalper) and basically trade the short swings, it would be equally incongruous to concentrate your focus on a monthly chart as the basis for your decision-making. Limit your decision-making to the daily chart for the first six to 12 months, then move in the direction of short- or long-term trading when you are confident enough to make that decision - but please, make sure that your short-term strategies are in line with your major objectives, or conflict will result.

One major plus you have going for you right at this minute is that all the work you are putting into your current plan will benefit you right throughout your trading life. The decision-making process in this program is based upon movements in price. For beginners, this is the most relevant factor and the simplest to master. In our later courses such as the *Safety in the Market Video Series*, we deal with "time" as a single entity, then finally combine the two (price and time) exactly as W.D. Gann did so many years ago.

The *Smarter Starter Pack* program is based on a "stand-alone" system. The subsequent courses build systematically and logically on the *Smarter Starter Pack* program. Put simply, what you are doing now is the basis for your growth and never has to be "unlearnt". **Fundamental market truths remain the same, otherwise they were not truths in the first place.**

Creating a trading plan

This lesson is about strategic planning. Several people who have purchased the *Smarter Starter Pack* have been surprised to read my comment on page 23 of the *Smarter Starter Pack* manual, where I state that it is my belief "...that the amount of effort you put into this section of the course will be in direct proportion to the success (or otherwise) of your later endeavors". The section of the course is the section on organization and planning. I repeat this statement here because I remain absolutely convinced that **traders who are not organized and do not plan all aspects of their trading are destined to bitter disappointment and possible financial ruin!**

Many people do not take planning seriously because they think it is simple and therefore not important. A plan must be simple to be effective - yet it is a vitally important document. A written plan will eliminate 85 percent of your anxiety. Your plan will become your security blanket.

I suggest you calculate and record your average profit and your average loss. Recalculate the appropriate average after each trade. Clearly, your aim is to increase the size of your average profit and reduce the size of your average loss.

Two other success statistics are important; a profit/loss ratio, and the percentage of profitable trades. These should be updated after each trade.

To calculate a profit/loss ratio, divide your total profit for all trades completed during a specified period of time, by your total loss for all trades completed during this same period of time:

Profit / Loss ratio = (Total profit-$) / (total loss-$)

To calculate the percentage of your trades that were profitable, divide the total number of profitable trades completed during a specified period of time, by the total number of trades for that period, and multiply the result by 100:

$$\textbf{\% of Profitable Trades} = \frac{\textbf{Number of Profitable Trades}}{\textbf{Total Number of Trades}} \textbf{ X 100}$$

Your aim should be to increase both ratios over time.

Commence constructing your comprehensive personal trading plan. This has a number of components:

a. A trading preparation schedule that is realistic and able to be followed in the light of your other commitments. Good schedules allocate time for study; paper trading; data/chart updating or scanning, and most importantly, for trade preparation.

Where possible, study should be scheduled for the same time each day. In this way it becomes an integral and regular part of your life.

Ideally, use a separate room designated for this purpose which is quiet, comfortable and well lit. Good lighting is vital - it not only reduces the risk of eye strain, but also allows you to concentrate for reasonable periods of time. Indeed, there is evidence to suggest that you remain in a more positive frame of mind in a well lit room, compared with a dull room! Do not underestimate the importance of this for a trader.

b. Make a list of the sacrifices that you will have to make in order to become a successful trader.

Do not underestimate what is involved!

Revise this list as you gain a deeper understanding of what is REALLY involved.

c. Give consideration to which market(s) you would like to trade. Many people have a natural affinity for certain markets. Farmers who grow corn may prefer to trade corn or other soft commodities. A banker may elect to trade the Swiss Franc. If you have such an advantage over other traders, in terms of knowledge about a market or access to relevant data, make the most of it.

Start a file for each market, recording details of the contracts traded, minimum deposits, and so on. The following markets are some of the major stock, futures and options markets in the world.

Major Exchanges List

To assist you in this process I have included a list of major Exchanges around the world. The exchange or your broker is the best source of contract specifications and margins for futures and options or for confirming potential data discrepancies from other sources, including software. Speaking of software, the *Safety in the Market* software range is also a fast effective way to keep track of market movements and includes information on contract specifications.

Stock	
New York Stock Exchange	http://www.nyse.com
American Stock Exchange	http://www.amex.com
NASDAQ	http://www.nasdaq.com
Australian Stock Exchange	http://www.asx.com.au
London Stock Exchange	http://www.londonstockexchange.com
Hong Kong	http://www.hkex.com.hk
Singapore	http://www.sgx.com/
Canada	http://www.tse.com/
Futures	
Chicago Board of Trade	http://www.cbot.com
Chicago Mercantile Exchange	http://www.cme.com
Sydney Futures Exchange	http://www.sfe.com.au
New York Mercantile Exchange	http://www.nymex.com
New York Board of Trade	http://www.nybot.com
London International Futures Exchange	http://www.liffe.com
Eurex	http://www.eurexchange.com
Hong Kong Futures Exchange	http://www.hkex.com.hk
London Metals Exchange	http://www.lme.co.uk
Singapore International Monetary Exchange	http://www.sgx.com
Options	
Chicago Board of Options Exchange	http://cboe.com
Philadelphia Stock Exchange	http://www.phlx.com/
American Stock Exchange	http://www.amex.com

d. Give some thought to what is likely to be the source of your trading capital, and how much you would like to use for trading. Record the source(s) and the amount(s). You may need to revise these when you have completed Section 12 – **Advanced Money Management**.

e. Consider what time frame(s) you are likely to trade in. Remember, if you require live data, the costs can be quite high. In such a situation, you should also question if you really do need live data!

f. Write down your trading goals. In terms of trading, what would make you "successful" in:

- one year's time?
- five year's time?

Remember - your trading goals are likely to be overly optimistic at this stage. Be prepared to revise them if it becomes obvious that they are clearly unrealistic. Your trading record sheets and ongoing success ratios will give you the best indication of how likely you are to meet your goals.

Also, be sure to break large goals into smaller, more immediate and achievable goals. In this way you will have early successes, and will be motivated by the clear progress you are making towards achieving your major goals. Some of your smaller goals may include to stop large losses; then to increase your average profit; and so on.

Trading Tip

Always remember that amateurs demand perfection, professionals demand results.

The way to make money is to identify a strong trend early and the best way to do this is by a form of technical analysis.

Plan to take your position in accordance with predefined rules and do not abandon that position until the reasons for initially taking the position are no longer valid.

Recommended Reading

There are a wide variety of books available on 'Trading' in bookstores these days as well as plenty of online information. Believe it or not, one contrarian strategy is to watch the size of the trading section in the local bookstore as an indication of when a market is near a top. It seems that Joe Public generally becomes interested in stocks after an extended bull run has been in motion for some time, and the word has gotten around. At this point books on the topic become more popular, and the size of the bookstore's trading section grows. As we know, when Joe Public thinks the market can only go up, there is a good chance it will do the opposite. So when the trading section is bursting at the shelves, that is the best time to pull your bear coat out of the closet. While I am not quite that ambitious in my trading signals, I am sure you can appreciate the rationale behind this theory.

I have included a list of books that I recommend you read. I see this as additional background for you to some of my methods as well as a way of widening your knowledge foundations.

The Investor's Quotient,

(Second Edition), Bernstein, J., John Wiley and Sons, New York, 1993

45 Years in Wall Street

W.D Gann, Lambert-Gann Publishing Co., Pomeroy, Washington, 1976 (Original copyright 1949)

How to Make Profits in Commodities

Gann, W.D., Lambert-Gann Publishing Co., Pomeroy, Washington, 1976. (Original copyright 1942; revised 1951)

The New Commodity Trading Systems and Methods

Kaufman, P., John, Wiley & Sons, New York, 1987

The Disciplined Trader

Douglas, New York Institute of Finance, New York, 1990

The Option Course

Fontanills and Cawood, John Wiley & Sons, Canada, 1998

Reminiscences of a Stock Operator

Lefevre, E., Traders Press, Greenville, South Carolina, 1985 (Copyright 1923)

Market Wizards

Schwager, J.D., New York Institute of Finance, New York, 1989

The Truth of the Stock Tape and Wall Street Selector

Gann, W.D., Lambert-Gann Publishing Co., Pomeroy, Washington, 1976 (Original copyright 1923)

New Stock Trend Detector

Gann, W.D., Lambert-Gann Publishing Co., Pomeroy, Washington, 1976 (Original copyright 1936)

Tunnel Through the Air, Gann

W.D., Lambert-Gann Publishing Co., Pomeroy, Washington, 1976 (Original copyright 1927)

Section 4 Review

In this section we have covered

A good trading system should have three major components

Considering the 'Human Factor' is important when designing a trading system

Exchange websites are an easy place to find information and check data

Additional reading is important for your future development

Your Personal Trading Plan Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. Paper trading is an excellent way to practice applying trading rules without risking your capital. It has one major disadvantage, however:
   a. You cannot be sure of the exact entry and exit price that you would have received
   b. You do not get to hear your broker's views of the market
   c. It does not allow you to experience the emotions of fear and greed
   d. All of the above
2. It is my experience that traders who are not organized, who do not have a plan, or who do not work their plan, fail. The most likely reason for their failure is their lack of:
   a. Intelligence
   b. Experience
   c. Discipline
   d. Creativity
3. As part of your comprehensive personal trading plan, I recommended that you keep detailed, accurate trading records. This is very important, as these records:
   a. Ensure that you know, at any one time, your trading balance
   b. Help you to isolate losing trades in order that the reasons for the losses can be determined
   c. Allow you to monitor your improvement (or otherwise) over time
   d. All of the above
4. In addition to basic trading records, I suggest that you record your overall profit/loss ratio, and that you record your percentage of profitable trades. These ratios give you an excellent ongoing indication of:
   a. Your success, in both "dollar" and "profitable trades" terms
   b. The proportion of your capital being used for trading
   c. The main reasons for your trading losses
   d. All of the above

5. As part of your plan, I asked you to make a list of the sacrifices that you will need to make in order to become a successful trader. The reason for such a list is to:

   a. Ensure that you understand the commitment and work required to succeed as a trader

   b. Force you to realize that learning to become a trader is invariably at the expense of other demands on your time and money

   c. Give you an initial list of sacrifices (a base line) for comparison purposes later

   d. All of the above

6. You were also asked to give some initial consideration to how much trading capital you have access to, and from where you intend to obtain it.

   The purpose of this exercise is to:

   a. Encourage you to document how much trading capital you can obtain, and its source, before you study the money-management lesson

   b. Allow you to convert your paper-trading account to a real-money trading account immediately

   c. Ensure that you have as much money as possible in your broker's account to allow you to commence trading when you know the trading rules

   d. Ensure that you have access to additional borrowed money in order to maximize your trading profits in the shortest possible time

7. You were asked to give consideration to the time frames that you wish to trade in. (Half-hourly? daily? weekly?...)

   Which of the following is NOT true?

   a. The data requirements are different for different time frames

   b. Longer time frames require more trading capital

   c. The shorter the time frame, the greater the cost of the data

   d. Your preparation for trading will need to be fine-tuned to accommodate the time frame chosen

8. In the *Number One Trading Plan*, I have attempted to make it clear that trading must be treated as a business if you are to succeed. Many lose heavily in the markets because they believe that:

   a. The markets are an excellent source of quick profits

   b. The preparation required for trading is considerably less than that for starting any other business

   c. Large losses "cannot happen to me"

   d. All of the above

9. The reading list contains two books written by W.D. Gann.

   Gann's books were chosen because:

   a. He is one of the most popular authors alive today
   b. There are more trading books written by Gann than by any other author
   c. The *Smarter Starter Pack* is based on the works of W.D. Gann
   d. All of the above

10. One of the most important concepts to grasp is "optimization".

    Optimization is the process whereby:

    a. Losing trades are eliminated over time
    b. Entry, stop-loss and exit parameters are adjusted to determine the most profitable combination appropriate for you
    c. All trades are analyzed to determine if all rules have been followed
    d. Traders who have negative attitudes to trading develop a positive outlook

11. Optimization can be applied to:

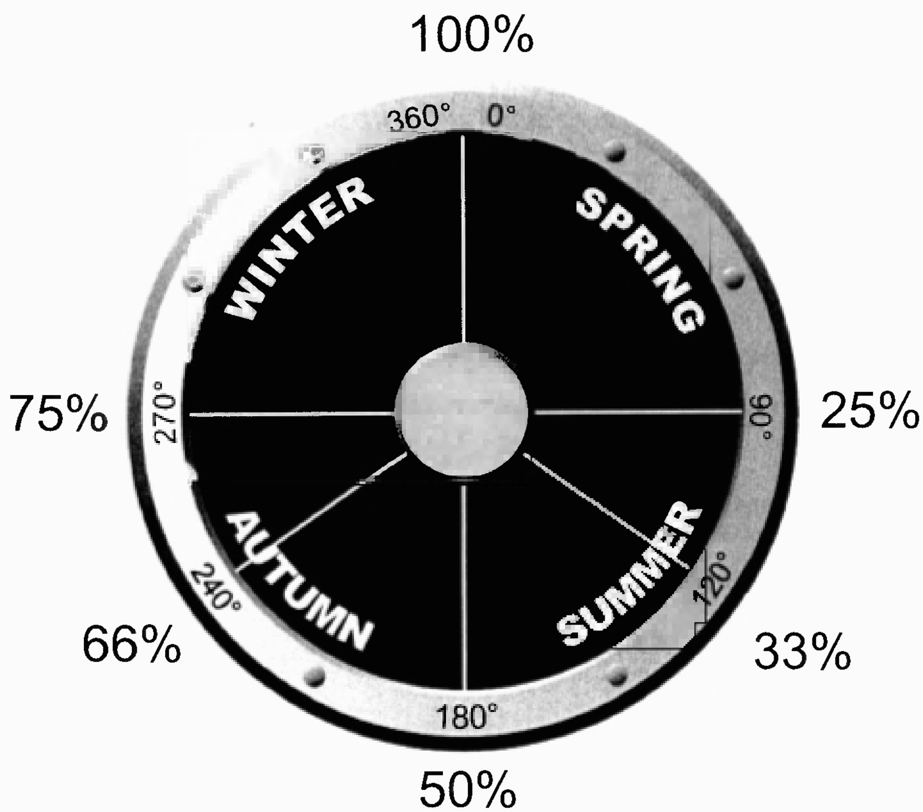
    a. Microsoft
    b. The Dow Jones
    c. The Aussie Dollar
    d. All stocks and commodities

Seasonal ABC Trading

In this section we will cover

- **Understanding market cycles**
- **The Five Rules of ABC trading**
- **ABC Trading Rules**

Seasonal Trades



As I have said before, there are three points of major significance in price analysis; the highest price at which the stock or contract has traded, the lowest price at which the stock or contract has traded, and the distance between these two points. That distance, or "space," is called the fluctuating range, and it is this distance upon which we based our first trading plan. However far you go in your study of technical analysis, you cannot get away from these numbers.

Gann illustrates the importance of these three points of major significance as follows:

Tops forecast future bottoms or low levels

"By using the percentage of the TOPS you can determine Resistance points or BOTTOMS on the way down. Follow this rule. You must also use the range between extreme high and extreme low, 50% of this range is a very important resistance point; 75% next important, and 100% MOST IMPORTANT."

(Gann, W.D., ***How to Make Profits in Commodities***, 1942, p.33-34)

***"If we wish to avert failure in speculation, we must deal with causes. Everything in existence is based on exact proportion and perfect relation. There is no chance in nature, because mathematical principles of the highest order are the foundation of all things. Faraday said,* "There is nothing in the Universe but mathematical points of force".**

Every Commodity makes a TOP or BOTTOM on some exact mathematical point in proportion to some previous high or low level.

The movement of Wheat, or any Commodity between extreme high and extreme low, either in a major or minor move, is very important and a proper division of this range of fluctuation, we determine the points where Resistance or support will be met on a reverse move, either up or down."

(Gann, W.D., ***How to Make Profits in Commodities***, 1942, p.33-34)

(My emphasis)

In trading, it is important that you do the right thing at the right time. **There is a cycle or rhythm to markets, and we should either get into step with it, or get out.** The purpose of this trading course is to make sure that you are taking the right steps to be "in sync." with this rhythm. It is a bit like Arthur Murray's dance studio.

We can look at the course of any trade as a cycle all on its own. Look at it as a circle. We break it into four quarters and these become the seasons of our trading range. Using this analogy, the market turns at the end of winter. At this point a change in trend begins. We must select our trade and take our position during spring. We hold throughout summer, at the end of which we reach a cross road because we are at the opposite position to the birth. Should we pass through this danger zone, we hold our trade all through the autumn. At this stage many will harvest their crop, but we may decide to hang on throughout winter - if the conditions look favorable.

Once we accept this flow, we also accept the inevitability of change. At the end of every winter comes a spring; at the end of every summer come an autumn. While our aim is to trade with the trend, we must remember that the longer we delay our entry, the closer we are to another change in trend, which can take back the profits we have already accrued.

An understanding of this rhythm is a key component of this learning process, and perhaps the start of your understanding of God's gift of numbers. Prices at extreme market tops and bottoms, as well as the ranges, are mathematically related and can be used as forecasting tools.

You may never have thought of the process in this manner, but it is a most logical way of doing your analysis, as it conforms with nature. I regard this as seasonal trading and it is in harmony with every facet of my research. The *Bible* tells us to go about our business in this manner. As Solomon says:

> The time for planting, the time for pulling up.
>
> *Ecclesiastes* ***3:2***

and

> Whatever happens or can happen has already happened before.
>
> God makes the same thing happen again.
>
> *Ecclesiastes* ***3:14-15***

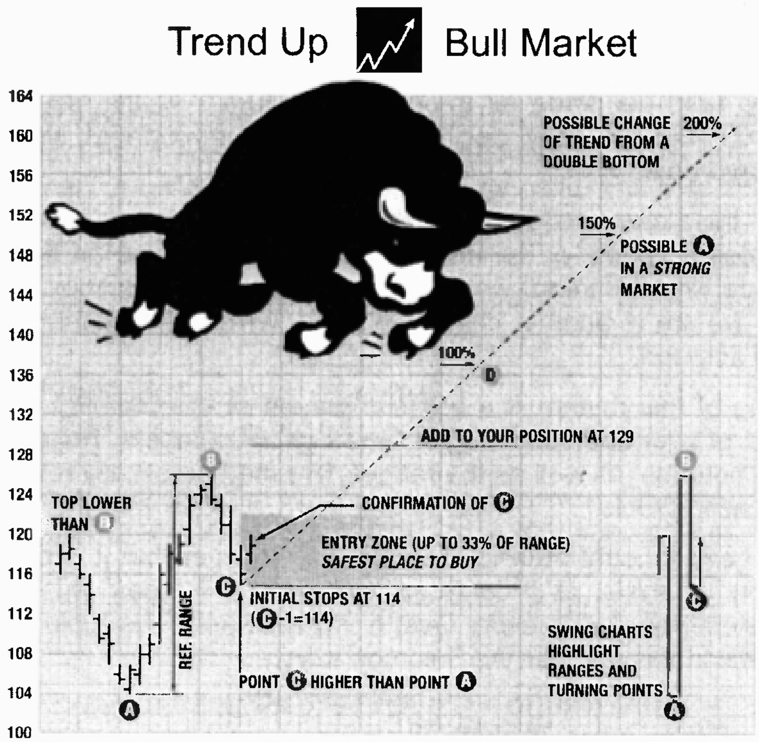
This is the basis of all my time forecasts in the *Safety in the Market Video Series*. I want you to accept the cycle theory.

There are many subtleties in any trading plan. Your personal decision may be to adjust your entry or exit parameters just to suit your mood - or you may not trade at all, unless you feel that you can handle the stress that is part of the game.

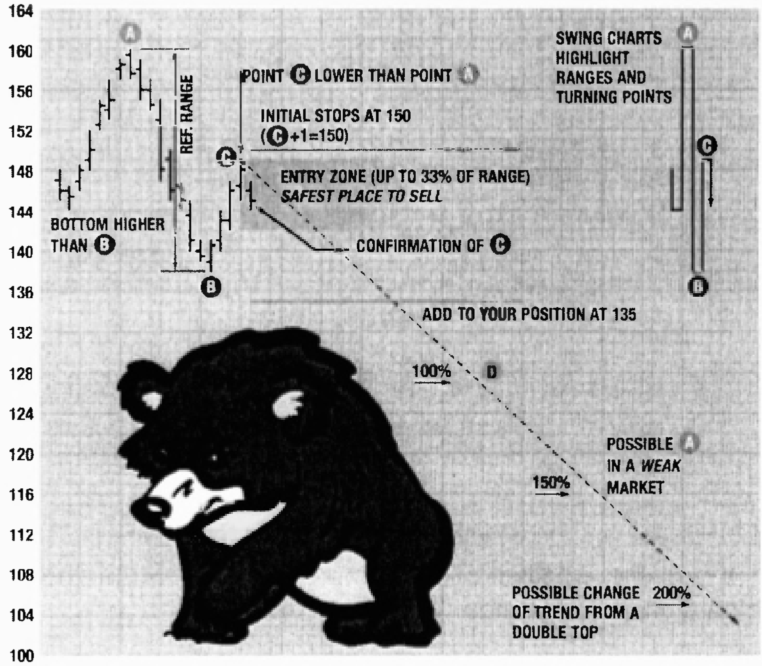
I accept that some students who have studied Elliott Wave Theory may confuse my A,B,C,D points with what Elliott refers to as A,B,C corrections. This is why I talk in terms of seasons. The Elliott Wave structure can be of benefit to an experienced trader, as many markets conform to precise Elliott Wave patterns. When I see a clear Elliott Wave pattern I use it, but I never try to force it on the market. I let the market show me the pattern. I do know experienced traders who say they use it as a primary technique, but they always have other confirming indicators.

The five basic rules

You must understand the five basic rules on your Bull and Bear Chart. This is your trading strategy. The five rules on the Bull and Bear Chart give us the basis of the nine trading rules that are covered in **Real-time Trading** sections of the *Smarter Starter Pack* manual. If you clearly understand these five rules and their application, you will not experience a problem in assembling your own trading plan later in this course.



Trend Down Bear Market



Rule 1

Determine the trend on your daily swing chart. Higher swing tops and higher swing bottoms indicate an up-trend. Lower swing tops and lower swing bottoms indicate a down trend. Trade only with the trend.

Rule 1 tells you to determine the trend, then it gives you a basis for determining that trend, whether the market is running up or down. It also tells you to trade only with the trend. You must understand and accept this rule.

Rule 2

Buy once the first higher swing bottom is confirmed; sell once the first lower swing top is confirmed. Do not trade until you can legitimately put a blue button on your swing chart and your entry point is within the trading parameters. The strongest trades are when:

1. **The daily (minor) and weekly (major) trends are in sympathy, i.e. going in the same direction; and**

2. **The retracement from B to C is less than, or equal to, 50% of the A-B range.**

Rule 2 is an action rule. It tells you when to buy and when to sell and when to stay out of the market. Later, you may clarify these trading parameters in the light of further knowledge, but at this stage you must realize that you have to have them. In this rule we are telling you when to trade, and just as importantly, when NOT to trade.

> **Rule 3**
>
> **In a strongly trending market:**
> **buy when swing tops are crossed;**
> **sell when swing bottoms are broken.**
>
> **The market is stronger when a number of tops at the same level are broken.**
>
> **The market is weaker when a number of bottoms at the same level are broken.**

Rule 3 gives us the opportunity to tilt the odds more in our favor by buying additional contracts or shares when the market has broken through resistance on the upside (swing tops), or by selling additional contracts or shares when the market has broken swing bottoms on the downside.

> **Rule 4**
>
> **Predetermine the exit point of your trade by means of a percentage of the previous range.**
> **Remember - the higher the percentage, the larger the chance of a target not being reached. Don't be GREEDY.**

Rule 4 gives you the means of setting a price target before you enter a trade. This is a necessary part of establishing your risk/reward ratio, and the acceptable way of retaining profits. It benefits your psychological approach.

> **Rule 5**
>
> **Determine the proper and safe place for your initial stop-loss order (in a bull market one point or tick below Point C and in a bear market one point or tick above Point C) and give it to your broker when you place your order.**
> **As your trade progresses, move stops in accordance with your road map.**

Greed can breed a loss. When greed is a problem, it needs a considerable amount of skill to solve the problem.

Rule 5 gives you the basis of a money-management system based on your swing charts. It is also an action rule as you must do something about it. In other words, give your stops to your broker immediately, or move your stops in accordance with the **Road Map Chart**.

Trading Tip

Look upon the 270-degree or 75-percent point as a probable reward, and the 360-degree or 100-percent point as a possible reward. Above these pressure points you face significant risk of evaporation of profit. By scaling your risk, you build in consistency and avoid waking up in the morning and saying "what am I doing here?"

Diminishing volume in a B-C wave and expanding volume in a C-D wave is more important in a bull market than in a bear market.

Note: In a normally running market there is no problem using the previous swing as your reference range. However, this practice can become a problem after a series of small moves, which often precede a big run. It can result in you taking profits too soon, and it often makes the 25% entry cut-off impossibly small. At times, some subjective judgment needs to be applied to modify a reference range by looking at turns of a magnitude similar to the one being expected. No such assumptions have been made in the exercise, however. The basic rules have been exercised, except where specifically noted.

ABC Trading Rules

The following are three major trading rules for each style of trade.

Stock Style Trading Rules

The Stock Style trading rules are as follows:

1. The basis of the trading plan is the swing chart. You will construct your daily and weekly swing charts exactly as I have shown you in Section 5 of the *Smarter Starter Pack* – **Swing Chart Construction**.

2. Only trade with the trend.

   An up trend is defined as a market in which the most recent swing high is higher than the swing high which preceded it, and the most recent swing low is higher than the swing low which preceded it. A downtrend is the opposite, that is, a lower swing high and lower swing low.

3. In respect to trades on the long side, the intended trade is identified by the formation of a Point C. Point A is the start of the immediately preceding up move. Point B is the termination of the first up move and is identified by a swing down. Point C is the termination of the counter-trend, corrective move and is identified by a swing up. Point B must be above the previous swing top.

4. The distance between points A and B is measure for three reasons. Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 25% of the A-B range, from Point C. Secondly, the progressive moves are used for the placement of stop-loss levels and the exiting of positions. Thirdly, you will rate the strength of a market by its retracements against the main trend. In a strongly trending market the retracement will usually be 50% or less of the A-B range.

5. Upon entering an initial trade, a stop-loss is placed one point from Point C.

6. Adding to the initial position on the breaking of point B is a decision that should be made on a individual basis taking into account your risk tolerance and the strength of the trade. In a strongly trending market, when the B to C retracement is less than 50% of A to B, add to your initial position when an old top (point B) is crossed by one-third the average daily range. In this case, you will place your stop loss below the low of the previous day. The entry limit for adding to your position will be 33% of the A-B range added to the low of the previous day.

7. Upon the market reaching 50% of the A-B range, a stop is placed at the point of entry, plus commission. This is observed on an intra-day basis and not just at the end of the day. **By this I mean you would instruct your broker to act on an intra-day basis, not at the close of trading. For example, if the market trades at X, move your stop-loss order to Y, where X = 50% of the A-B move, and Y= entry point, plus commission. This would also be the case in the application of Rule 8. Use 3 cents, or points, as the basis for covering commission.**

8. Profits are taken at 75% of the A-B range, or the first time a progressive stop is triggered.

9. **Trading short positions is the exact opposite of the above trading rules for long position.**

Currency Style Trading Rules

The Currency Style trading rules are as follows:

1. The basis of the trading plan is the swing chart. You will construct your daily and weekly swing charts exactly as I have shown you in Section 5 of the *Smarter Starter Pack* – **Swing Chart Construction**.

2. Only trade with the trend.

   An up trend is defined as a market in which the most recent swing high is higher than the swing high which preceded it, and the most recent swing low is higher than the swing low which preceded it. A downtrend is the opposite, that is, a lower swing high, and a lower swing low.

3. In respect to trades on the long side, the intended trade is identified by the formation of a Point C. Point A is the start of the immediately preceding up move. Point B is the termination of the first up move and is identified by a swing down. Point C is the termination of the counter-trend, corrective move and is identified by a swing up. Point B must be above the previous swing top.

4. The distance between points A and B is measured for three reasons. Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 33% of the A-B range, from Point C. Secondly, the progressive 25% mileposts are used for the placement of stop-loss levels and the exiting of positions. Thirdly, you will rate the strength of a market by comparing its retracements against the main trend. In a strongly trending market the retracement will usually be 50% or less of the A-B range.

5. Upon entering an initial trade, a stop loss is placed one point (tick) below Point C.

6. Adding to the initial position on the breaking of point B is a decision that should be made on a individual basis taking into account your risk tolerance and the strength of the trade. In a strongly trending market, when the B to C retracement is less than 50% of A to B, add to your initial position when an old top (point B) is crossed by one-third the average daily range. In this case, you will place your stop loss below the low of the previous day. The entry limit for adding to your position will be 33% of the A-B range added to the low of the previous day.

7. Upon the market reaching 50% of the A-B range, a stop is placed at the point of entry, plus commission. This is observed on an intra-day basis and not just at the end of the day. By this I mean you would instruct your broker to act on an intra-day basis, not at the close of trading. For example, if the market trades at X, move your stop-loss order to Y, where X = 50% of the A-B move, and Y = entry point plus commission. This would also be the case in the application of rule 8. For simplicity in this exercise the exit point will simply be the point of entry, however in a real time trading environment you would lock in a small profit to cover commission costs as you did in the BHP Billiton

exercise. Move the stops for both the initial position and additional contracts together once the market has reached the 50% level. Unless this means moving the stop for the additional contract backwards.

8. As the market continues to move up, when the market reaches the 75% milestone you will raise the stops for both the initial and additional contracts to 30 points (ticks) below the 50% level.

9. Profits are taken at 100% of the A-B range, or the first time the progressive stop is triggered. Which by this point, is behind the 50% level.

10. **Trading short positions is the exact opposite of the above trading rules for long position.**

Stock Index Style Trading Rules

The Stock Index Style trading rules are as follows:

1. The basis of the trading plan is the swing chart. You will construct your daily and weekly swing charts exactly as I have shown you in Section 5 of the *Smarter Starter Pack* – **Swing Chart Construction**.

2. Only trade with the trend.

   An up trend is defined as a market in which the most recent swing high is higher than the swing high which preceded it, and the most recent swing low is higher than the swing low which preceded it. A downtrend is the opposite, that is, a lower swing high, and a lower swing low.

3. In respect to trades on the long side, the intended trade is identified by the formation of a Point C. Point A is the start of the immediately preceding up move. Point B is the termination of the first up move and is identified by a swing down. Point C is the termination of the counter-trend, corrective move and is identified by a swing up. Point B must be above the previous swing top.

4. The distance between Points A and B is measured for three reasons. Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 25% of the A-B range, from Point C. Secondly, the progressive 25% moves are used for the placement of stop-loss levels and the exiting of positions. Thirdly, rate the strength of a market by its retracements against the main trend. In a strongly trending market, the retracement will usually be 50% or less of the A-B range.

5. Although you are using a 25% entry limit as standard. In certain circumstance you can open up your entry limit to 33% of the A-B range, for instance if the A-B range for a potential trade is greater or expanding when compared to the immediately preceding swing in the **same** direction.

6. Adding to the initial position on the breaking of point B is a decision that should be made on a individual basis taking into account your risk tolerance and the strength of the trade. In a strongly trending market, add to your initial position when an old top (point B) is crossed by one-third the average daily range. In this case, you will place your stop loss below the low of the previous day. The entry limit for adding to your position will be 33% of the A-B range added to the low of the previous day.

7. Upon entering an initial trade, a stop loss is placed one point (tick) below Point C.
8. Upon the market reaching 50% of the A-B range, a stop is placed 50 points below the 50% level. Instruct your broker to act on an intra-day basis and not just at the end of the day.
9. As the market moves up, each time it passes through the next 25% barrier, the stop is raised to 50 points (or ticks) below that barrier, i.e. 75%, 100%, 125% and so on.
10. Profits are taken the first time the progressive stop is triggered. They are not taken at the 100% of the A-B range level, as they are in the Currency Style Plan.
11. **Trading short positions is the exact opposite of the above rules for long positions.**

ABC Trading Rules Matrix

To aid your understanding and application of the three major exit strategies, here is a matrix showing all possible outcomes for each from entry to exit.

Exit Strategies for Long Trades

Stock Style Exit

Trade Status	**Action**
One tick below C	Stop Loss
At 50%	Entry + Commission
At 75%	Take Profit
At 100%	Not applicable
At 125%	Not applicable

Currency Style Exit

Trade Status	**Action**
One tick below C	Stop Loss
At 50%	Entry + Commission
At 75%	1/5 of Average Daily Range below 50%
At 100%	Take Profit
At 125%	Not applicable

Stock Index Style Exit

Trade Status	**Action**
One tick below C	Stop Loss
At 50%	1/3 of Average Daily Range below 50%
At 75%	1/3 of Average Daily Range below 75%
At 100%	1/3 of Average Daily Range below 100%
At 125%	1/3 of Average Daily Range below 125%
At 150%, 175%, 200% ...	Keep trailing the stop the same way as above

Exit Strategies for Short Trades

Stock Style Exit

Trade Status	Action
One tick below C	Stop Loss
At 50%	Entry - Commission
At 75%	Take Profit
At 100%	Not applicable
At 125%	Not applicable

Currency Style Exit

Trade Status	Action
One tick below C	Stop Loss
At 50%	Entry - Commission
At 75%	1/5 of Average Daily Range above 50%
At 100%	Take Profit
At 125%	Not applicable

Stock Index Style Exit

Trade Status	Action
One tick below C	Stop Loss
At 50%	1/3 of Average Daily Range above 50%
At 75%	1/3 of Average Daily Range above 75%
At 100%	1/3 of Average Daily Range above 100%
At 125%	1/3 of Average Daily Range above 125%
At 150%, 175%, 200% ...	Keep trailing the stop the same way as above

Thermometer

In the *Smarter Starter Pack* manual I refer to the “thermometer” as an early warning device. I suggest you acquaint yourself with it as it takes the “temperature” of the market. I will now give you an explanation of how you can use this indicator.

Firstly, this will never be a stand-alone-type indicator, but as your skills grow it will become another part of your overall trading arsenal, so we will go a little further. For the purpose of this first simple exercise we will only take the closing prices into consideration. We will not consider the open, high or low prices. For our example, we will say that a market is moving up 10 points in one day and the total volume is 5,000 contracts. We will multiply the 10 points by 5,000 and say we have an upward momentum of 50,000. Say the next close is up 15 points, but the volume is a light 2,000 contracts, then our number is 15 x 2,000 or 30,000, so although the market is up further on the second day, we would say it is losing momentum. This is an oversimplified example as not all volume from close to close would be classified as upward volume, but you can begin by doing your sums this way. It will give you a starting point with momentum indicators.

My term "thermometer" is just a code name for a number of techniques. These techniques can lend verification to a number of *Smarter Starter Pack* trades. I have a number of traders who have improved their profitability and peace of mind (they often go together) by using just some of these techniques.

Now some of these techniques do not only give you a temperature, or how hot the market is at the set time, so to speak. They actually diagnose what is coming. They give you a warning in advance. I well remember the feeling of accomplishment I had when I realized I could trade on these indicators alone. No one indicator on its own will give you advanced warning of a change in trend. They are precursors to the change, and there is a cumulative affect. What I am saying is they all add up to a change in trend; they tell you the strength of your decision-making.

Gann put it like this:

> ***Eighty-five per cent of what any of us learn is from what we see. It has been well said, "One good picture is worth a thousand words". That is why FORM READING, or the reading of various formations at different periods of time, is so valuable. The future is but a repetition of the past. The same formation at TOPS or BOTTOMS or intermediate points at different times indicates the trend of the market. Therefore, when you see the same picture or formation in the market the second and third time, you know what it means and can determine the trend.***
>
> Gann, W.D., ***How to Make Profits in Commodities***, 1942, p.29

The opening and closing prices tell a story. In a strong bull market the opening price will on many occasions be the low of the day, and the market will close on its high. This is a continuation pattern. This may go on for a series of four or five days. Now when we see that the opening price is close to the closing price we can expect a change in trend. The market has a different characteristic, it is no longer the same market. This change of character may be heralded by other patterns. It may be accompanied by our old friend, the outside-reversal day. As your skill grows you may abandon the Trainer Wheels Rule and welcome an outside-reversal day, as a bonus delivered by the market. Your study will teach you the difference between a continuation pattern and a top or bottom formation. These are the areas that form reading can take you into. It is covered in Chapter Two of *How to Make Profits in Commodities*, pages 29 to 67. Gann also added a new chapter to the book in 1951 (the original edition was published in 1942). In that new chapter he mainly covered Form Reading. It runs from page 308 to page 326.

The study of Form Reading is not a monopoly enjoyed by Western technical analysts alone. In fact the Japanese are reported to have analyzed their rice trading by Form Reading back in the sixteenth century. They call their technique candlestick charting. There is an excellent book put out by Steve Nison called *Japanese Candlestick Charting Techniques*, but many of my traders have recommended Ivan Krastins' work on the same technique. As I said earlier, technical analysis, like religion, seems to be a mixture of many things. Many of us like to think we are the sole repository of wisdom. It would seem that the Japanese used techniques many years ago that we are "inventing" today!

Section 5 Review

In this section we have covered

It is important to understand and trade with major and minor market cycles

Add to positions in strongly trending markets

Use a profit stop

Use a stop loss

There are three main trading plans for basic ABC Trading

Seasonal ABC Trading Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. The *Smarter Starter Pack* program is based on the principle that a good trading plan should be:
   a. Comprehensive - containing as many proven trading rules as possible
   b. Flexible - to allow one to keep adding rules to a workable plan
   c. Simple - so that it can be applied with a minimum of effort to a range of markets
   d. All of the above
2. ABC trading is based on the probability that, in a significant number of trades:
   a. Range AB will be approximately equal to range CD
   b. Range BC will be approximately equal to range CD
   c. Point C will be above Point B
   d. Most trades will conclude at 50 percent of CD
3. If range CD = 1.625 of range AB, the market is:
   a. A contracting market
   b. A neutral market
   c. An expanding market
   d. A Fibonacci sequence market
4. Rule 3 (see page 44) refers to double and triple tops/bottoms. These market formations warrant a special rule because they:
   a. Occur 50 percent of the time
   b. Are particularly reliable formations
   c. Are the exception to Rule 2
   d. All of the above
5. Gann used eighths, quarters, halves and thirds as the basis of his calculations for determining resistance points. At these percentages of either a price or a range:
   a. Volume will decrease substantially
   b. Small traders liquidate their positions
   c. Significant buying and selling orders are placed
   d. Floor traders run the market up or down to the next Fibonacci number

6. A trailing stop loss has the advantage that it:
   a. Is not easily triggered around resistance levels
   b. Is safer for traders with large positions
   c. Automatically closes a position at a predetermined price
   d. All of the above
7. An "ambush" is best described as:
   a. A double or triple top which has been confirmed
   b. The daily (minor) trend and the weekly (major) trend being in sympathy
   c. The breaking of Point C, after a market has failed at the 50-percent pressure point
   d. Having one's stop triggered by cunning floor traders running a market a couple of points beyond a Fibonacci number
8. In the *Smarter Starter Pack* manual I suggest that your enemy is "...acting on an outside influence".

   By this I mean that you should NOT ignore your trading rules in order to act on advice received from:
   a. Friends and relatives
   b. Reputable market newsletters
   c. Brokers
   d. All of the above
9. A trading loss should NOT be viewed as a negative experience if:
   a. You have followed your trading rules
   b. It was based on your broker's advice, and was therefore not your fault
   c. You are prepared to trade with double the number of contracts for at least your next trade
   d. All of the above
10. Regardless of the market traded, the IDEAL entry point is:
    a. As close as possible to Point D
    b. As close as possible to Point C
    c. At the 25-percent threshold
    d. At the 33-percent threshold
11. By determining the proportion of trades which reach the 75-percent pressure point, one can gain an indication of:
    a. The strength of the market
    b. Which entry/stop-loss/exit parameters to use in trading
    c. Whether or not a market is an expanding or contracting market
    d. All of the above

Advanced Swing Charting

In this section we will cover

End of Day vs. Intra-Day Trading

Multi-Day Swing Charting

The swing chart will remain the basis of your analysis and trading throughout much of the *Number One Trading Plan*. For this reason it is important that we revisit the more advanced swing chart theory, one of the ABC trader's most trusted tools.

Choosing the right time frame

The *Smarter Starter Pack* manual is largely reliant on W.D. Gann's swing-chart technique. He called it "the mechanical method" and the rules laid down by him have been adopted and adapted by every swing-chart practitioner ever since.

Some students would say there is no time element in the *Smarter Starter Pack*, as all decisions are based on price action and reaction. While not agreeing with this, I can understand why they believe this to be true.

In the trading rules there is provision for a time element to be used as a filter. On pages 77 to 84 of the *Smarter Starter Pack* manual I gave you instructions on how to construct a swing chart. Later, on page 89, I gave you Gann's rules for swing trading. These rules provide clear buy and sell signals and they would have you "in" the market almost all of the time.

The idea is to only change positions when there is a significant reversal. The word "significant" is defined as a number of time periods or a range of points. An example of this is the three-day swing chart. To constitute a trend, a market must move either up or down for three trading days. Gann describes it as follows:

When an option starts to advance and makes higher bottoms and tops for three consecutive days, you move the line on the three-day chart to the top of the third day.

The term "three-day" is the time filter. It is used to filter out the smaller moves; in other words a one- or two-day reversal will not affect the chart - they are filtered out.

Similarly, but this time with "price" as a filter, if we draw a nine-point swing chart, we exclude all changes of trend which are of less than nine points. This is a price filter.

Gann sometimes talked about a "swing line", which is really a line drawn through the various bars on a bar chart. This line connects the ultimate high to the ultimate low, and is how I originally traded the swings of the market. It is, in essence, a swing chart drawn on top of a bar chart, and is meant to save you having a number of charts.

If you choose to do it this way, select a normal bar chart. While the market is trending upwards, draw a line from top to top to top. When the market reverses, run the trend line from the ultimate top down to the low of the next day or week, whatever it may be. Once again you must determine the number of periods which constitute a reversal. As with swing charts, whipsaws occur when you use short time frames.

I used to keep a one-day, two-day, three-day and weekly swing chart on every market that I traded. For points of entry I used to keep a four-minute chart. In the end I suffered from "information overload" and my trading was very borderline. As a form of analysis, I began linking the tops of an upswing together with a green trend line. Then when it turned down, I would change to a red trend line and run down to the bottom. Beside this in blue, I marked the section of the market that I actually traded.

Sometimes I was only in for 10 to 15 percent of the run. From the analysis I also deduced that I must get 60 percent of the run to enjoy the sort of remuneration that I believed I deserved. I understood how Gann broke down the ranges, I could understand what a 50-percent reversal was, so I decided to hold on to any position until at least the 50-percent point was reached. This became my danger zone. At this point I realized that I had to manage my stops. This is called TRADE MANAGEMENT.

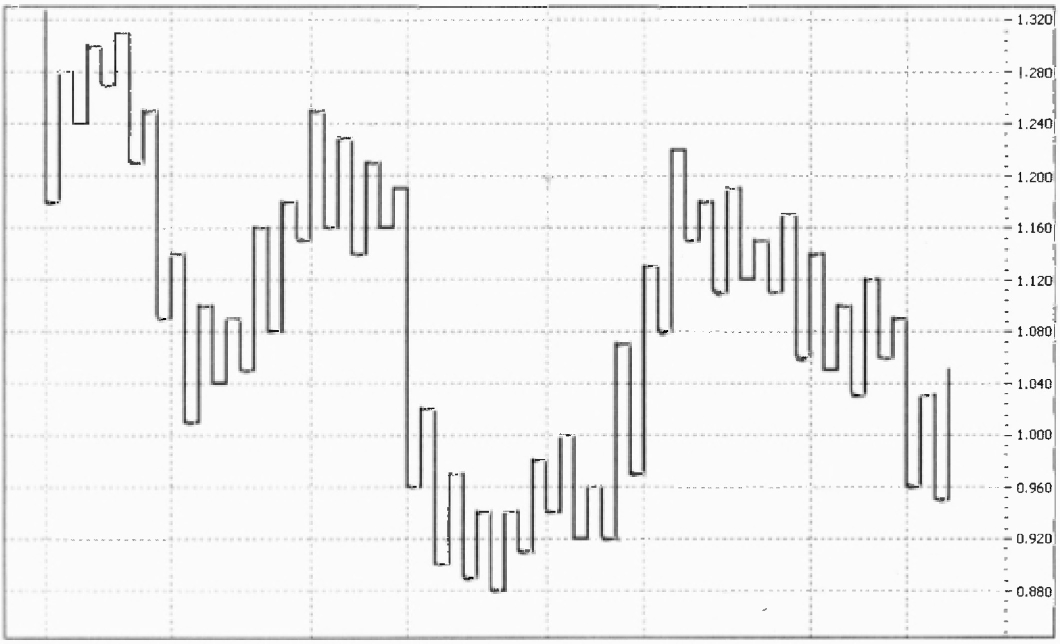
A basic rule of swing charting is to trade only with the trend. I could accept this intellectually, but in practice I found it difficult not to be chasing both sides of the market. All of this comes from the first page of my note book on technical analysis which I compiled in 1985. From these notes came my trading philosophy. This philosophy became the *Starter Pack* program.

My stops were often a long way from where I entered the market, and the first confirmation I had on a two-day swing method was when the weekly swing chart confirmed a trade. We can be talking about some pretty wide numbers here. What I decided to do was, when a market was in what I call an "entry zone", and that was the first 25 percent of a run, I drew 1/2-hour and 1/4-hour bar charts.

Once a trade passed the 33 1/3-percent mark, I discontinued these charts. I found when I traded off the 1/4-hour chart that the 1/2-hour or the hourly chart would be my confirmation. I still have a screen in my office, and I have often traded close time frames, but there is no getting away from it - **the big profits come from the big runs.**

To illustrate the point that basic principles hold true over differing time frames and markets for that matter, I challenge you to pick the time frame this swing chart is based on. Furthermore, is the chart of a stock, a currency or commodity?

Swing Chart Example



If you think you have figured it out, then you are missing the point of what I am saying. It is virtually impossible to tell based on the information given. There is no time or date scale for one. The minimum fluctuation could be 0.01 or 0.001, which makes the relative size of the ranges hard to establish.

The point in actual fact, is that we can create and trade off any scale chart, from 15min to 3 day Swing. The only difference is the timeliness of data required and the time of day when analysis needs to be done and for how long. Trading off a weekly chart requires only a few hours of monitoring per a week, and it has a large window that those hours can be completed within. On the other hand, trading a 1-hour chart requires a number of hours each and every day, and offers little flexibility as to when analysis can be performed.

Trading short time periods

Trading short time periods is not a decision that can be made on its own. There is a second decision that is required: when to change from short to longer time periods. In other words, when to abandon half-hourly, or hourly, time charts and go for the runs that occur in a two-day to three-day time period. I do not mean trade for just two to three days, I mean use a two or three-day time period to constitute a change in trend when a trade is underway. In this way time is used as a filter and it should eliminate a lot of the whipsaws involved in swing trading.

Perhaps all of this talk about short-term and long-term trading has you confused. Deep down I think every trader wants to get in there and trade every move. We love the pleasure of short-term flicks, but we hate the pain. While I can tell you about my history and give you these rules, **I must face the fact that each new generation has to find out for itself that the stove is hot**. My experience may not necessarily be your experience.

I am often asked the question "When will I be ready for short-term trading?" I have a stock answer and I think it is valid. I state that you are ready when you can pass the test. The test is this:

> If you have been trading for, say, six months and you have noticed that longer time frames restrict your entry and exit, I suggest that you open a second account with the same broker. As you set up this second account, also put in writing the parameters by which you enter and exit trades. These are to be based on short time frames. You will require a live screen and 1/4- and 1/2-hour bar charts. I suggest that you manually convert these to swing charts. I also suggest you limit your decision-making and trading in this second account to only the short time frames.
>
> Run both your normal and short-term accounts for one month, simultaneously. Then do a complete analysis of the trades. See where the short-term analysis will help you in your entry and exit, because it will; see where the emotion of short time frames have pulled you out of profitable positions, because that will happen too. You will then have the basis of a professional trading program.
>
> Perhaps you should paper trade for the first two weeks of the test month, and then trade in the market for real performance during the last two weeks. You can make a valid judgment at the completion of this trial. But remember, you must always determine a stop-loss point before entering a position, and secondly, you must give this stop-loss order to your broker. This will minimize your losses. I also suggest that you take your profits cautiously. If you have only been trading for six months, do not try to pyramid short-term runs, because it will be a disaster.

Training Wheels Rule

The "training wheels" rule is a time filter. I am just adapting the rules of the two-day swing chart to the one-day decision-making process. For the first six to twelve months of your trading, I have you looking at only the one-day time frames as they are the safest. **Two- and three-day price swings can prove a bit much on the nerves, and intra-day trading can prove a bit much on the emotions.** We are just trying to create the ideal package for a beginner.

Here I am giving you explicit instructions on how you should trade. Another thing that fits in here with the Training Wheels Rule is signal days. Many people read Gann's book *How to Make Profits in Commodities* and they come up with many of the various signals that I use for our "thermometer", so I would like you to add this. If you get a full five rating on the "thermometer" and your decision is to trade it, based on previous performance, also make the decision that you will take your profits at the end of the three-day trading period - that means two days after the point of entry. This is because these signals are not strong enough on their own to constitute a major change in trend. This style of trading can easily be part of your short-term plan. Your results should be closely monitored.

Multi-Day Swing Charts

We will start off by looking at Two-Day and Three-Day Swing Charts. For many they remain a little bit of a mystery however, in this section you will get a clear idea of how best to use them in your trading. I make no secret of the fact that my Super Traders use them to give them a different perspective of the market. That comment alone should get you keenly interested in how you will eventually bring these charts into part of your trading arsenal

Now that you have mastered the concept of trading on a daily and weekly chart it is time to consider swing charts based on longer periods. I want you to look at these charts as a measure of medium to long-term direction and strength.

No doubt you have heard me say that what works on a small scale also works on a bigger one and vice versa. While trading directly off 2 and 3-day swing charts or even a 100-point swing chart is possible, think of them a gauge of long-term trend. On that note, I have found over the years that the traders who do not succeed with ABC trading fail because they ignore the major trend.

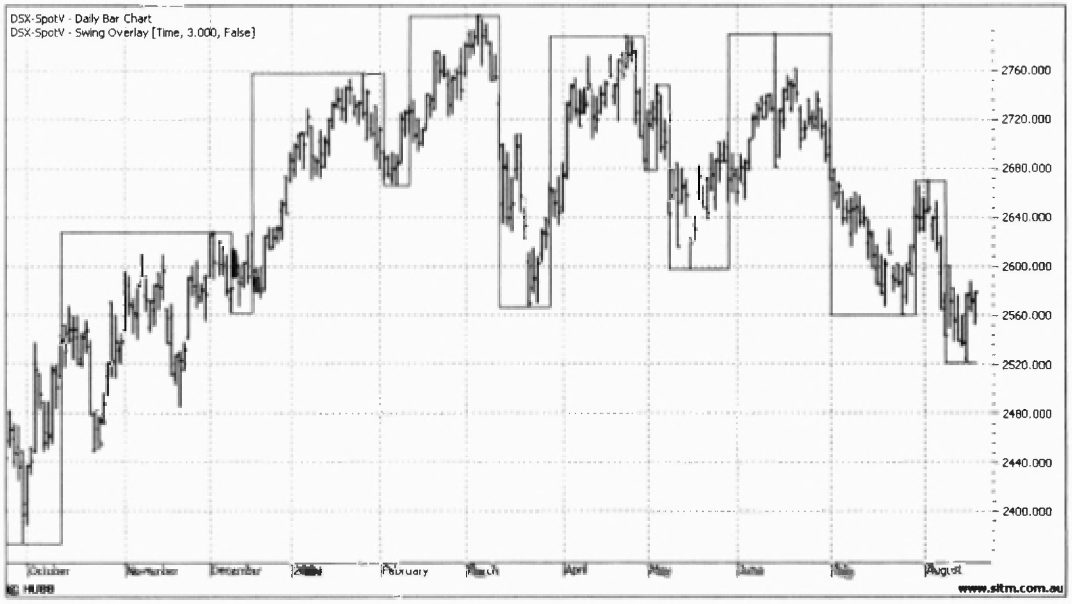
With that in mind, the swing charts covered in this section will first and foremost assist you in confirming the major trend. Second to this, via back testing you are able to trade ABCs on longer-term swing charts following the standard entry limit rules. Doing so also requires a larger risk in dollar terms to be accepted.

I want to begin this review of swing charting theory by showing you a number of different swing charts created from the same data for the Dow Stoxx 50 Futures contract (ticker code DSX-SpotV).

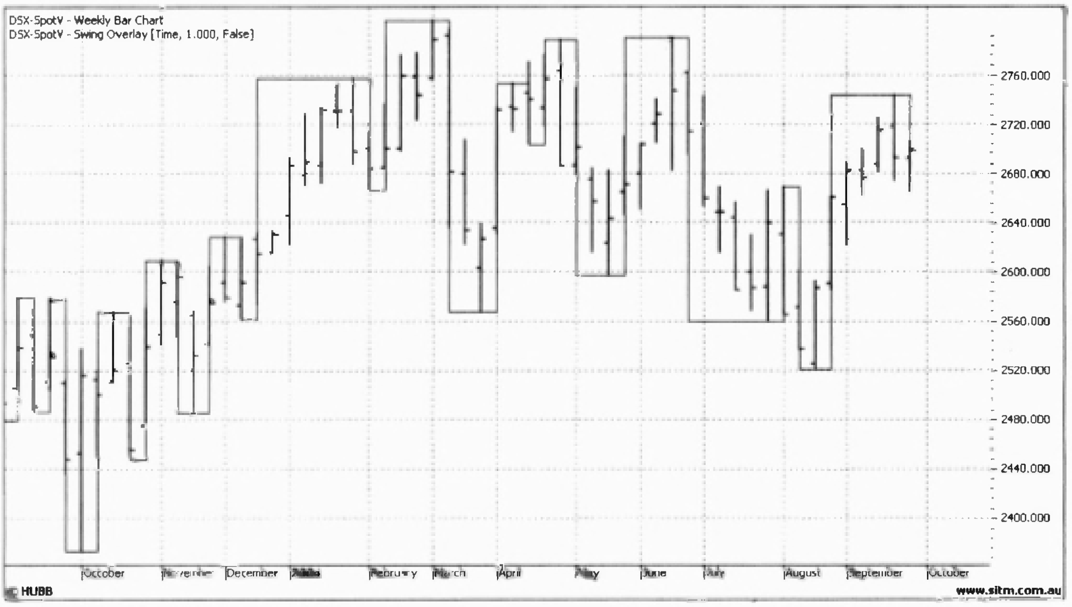
The first is a 1-Day Swing Chart:

Now a 2-Day Swing:

Next a 3-Day Swing example:



Finally a weekly swing chart:



As you can see, there are clearly less changes in trend on a 3-Day Swing Chart than there are on a Weekly Swing Chart. This makes sense as, assuming both charts are pointing in an upward direction, it is quite reasonable for the week to finish with a lower top and a lower bottom, without trading lower for 3 days in a row. In this case, the weekly swing chart would be turned down by the lower top/lower bottom day, where the 3-day chart would still be pointing up as a 3-day consecutive move is required to change its direction.

Three-Day Swing Charts

Gann's instructions for constructing a three-day swing chart were as follows:

When an (option) starts to advance and makes higher bottoms and tops for three consecutive days, you move the line on the 3 day chart to the top of the third day, then, if it continues to move up, making higher tops without reacting as much as 3 days, you continue to move the line on the 3 day chart up to the top of each day until the (option) reacts 3 days or makes lower bottoms for 3 consecutive days or more.

Then you move the line on the 3 day chart down and continue to move it down to the lowest price as long as the (option) makes lower bottoms without rallying 3 days.

The first time that an (option) rallies 3 days from any bottom, that is, making higher tops for 3 consecutive days or more, you move the line up.

This chart is based on higher tops and bottoms and not closing prices. An (option) may close but not make a lower bottom in which case you make no change in the 3 day chart. An (option) may close higher on the third day from the bottom but not make a higher top on the third day and, in that case, you do not move the line.

Exception to the rule

There is an exception to the rule for making up the 3 day chart.

When an (option) is very active near the top or bottom, making a wide range, and crosses the top or bottom of a move made by the trend line indicator or is less time than 3 days, then you: record the move on your 3 day chart just the same as if there had been a move of 3 days in one direction.

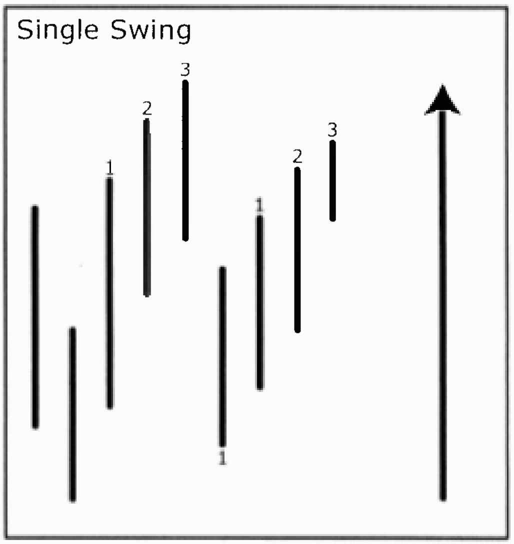
Also read Chapter Seven, **Dow Jones 30 Industrial Averages 3-Day Chart Moves** (pages 60-74) in *45 Years in Wall Street*, by W.D. Gann.

At changes of trend, a three-day chart can often lag behind a weekly chart. In other words, a weekly swing chart can be more sensitive than a three-day swing chart. If a three-day swing chart proves to be too insensitive for the market you are trading, try a two-day swing chart. These are constructed in the same manner as a three-day swing chart, except that you swing the chart when the market moves two or more consecutive days in the opposite direction.

Constructing the Two and Three-Day Swing Charts

Study the following diagrams which outline how to construct Three-Day Swing Charts. There are some other situations you will need to know how to handle.

The diagram below shows a 3-day swing chart that is currently in an up trend. Note that even though the market is currently lower than the swing high created by the 5th bar, the swing chart does not move as a three consecutive day move against the trend is required.



Note	Swing charts only represent price action and reaction. They do not represent the time shown on the bar chart they are based on. Even though the last three bars had higher highs, the three-day swing chart was already pointing up and well above the high of the last bar. Therefore the swing chart or price action is already telling us what we need to know, it is up and cannot go any higher than it already is, so the swing chart would remain unchanged in this example. For us to turn it down we would need three days in a row of lower lows.

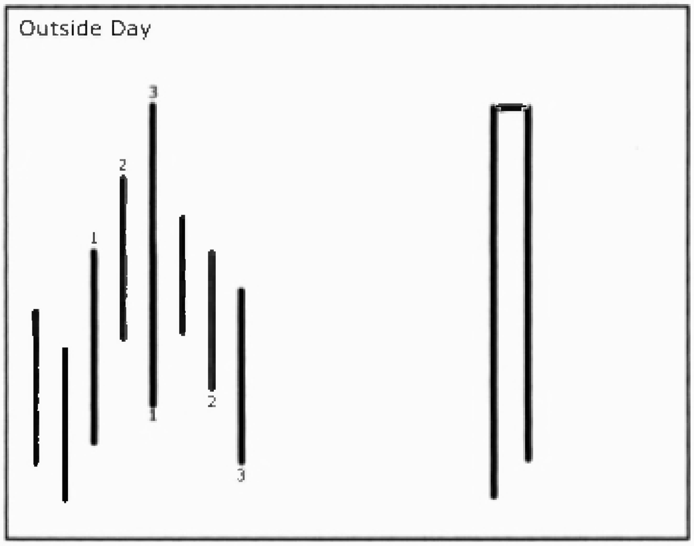
How to Handle Inside Days

It is rather simple - just ignore them. Remember though on the principle that we compare each and every day only to the day before. If the market makes a higher top to the inside day, it counts as one day up. If the market makes a lower bottom it counts as one day down. However, the Inside Day itself counts as neither a day up or down and does not reset the count.

How to Handle Outside Days

Clearly by definition an Outside Day gives a higher top and lower bottom. This can lead to some confusion on how to handle them when constructing your Two and Three-Day Swing Charts. The basic principle is that an Outside Day will count twice - one day up and one day down.

The simple diagram below shows how you may apply the principle of an Outside Day counting twice. This diagram has no open and close marked. However, in real market action we use the open and close as key indicators (based upon their position on the bar) as to whether the market made a higher top first or a lower bottom first. This will affect the order in which you count the one up and one down as a result of the outside day.This is important when you remember that the operative words here are "consecutive days" up or down.

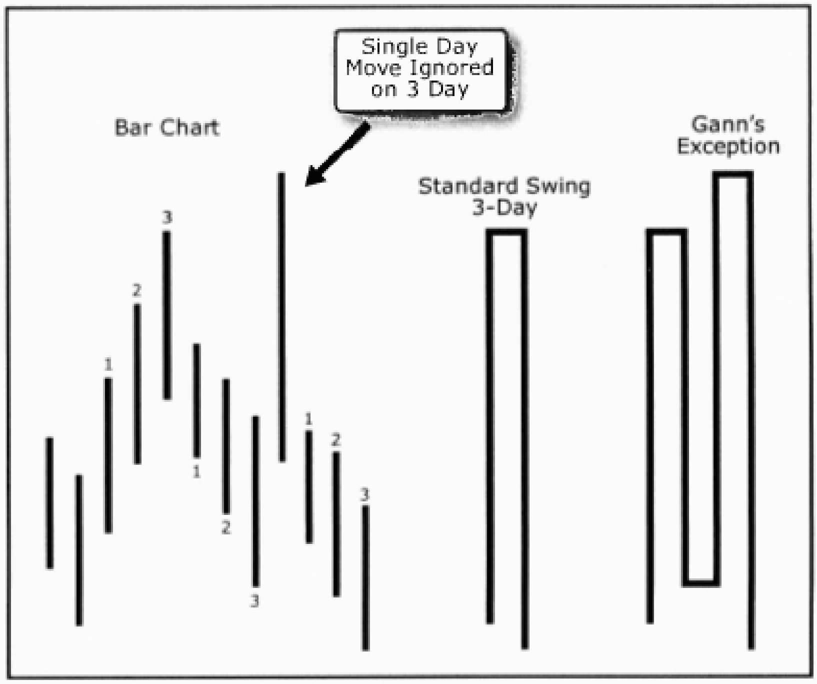


As you can see, the diagram above counts the outside day as up first and down second. Counting the outside day up first created 3 consecutive days up and in turn swung the chart down. Counting the day up first and down second implies that the market opened higher than it closed.

Gann's Exception to the Rule for Three-Day Swing

One problem with 2 and 3-day swing charts can be that they ignore significant tops or bottoms made within moves against the trend that do not turn the chart.

To take this into account, there is an exception to the rule for drawing a 3-day (or any multi-day) chart. When an (option) is very active near the top or bottom, making a wide range, and crosses the top or bottom of a move made by the trend line indicator or is less time than 3 days, then you record the move on your 3 day chart just the same as if there had been a move of 3 days in one direction.



Gann had an exception to his rules when constructing two and three day swing charts. His exception was, if you had an "abnormally large" move, which you could define as being an average weekly range traded in a single day, and it were to also cross the last swing top or bottom, he would then turn his swing chart up or down.

Note	Two and three day swing charts will on occasion not represent significant tops and bottoms. Should you wish to show this high or low, an easy way to represent this is with a dashed line to the high or low point.

To review the important points of three-day (multi-day) swing charts:

- Three days in a row of higher highs or lower lows
- Ignore inside days, pretend they're not even there
- Compare each bar to the previous bar
- Outside days count twice. The order is based on the open and the close of the day.

The rules for a two-day (and all other multi-day) swing charts are the same, except you need two days in a row of higher highs or lower lows.

Section 6 Review

In this section we have covered

It is important to understand and trade with major and minor market cycles

Always trade with the minor and major trends in sympathy

Use Multi-Day Swing Charts to gain a longer-term view

Add to positions in strongly trending markets

Advanced Swing Charting Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. A daily bar chart paints a more comprehensive picture than a daily line chart. The additional information includes the day's:
   a. Trading range
   b. Closing price
   c. Market "temperature"
   d. All of the above
2. A swing chart:
   a. Covers a shorter time period than a bar chart of the same data
   b. Plots "price" on the vertical axis and "time" on the horizontal axis
   c. Highlights "price" swings while ignoring "time"
   d. None of the above
3. A three-day swing chart, when compared with a one-day swing chart, generally:
   a. Has fewer swings
   b. Has "stronger" tops and bottoms
   c. Is less sensitive to trend changes
   d. All of the above
4. A three-day swing chart:
   a. Requires at least three days of higher or lower closing prices before a swing is plotted
   b. Requires a three-day reaction/rally before a swing is plotted
   c. Has the horizontal axis plotted in three-day units of time
   d. Has a swing every three days
5. A nine-point swing chart:
   a. Requires at least nine points of higher or lower closing prices before a swing is plotted
   b. Requires a nine-point reaction/rally before a swing is plotted
   c. Has a vertical axis plotted in nine-point units of price
   d. Has a swing every nine points

6. A weekly swing chart:
    a. Requires a seven-day reaction/rally before a swing is plotted
    b. Is less sensitive to trend changes than a three-day swing chart
    c. Was Gann's major trend indicator
    d. All of the above
7. Gann achieved considerable success using a nine-point swing chart to monitor swings in the Dow Jones Industrial Average. A nine-point swing chart would be of little value in monitoring the Dow today because:
    a. The Dow's average swing is considerably greater than nine points
    b. Inflation has eroded the value of a point
    c. The Dow is trading at much higher levels
    d. All of the above
8. Jesse Livermore, one of the greatest traders of all time, once said *"...it is not hard to be right on the market, but people who can both be right and sit tight are uncommon".*

    In essence, Livermore was saying that:
    a. It is easy for anyone to make money trading
    b. Few traders have the patience to remain seated long enough to study the markets adequately
    c. Staying with a profitable trade is not easy
    d. Traders who are wrong in their judgment often are the most successful traders
9. Swing charts serve several useful purposes. They:
    a. Clearly define tops and bottoms
    b. Indicate when it is wise NOT to trade
    c. Form the basis of many proven trading systems
    d. All of the above
10. The thermometer is an early-warning device for a change in trend.

    It takes the "temperature" of the market - in other words, it indicates:
    a. If a market is too hot or too cold to trade
    b. If a market is overbought or oversold
    c. Exact buying and selling points
    d. Whether volume is too high or too low

Extended ABC Trading Techniques

In this section we will cover

- **Weekly ABC Trading**
- **Entry Plus Commission Rules**
- **Trailing Swing Stops**
- **Multi-Day ABC Trading**

The time has come to build some more advanced ABC techniques into your trading repertoire. Like a professional in any field, it is important to focus on doing the basic things well. To get the most out of these advanced techniques, be sure to keep your foundations strong.

Weekly ABC Trading

I suggest that you take some time to test a number of different stocks based on both daily and weekly ABCs. Often you will find that weekly charts offer better reference ranges and therefore better trading opportunities, especially when trading stocks. This is especially important if you choose only to trade the stocks themselves as opposed to leveraged products. Many weekly charts also carry higher percentages of profitable trades. As with all trading strategies, back testing is the key to establish which approach is best.

Weekly ABC Example

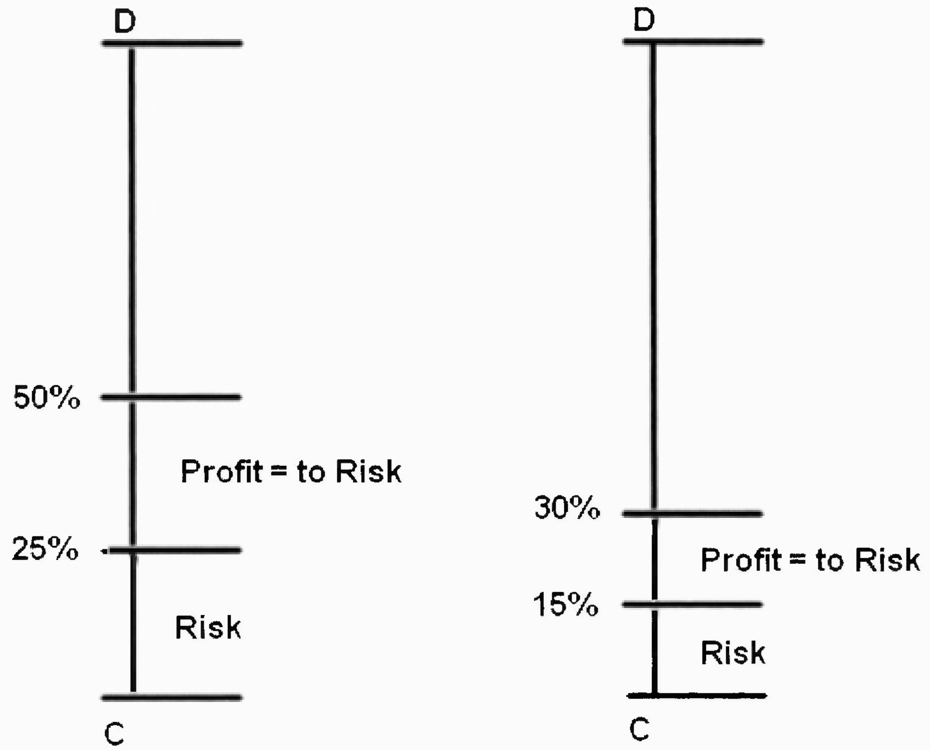
ABC trading on the weekly chart is virtually identical to using the daily chart, but there are a couple of key differences. Firstly, a potential Point C (week) cannot be properly identified until the end of the week. Then you must be on red alert from Monday of the following week looking for an entry. To re-enforce the point, I recommend a detailed study of ABC trading on the weekly chart of any stock you are interested in trading.

- Use the same rules as for daily ABC trades
- A potential Point C week cannot be identified until the end of the week
- You need to be on Red Alert for entry from Monday of the following week
- Enter as soon as the high (long trade) of the Point C week is broken the following week
- Reverse for short trades

Extended Entry Plus Commission Rules

The general rule I gave you for the currency style exit is to move your stops to entry plus commission once the 50% is crossed. This is based on the fact that with a 25% entry limit, you will have made a profit equal to your initial risk.

When entering a trade earlier than 25%, in some cases you may like to consider moving your entry plus commission exit stop sooner as shown below.



In the example above entry is gained at 15%. This means you have made a profit equal to slightly more than your risk by the 33% mark (I have used the 33% so as not to confuse the issue by adding new milestones).

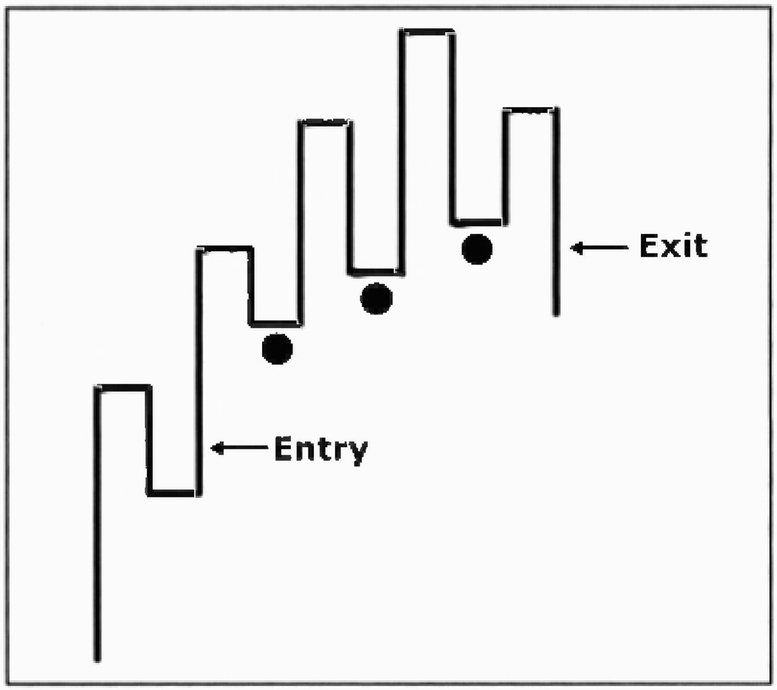
This rule can be used by your discretion and is often useful if you notice potential double tops or resistance forming ahead on the chart.

Trailing Swing Stops

A technique I have found highly effective during periods where markets are trending strongly is what I call a 'Trailing Swing Stop.' This stop slides behind each swing bottom until the market trades below. As the definition of an up trend on a swing chart is higher swing tops and higher swing bottoms, this technique keeps you in a trade as long a clear up trend remains.

Reverse these rules for trading short.

This stop strategy can be used quite effectively with the price forecasting techniques we cover in coming sections or simply with standard ABCs on a variety of swing charts.



Once again its your turn, use the data included in the Appendix to trade only ABC Long Trades using a 33% entry limit. Once a trade is entered, slide your stops behind each swing low until they are hit.

Trailing Swing Stop Exercise

This marks the first of the your advanced trading exercises in the *Number One Trading Plan*. Ironically the concept is very simple. Most would argue simpler than the three exit strategies defined previously. However, as many know, sometimes the simplest things are the hardest to do. The important thing here to note is that this technique should be used based on a longer-term expectation. It is especially useful when trading price and time set ups that suggest a major turn in the market has taken place.

For this exercise we will trade Yahoo Inc., an internet technology company listed on the NASDAQ exchange. Its ticker symbol is YHOO.

The daily price listings for the period of our trades can be found in this section's **Appendix** at pages 85-87.

The trading rules are as follows:

1. The basis of the trading plan is the swing chart. You will construct your daily chart exactly as I have shown you.
2. Only trade long in this exercise. The reason I included this technique in part is for my friends that trade only shares and that are not in a position to sell them short. While I still stress the importance for trading both sides of the market, there are times or situations when this is not possible. The second part to my reasoning is the fact that this technique is useful for trading major forecast moves.
3. The intended trade is identified by the formation of a Point C.

   Point A is the start of the immediately preceding up move. Point B is the termination of the first up move and is identified by a swing down. Point C is the termination of the counter-trend, corrective move and is identified by a swing up.

   Point B must be above the previous swing top.
4. The distance between points A and B is measured for two reasons.

   Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 33% of the A-B range, from Point C.

   Secondly, you will rate the strength of a market by comparing its retracements against the main trend. In a strongly trending market the retracement will usually be 50% or less of the A-B range.
5. Upon entering an initial trade, a stop loss is placed one point (tick) below Point C.

   For YHOO, this will be $0.01 below Point C.
6. Once the market trades to the 50% milestone, move your stop to entry plus commission. Upon the market making its first higher swing bottom, move your stop $0.01 below the swing bottom. Continue this process with each new swing bottom until you are stopped out. Do not enter any additional positions or ABC trades while in an existing trade.

Now it is your turn!

Take another large sheet of *Safety in the Market* charting paper and have in front of you the YHOO data table, which is in the **Appendix** for this section. You have my permission to photocopy this table – this will make it easier for you to plot the data while referring to this manual.

1. Label Your Chart

Label your charting paper "YHOO Daily Bar Chart" in the middle, up the top of you chart. As time passes you will accumulate more and more charts.

Always label them clearly to avoid confusion.

2. Label the Price Axis

We now write the scale on the left-hand side of the chart. To determine the scale you look for the highest high, and the lowest low, in your data table. This gives you a guide to the minimum market range that you will be plotting. Also, if the market you are charting is likely to exceed the highest high, for example, you would allow more space at the top of the chart. Don't panic if a market moves beyond the top or bottom of your chart – simply glue more charting paper to the chart, and continue the scale up or down.

3. Label the Time Axis

Write the dates of **each day for which you have data** across the bottom of your chart. The first date is 1 March 2004. Note that each date is in the order of month/day/year. You will construct what is called a trading-day chart, and hence you do not leave spaces for weekends and holidays.

4. Plot the Data and Paper trade the Market

Your final and most important step is to commence to plot the data one day at a time. Make this exercise as realistic as possible, by covering your daily and weekly data so that you only reveal the daily (or on a Friday, weekly) data you need at that time.

Trade 1

	Price	Date
Point A at	20.81	15-Mar-04
Point B at	23.34	19-Mar-04
Point C at	21.75	24-Mar-04
Entry at	22.49	25-Mar-04
Stop at	21.74	
Risk	0.85	
Exit at	26.66	21-Apr-04
Profit (Loss)	4.17	
Exit trigger:	Last swing bottom broken	

Ref. Range Points		**33%**	**50%**
	2.53		
Range		0.84	1.27
Price		22.59	23.02

Estimated Point C - 22.08

Trade 2

	Price	Date
Point A at	26.21	17-May-04
Point B at	28.90	19-May-04
Point C at	27.51	20-May-04
Entry at	28.34	21-Mar-04
Stop at	27.50	
Risk	0.90	
Exit at	31.94	21-Jun-04
Profit (Loss)	3.60	
Exit trigger:	Last swing bottom broken	

Ref. Range Points		**33%**	**50%**
	2.69		
Range		0.90	1.35
Price		28.40	28.86

Estimated Point C - 27.56

Yahoo trades summary

Trade 1	$ 4.17	Profit/share
Trade 2	$ 3.60	Profit/share
Total	**$ 7.77**	**Profit/share**

Total winning trades 2

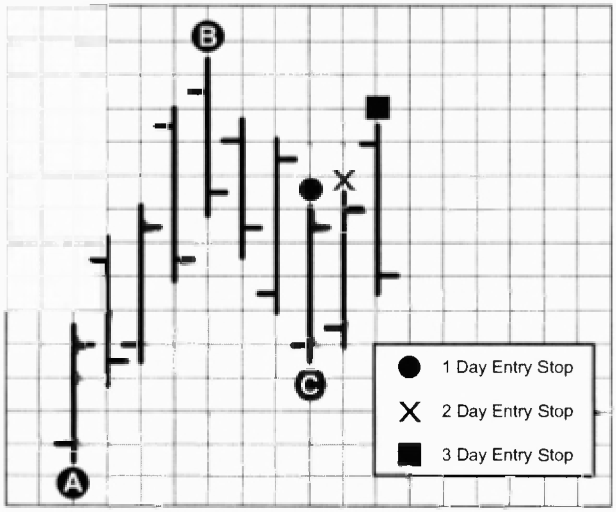
Multi-Day ABC Trading

Now that I have revisited multi-day swing charts you are ready to tackle trading with them. The most important thing to remember is the underlying principles of the ABC trading method remain the same regardless of the swing chart they are based upon.

Essentially the only thing that needs to be adjusted is the entry stop calculation. The ABC entry stop, on any time frame, is placed at the point where the swing chart can be turned back in the direction of the confirmed AB range. For a 1-day swing chart this is the high of Point C plus 1 in a long trade, and the low of C minus 1 in a short trade. ABC entry stops are always based on the point at which we could turn the chart back in the direction of the AB range if we were following the market intra-day.

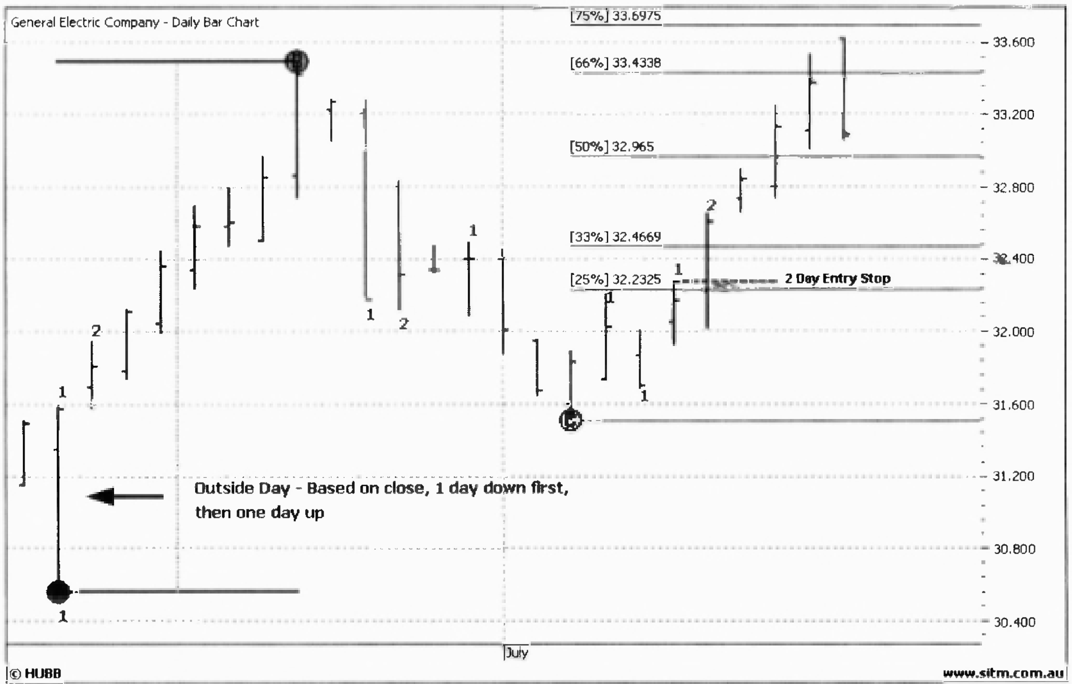
For an ABC long trade on a 2-day swing, the entry stop becomes the high of the first day up. For an ABC long on a 3-day swing, the entry stop becomes the high of the 2nd consecutive day up, and so on. Just ask yourself what needs to happen in order to turn the swing chart back in the AB range direction and you will keep yourself on track.

Entry Stop Example



Next is an example of a trade from a 2-Day swing chart. Note that I have placed counts for days moving against the current swing direction to help illustrate how a 2-Day chart is drawn.

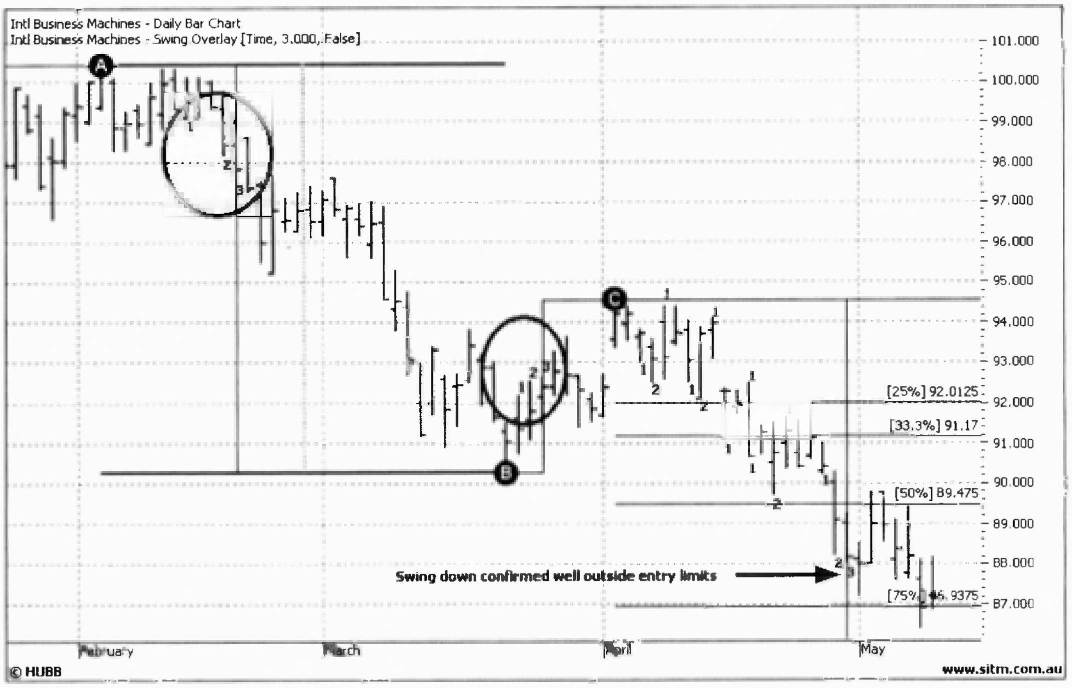
2-Day ABC Example



Stop losses and Exit stops should be managed as per the strategies previously outlined, as should entry limits. On this last point, you should note that the entry limits are likely to inhibit the number of valid ABC trades on a 3-Day chart more so than on a 1-Day chart. Thus offering less trading opportunities.

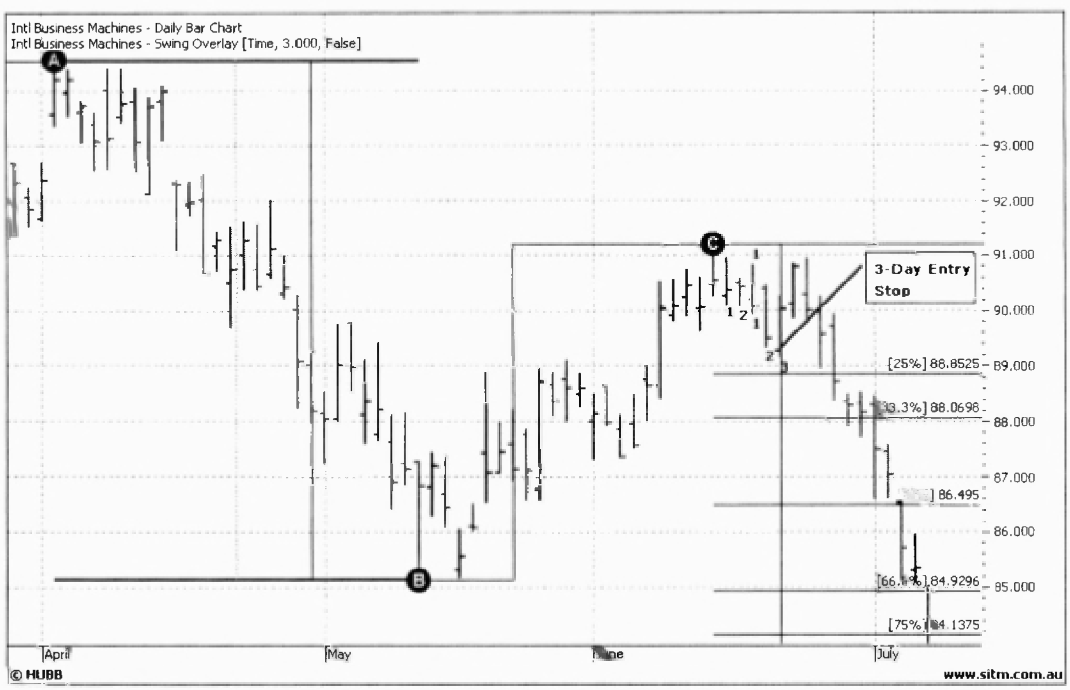
To highlight an example of how easily 3-Day ABC's can end up breaching entry limits, take this ABC Short on IBM. You can see that 3 consecutive days down did not occur well outside the 33% entry limit. I have only noted the 3-Day counts that changed the trend between A and C as circled. After Point C I have labeled each and every count to help make the process clear. In each case, the bar labeled '2' also marks the point where an entry stop would have been placed below before the following day's open. Trading a 3-Day chart definitely involves more patience than a 1-Day. It is important to remember this when designing your trading plan.

3-Day ABC Outside Limits



The next 3-Day ABC short trade on IBM prints 3 consecutive days down in quick fashion, giving an entry within the 25% limit. This indicates strength in the new trend and a solid, lower risk trade.

3-Day ABC Inside Limits



The likelihood of an greater price distance between entry and Point C created by the larger reference ranges will also increase the minimum risk in dollar terms on many trades. This is the nature of the multi-day swing trading beast and needs to be accepted before trading with such charts.

Microsoft 2-Day ABC Trading Exercise

The rules are those described in the first section of the *Smarter Starter Pack*, but modified only in respect to the placement of stops for entry and exit as defined in the section you have just read. In this exercise you will also look at the potential to add to your initial position once the market crosses point B. This is drawing you into slightly deeper water and progressing you one-step further down the road to successful trading.

In this exercise you will keep to 25% of the A-B range. Leaving your reward to risk ratio as 3 to 1. The plan in this exercise will be to take profits as soon as the market reaches the 75% Milestone.

For this exercise we will trade Microsoft Corporation, a software development company listed on the NASDAQ exchange. Its ticker symbol is MSFT.

The daily price listings for the period of our trades can be found at pages 88-92.

The trading rules are as follows:

1. The basis of the trading plan is the 2-Day swing chart without the Gann exception rule. You will construct your daily chart exactly as I have shown you in **Multi-Day Swing Charts** (see pages 59-65).
2. Only trade with the trend. An up trend is defined as a market in which the most recent swing high is higher than the swing high which preceded it, and the most recent swing low is higher than the swing low which preceded it. A downtrend is the opposite, that is, a lower swing high, and a lower swing low.
3. In respect to trades on the long side, the intended trade is identified by the formation of a Point C. Point A is the start of the immediately preceding up move. Point B is the termination of the first up move and is identified by a swing down. Point C is the termination of the counter-trend, corrective move and is identified by a swing up. Point B must be above the previous swing top.
4. The distance between points A and B is measure for three reasons. Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 25% of the A-B range, from Point C. Secondly, the progressive moves are used for the placement of stop-loss levels and the exiting of positions. Thirdly, you will rate the strength of a market by its retracements against the main trend. In a strongly trending market the retracement will usually be 50% or less of the A-B range.
5. Upon entering an initial trade, a stop-loss is placed one point from Point C.
6. Upon the market reaching 50% of the A-B range, a stop is placed at the point of entry, plus commission. This is observed on an intra-day basis and not just at the end of the day. **By this I mean you would instruct your broker to act on an intra-day basis, not at the close of trading. For example, if the market trades at X, move your stop-loss order to Y, where X = 50% of the A-B move, and Y= entry point, plus commission. This would also be the case in the application of Rule 8. Use 3 cents, or points, as the basis for covering commission.**

7. Profits are taken at 75% of the A-B range, or the first time a progressive stop is triggered.

8. In this exercise trades will be taken only considering the 2-day trend. It is not a condition for taking a trade in this exercise that the daily and weekly trends are in sympathy.

Now it is your turn!

It is now time for you to start to master ABC trading.

Take a large sheet of Safety in the Market charting paper and have in front of you the MSFT data table, which is in the Appendix for this section. You have my permission to photocopy this table – this will make it easier for you to plot the data while referring to this manual.

1. **Label Your Chart**

   Label your charting paper "MSFT Daily Bar Chart" in the middle, up the top of you chart. As time passes you will accumulate more and more charts.

   Always label them clearly to avoid confusion.

2. **Label the Price Axis**

   We now write the scale on the left-hand side of the chart. To determine the scale you look for the highest high, and the lowest low, in your data table.

   This gives you a guide to the minimum market range that you will be plotting. Also, if the market you are charting is likely to exceed the highest high, for example, you would allow more space at the top of the chart.

   Don't panic if a market moves beyond the top or bottom of your chart – simply glue more charting paper to the chart, and continue the scale up or down.

3. **Label the Time Axis**

   Write the dates of each day for which you have data across the bottom of your chart. The first date is 14 October 2003. You will construct what is called a trading-day chart, and hence you do not leave spaces for weekends and holidays.

4. **2-Day Swing Chart**

   Repeat the above steps to establish a 2-day swing chart.

5. **Plot the Data and Paper trade the Market**

   Your final and most important step is to commence to plot the data one day at a time. Make this exercise as realistic as possible, by covering your daily and weekly data so that you only reveal the daily (or on a Friday, weekly) data you need at that time.

When you believe you can label a point A on your daily chart bar and swing charts, do so. When you have labeled the following point B, start to fill in our trading plan, assuming that the day which confirms point B is Point C, and so on. In other words, treat the exercise as if you are following a live market.

I suggest that you plot your daily bar and 2-day swing charts up to the end of Trade One and study my analysis of this trade. Go over it several times until you know exactly what I have done, and why. When you have reached this point, you should not have any difficulty working through the remaining trades.

Trade 1

	Price	Date	Ref. Range Points	25%	50%	75%
			3.01			
Point A at	29.43	21-Oct-03	**Range**	0.75	1.51	2.26
Point B at	26.42	24-Oct-03	**Price**	26.50	25.75	25.00
Point C at	27.25	29-Oct-03				
Entry at	26.65	30-Oct-03				
Stop at	27.26		**Estimated Point C -**		27.93	
Risk	0.76					
Exit at	25.00	17-Nov-03				
Profit (Loss)	1.66					
Exit trigger:	75% Profit Target Reached					

Trade 2

	Price	Date	Ref. Range Points	25%	50%	75%
			2.71			
Point A at	24.84	17-Nov-03	**Range**	0.67	1.35	2.03
Point B at	27.55	19-Dec-03	**Price**	27.67	28.35	29.03
Point C at	27.00	24-Dec-03				
Entry at	27.26	29-Dec-03				
Stop at	26.99		**Estimated Point C -**		26.20	
Risk	0.69					
Exit at	27.29	13-Jan-04				
Profit (Loss)	0.03					
Exit trigger:	Entry Plus Commission after 50% touched					

Trade 3

	Price	Date	Ref. Range Points	25%	50%	75%
			2.00			
Point A at	28.83	26-Jan-04	**Range**	0.50	1.00	1.50
Point B at	26.83	5-Feb-04	**Price**	26.73	26.23	25.73
Point C at	27.23	9-Feb-04				
Entry at	26.84	10-Feb-04				
Stop at	27.24		**Estimated Point C -**		27.83	
Risk	0.51					
Exit at	25.73	9-Mar-04				
Profit (Loss)	1.11					
Exit trigger:	75% Profit Target Reached					

Trade 4

	Price	Date	Ref. Range Points	25%	50%	75%
			2.98			
Point A at	26.99	25-Feb-04	**Range**	0.74	1.49	2.24
Point B at	24.01	22-Mar-04	**Price**	24.77	24.02	23.28
Point C at	25.51	26-Mar-04				
Entry at	24.86	1-Apr-04				
Stop at	25.52		**Estimated Point C -**		25.50	
Risk	0.75					
Exit at	25.52	2-Apr-04				
Profit (Loss)	-0.66					
Exit trigger:	Stop loss at C +1					

Trade 5

	Price	Date	Ref. Range Points	25%	50%	75%
			2.66			
Point A at	25.06	19-Apr-04	**Range**	0.66	1.33	2.00
Point B at	27.72	23-Apr-04	**Price**	26.08	26.75	27.41
Point C at	25.42	17-May-04				
Entry at	26.06	19-May-04				
Stop at	25.41		**Estimated Point C -**		26.39	
Risk	0.67					
Exit at	27.42	15-Jun-04				
Profit (Loss)	1.36					
Exit trigger:	75% Profit Target Reached					

Microsoft trades summary

Number of Trades	5	
Number of Winners	3	
Number of Break evens	1	
Number of Losers	1	
Total Profit	$3.50	Per share

Section 7 Review

In this section we have covered

Entry plus commission stops should be adjusted based on risk vs. profit.

Exit stops can be trailed based on swing lows/highs, however this does increase the chance of an ambush

Weekly and Multi-Day ABC trades are based on similar rules to Daily ABC trades.

Extended ABC Trading Techniques Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. The bar on a weekly bar chart has a high, low, open and close like a daily bar, this represents:
   a. Open of Monday, high of Wednesday, low of Wednesday and close of Friday
   b. Open Wednesday last week, close of Wednesday current week, high of Monday and low of Friday
   c. Open of Monday, high any time during week, low anytime during week, and close of Friday
   d. none of the above
2. The entry stop for a weekly long ABC trade is based upon:
   a. The day the Point C low occurs
   b. High of the week +1 point/cent
   c. Close of the week +1 point/cent
   d. Always Friday high + 1 point/cent
3. Under what possible circumstances might we move our stops to entry plus commission?
   a. Trade reaches 50%
   b. Profit is equal to initial risk
   c. 75% reached after a 33% entry
   d. Both a + b
4. A trailing swing stop is best utilized in a:
   a. Currency trade
   b. Strongly trending market
   c. Sideways moving market
   d. Long call trade
5. Entry stop for an ABC long trade on a 3 day swing occurs when:
   a. 1 point/cent above high of 1st day
   b. 1 point/cent above high of 2nd consecutive day up bar
   c. 1 point/cent above high of 3rd consecutive day up bar
   d. 1 point/cent above high Point C

Appendix A

Price Listing - Yahoo

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
1-Mar-04	22.26	22.44	21.95	22.04	26,601,350
2-Mar-04	22.06	22.30	21.49	21.50	21,508,120
3-Mar-04	21.42	21.78	21.09	21.68	20,019,236
4-Mar-04	21.73	22.10	21.67	22.07	18,477,986
5-Mar-04	21.80	22.39	21.74	22.20	20,296,700
8-Mar-04	22.17	22.72	21.85	21.92	20,300,934
9-Mar-04	21.90	22.14	21.45	21.67	20,995,120
10-Mar-04	21.68	21.88	20.75	20.85	26,452,816
11-Mar-04	20.65	21.28	20.57	20.83	28,125,122
12-Mar-04	20.95	21.63	20.86	21.51	17,310,306
15-Mar-04	21.58	21.68	20.81	20.88	14,256,004
16-Mar-04	21.05	21.49	21.00	21.28	20,069,980
17-Mar-04	22.09	22.52	22.02	22.42	32,136,650
18-Mar-04	22.40	22.65	22.18	22.52	20,207,102
19-Mar-04	22.44	23.34	22.42	22.88	28,563,484
22-Mar-04	22.47	22.58	21.88	22.24	24,111,876
23-Mar-04	22.38	22.42	21.92	22.04	18,610,024
24-Mar-04	22.14	22.28	21.75	22.25	17,418,836
25-Mar-04	22.49	23.50	22.48	23.47	23,712,768
26-Mar-04	23.42	23.76	23.36	23.57	16,954,528
29-Mar-04	23.59	23.95	23.56	23.84	17,839,156
30-Mar-04	23.80	24.43	23.77	24.40	17,377,188
31-Mar-04	24.39	24.65	24.17	24.24	21,052,202
1-Apr-04	24.38	24.85	24.21	24.73	22,425,232
2-Apr-04	25.27	25.32	24.63	25.08	22,651,772
5-Apr-04	25.02	25.50	24.65	25.00	22,839,000
6-Apr-04	24.56	24.65	24.11	24.39	23,698,266
7-Apr-04	24.23	24.63	23.94	24.17	34,098,820
8-Apr-04	27.90	28.12	27.36	28.10	90,596,380
12-Apr-04	27.88	27.99	27.43	27.57	34,698,240
13-Apr-04	27.48	27.54	26.92	27.07	26,017,968
14-Apr-04	26.84	27.48	26.72	27.34	20,413,012
15-Apr-04	27.41	27.43	26.88	26.95	17,635,560
16-Apr-04	26.84	27.39	26.67	27.07	19,224,314
19-Apr-04	26.94	27.92	26.88	27.84	19,261,592
20-Apr-04	27.93	27.98	26.75	26.77	20,128,672

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
21-Apr-04	27.09	27.38	26.55	27.29	20,476,916
22-Apr-04	27.25	28.99	27.25	28.80	32,903,510
23-Apr-04	28.70	28.75	27.95	28.38	19,856,118
26-Apr-04	28.29	29.17	27.98	28.50	21,965,674
27-Apr-04	28.49	29.13	28.28	28.77	20,147,214
28-Apr-04	28.86	29.16	27.88	27.92	20,580,648
29-Apr-04	27.90	28.20	26.77	27.35	29,361,688
30-Apr-04	27.20	27.30	25.01	25.26	53,177,320
3-May-04	25.27	26.20	25.25	26.15	29,487,626
4-May-04	26.17	26.93	26.13	26.42	24,897,308
5-May-04	26.49	26.96	26.45	26.58	15,579,530
6-May-04	26.56	26.60	25.82	26.18	20,368,534
7-May-04	26.24	26.87	26.14	26.40	22,886,294
10-May-04	26.13	26.20	25.33	25.67	31,383,354
11-May-04	26.17	27.00	26.09	26.76	34,562,240
12-May-04	26.66	27.18	25.76	27.08	26,120,120
13-May-04	27.18	28.10	26.78	27.10	19,950,240
14-May-04	27.54	27.67	26.75	26.97	19,207,480
17-May-04	26.35	27.66	26.21	27.02	13,999,060
18-May-04	27.63	27.98	27.31	27.77	19,091,460
19-May-04	28.61	28.90	27.82	27.95	25,637,770
20-May-04	28.14	28.30	27.51	28.03	16,542,645
21-May-04	28.34	28.85	28.15	28.55	15,455,511
24-May-04	28.87	29.76	28.84	29.43	23,712,070
25-May-04	28.95	30.50	28.88	30.28	25,056,850
26-May-04	29.82	30.40	29.77	30.11	20,977,270
27-May-04	30.36	30.80	30.00	30.56	18,667,860
28-May-04	30.49	31.16	30.30	30.66	16,683,664
1-Jun-04	30.56	32.82	30.43	32.48	28,833,610
2-Jun-04	32.50	32.84	31.49	31.55	30,058,760
3-Jun-04	31.70	31.81	31.06	31.19	18,513,310
4-Jun-04	31.86	32.20	31.45	31.87	16,280,558
7-Jun-04	32.39	32.52	32.03	32.51	18,040,250
8-Jun-04	32.42	33.00	32.28	32.99	18,316,370
9-Jun-04	33.01	33.01	32.08	32.32	17,019,910
10-Jun-04	32.50	32.74	31.86	32.40	17,543,960
14-Jun-04	32.09	32.24	31.44	31.65	11,773,395
15-Jun-04	32.10	32.58	31.97	32.10	14,797,518
16-Jun-04	32.41	32.77	32.07	32.47	11,287,987
17-Jun-04	32.39	32.53	31.96	32.38	11,659,429
18-Jun-04	32.06	32.87	31.95	32.07	15,934,744
21-Jun-04	32.16	32.38	31.56	31.67	12,375,593

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
22-Jun-04	31.95	32.55	31.77	32.54	15,235,164
23-Jun-04	32.54	34.19	32.52	33.97	27,375,480
24-Jun-04	33.80	34.38	33.64	34.11	16,021,371
25-Jun-04	34.25	35.36	33.50	34.91	20,583,500
28-Jun-04	35.24	36.27	34.98	35.48	24,861,460
29-Jun-04	35.39	35.77	35.08	35.35	15,017,860
30-Jun-04	35.99	36.51	35.70	36.40	21,590,640
1-Jul-04	35.15	35.34	34.11	34.30	28,650,500
2-Jul-04	34.50	34.54	33.57	33.94	16,244,552
6-Jul-04	33.98	34.00	32.30	33.22	27,505,410
7-Jul-04	33.14	33.14	32.30	32.60	37,175,620
8-Jul-04	29.29	31.24	28.99	30.08	87,542,870

Appendix B

Price Listing - Microsoft

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
14-Oct-03	28.66	28.77	28.48	28.68	35,191,310
15-Oct-03	29.20	29.26	28.70	29.07	58,358,100
16-Oct-03	28.91	29.31	28.80	29.23	42,270,250
17-Oct-03	29.28	29.29	28.80	28.93	51,135,990
20-Oct-03	28.95	29.37	28.80	29.35	38,831,480
21-Oct-03	29.35	29.43	29.17	29.35	44,176,160
22-Oct-03	29.03	29.21	28.80	28.89	48,852,060
23-Oct-03	28.72	29.08	28.72	28.91	69,534,100
24-Oct-03	27.27	27.40	26.42	26.61	210,918,100
27-Oct-03	26.91	27.10	26.82	26.91	65,641,710
28-Oct-03	27.09	27.22	26.88	27.20	72,144,560
29-Oct-03	27.16	27.25	26.66	26.74	73,595,060
30-Oct-03	27.01	27.04	25.91	26.12	99,139,270
31-Oct-03	26.37	26.44	26.11	26.14	69,659,080
3-Nov-03	26.35	26.75	26.29	26.68	57,790,220
4-Nov-03	26.59	26.62	26.01	26.07	84,035,770
5-Nov-03	26.15	26.32	26.00	26.10	61,569,640
6-Nov-03	26.26	26.30	26.00	26.23	68,225,790
7-Nov-03	26.38	26.49	26.03	26.10	57,862,060
10-Nov-03	26.12	26.23	26.00	26.00	54,596,150
11-Nov-03	26.01	26.08	25.67	25.80	64,999,500
12-Nov-03	25.85	26.14	25.60	25.98	76,231,280
13-Nov-03	25.86	25.93	25.45	25.69	79,154,370
14-Nov-03	25.70	26.02	25.44	25.50	83,171,110
17-Nov-03	25.39	25.44	24.84	25.15	103,939,280
18-Nov-03	25.33	25.84	25.12	25.15	110,110,620
19-Nov-03	25.29	25.54	25.17	25.35	78,862,790
20-Nov-03	25.17	25.63	25.08	25.10	107,168,830
21-Nov-03	25.33	25.38	25.08	25.11	70,823,440
24-Nov-03	25.33	25.80	25.28	25.73	99,948,380
25-Nov-03	25.87	25.95	25.38	25.40	85,997,500
26-Nov-03	25.61	25.63	25.32	25.45	69,767,060
28-Nov-03	25.50	25.75	25.40	25.71	33,404,270
1-Dec-03	25.90	26.21	25.50	25.84	102,442,200
2-Dec-03	25.95	26.09	25.61	25.66	85,121,710
3-Dec-03	25.82	26.07	25.62	25.67	93,121,520

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
4-Dec-03	25.72	26.23	25.66	26.20	87,238,060
5-Dec-03	25.96	26.48	25.92	25.98	96,622,990
8-Dec-03	26.12	26.34	25.81	26.24	90,611,830
9-Dec-03	26.44	26.61	26.25	26.38	103,563,950
10-Dec-03	26.45	26.63	26.38	26.59	82,868,110
11-Dec-03	26.59	26.77	26.28	26.61	79,332,400
12-Dec-03	26.69	26.81	26.50	26.65	69,212,560
15-Dec-03	27.05	27.10	26.68	26.74	88,870,940
16-Dec-03	26.83	27.16	26.77	27.06	73,984,240
17-Dec-03	27.04	27.08	26.85	27.04	53,753,580
18-Dec-03	27.10	27.45	27.05	27.40	61,190,610
19-Dec-03	27.49	27.55	27.19	27.36	76,923,600
22-Dec-03	27.16	27.43	26.97	27.18	43,931,360
23-Dec-03	27.17	27.34	27.01	27.15	39,615,400
24-Dec-03	27.14	27.16	27.00	27.04	19,924,190
26-Dec-03	27.05	27.25	27.00	27.21	12,076,814
29-Dec-03	27.21	27.53	27.16	27.46	40,436,730
30-Dec-03	27.41	27.55	27.40	27.52	34,407,440
31-Dec-03	27.42	27.55	27.23	27.37	42,251,890
2-Jan-04	27.58	27.77	27.33	27.45	44,487,640
5-Jan-04	27.73	28.18	27.72	28.14	67,341,840
6-Jan-04	28.19	28.28	28.07	28.24	46,958,280
7-Jan-04	28.17	28.31	28.01	28.21	54,330,540
8-Jan-04	28.39	28.48	28.00	28.16	58,818,960
9-Jan-04	28.03	28.06	27.59	27.66	67,144,610
12-Jan-04	27.67	27.73	27.35	27.57	55,860,370
13-Jan-04	27.54	27.64	27.26	27.43	51,558,310
14-Jan-04	27.51	27.73	27.47	27.70	43,940,830
15-Jan-04	27.55	27.72	27.42	27.54	58,526,350
16-Jan-04	27.74	27.88	27.53	27.81	64,008,110
20-Jan-04	27.99	28.20	27.93	28.10	63,096,870
21-Jan-04	28.13	28.30	27.85	28.30	53,641,470
22-Jan-04	28.37	28.44	27.94	28.01	79,830,100
23-Jan-04	28.27	28.76	28.22	28.48	127,268,320
26-Jan-04	28.49	28.83	28.32	28.80	58,316,830
27-Jan-04	28.60	28.72	28.22	28.25	63,227,100
28-Jan-04	28.28	28.44	27.47	27.71	71,251,140
29-Jan-04	27.78	27.95	27.57	27.91	63,750,360
30-Jan-04	27.85	27.90	27.55	27.65	40,531,800
2-Feb-04	27.63	27.80	27.24	27.40	63,305,410
3-Feb-04	27.42	27.55	27.18	27.29	48,206,740
4-Feb-04	27.15	27.43	27.01	27.01	60,938,650
5-Feb-04	27.06	27.17	26.83	26.96	55,565,350

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
6-Feb-04	27.00	27.19	26.93	27.08	47,216,230
9-Feb-04	27.18	27.23	26.85	26.90	48,110,930
10-Feb-04	26.86	27.15	26.82	27.02	37,843,400
11-Feb-04	26.95	27.23	26.85	27.15	51,515,280
12-Feb-04	27.09	27.15	26.93	26.95	44,792,230
13-Feb-04	26.98	27.06	26.50	26.59	67,550,710
17-Feb-04	26.70	27.10	26.59	26.99	43,486,350
18-Feb-04	26.92	27.11	26.74	26.77	50,342,320
19-Feb-04	26.90	26.98	26.43	26.46	62,151,110
20-Feb-04	26.65	26.80	26.50	26.57	57,835,220
23-Feb-04	26.75	26.76	26.48	26.61	50,274,760
24-Feb-04	26.60	26.95	26.55	26.88	55,437,300
25-Feb-04	26.89	26.99	26.61	26.70	64,495,120
26-Feb-04	26.63	26.65	26.41	26.50	66,605,890
27-Feb-04	26.48	26.62	26.35	26.53	58,282,180
1-Mar-04	26.65	26.72	26.50	26.70	52,154,830
2-Mar-04	26.63	26.69	26.35	26.39	66,346,620
3-Mar-04	26.35	26.55	26.22	26.37	55,002,830
4-Mar-04	26.37	26.42	26.21	26.37	44,030,370
5-Mar-04	26.23	26.60	26.20	26.35	59,852,300
8-Mar-04	26.31	26.35	25.81	25.83	69,399,000
9-Mar-04	25.77	25.97	25.54	25.72	81,131,380
10-Mar-04	25.66	25.80	25.35	25.37	75,170,930
11-Mar-04	25.20	25.78	25.07	25.09	90,594,370
12-Mar-04	25.38	25.51	25.23	25.38	64,143,850
15-Mar-04	25.33	25.43	25.06	25.16	68,841,590
16-Mar-04	25.27	25.37	25.10	25.18	65,454,160
17-Mar-04	25.25	25.46	25.11	25.13	56,265,750
18-Mar-04	25.03	25.03	24.58	24.89	123,243,240
19-Mar-04	24.84	24.94	24.56	24.63	86,679,700
22-Mar-04	24.53	24.84	24.01	24.50	127,820,320
23-Mar-04	24.63	24.66	24.11	24.15	91,728,980
24-Mar-04	24.36	24.58	24.18	24.41	97,589,350
25-Mar-04	24.60	25.24	24.58	25.19	85,689,630
26-Mar-04	25.11	25.51	25.00	25.03	61,593,450
29-Mar-04	25.24	25.40	25.00	25.31	51,888,700
30-Mar-04	25.19	25.33	25.03	25.20	59,015,150
31-Mar-04	25.19	25.20	24.87	24.93	70,546,890
1-Apr-04	24.95	25.11	24.85	25.08	69,070,240
2-Apr-04	25.47	25.90	25.44	25.85	98,051,430
5-Apr-04	25.80	25.98	25.73	25.95	53,803,920
6-Apr-04	25.76	25.90	25.66	25.80	49,049,350
7-Apr-04	25.73	25.78	25.35	25.59	63,303,290

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
8-Apr-04	25.80	25.85	25.36	25.48	45,298,490
12-Apr-04	25.48	25.74	25.43	25.61	38,820,230
13-Apr-04	25.68	25.77	25.41	25.45	56,985,200
14-Apr-04	25.40	25.68	25.38	25.51	61,088,190
15-Apr-04	25.58	25.73	25.10	25.22	73,850,390
16-Apr-04	25.15	25.40	25.11	25.16	51,773,660
19-Apr-04	25.09	25.60	25.06	25.53	44,594,440
20-Apr-04	25.64	25.88	25.28	25.33	59,922,360
21-Apr-04	25.37	25.49	25.20	25.45	49,264,180
22-Apr-04	25.52	25.99	25.47	25.95	100,198,880
23-Apr-04	27.36	27.72	27.34	27.54	258,297,400
26-Apr-04	27.45	27.55	27.10	27.24	89,395,070
27-Apr-04	27.21	27.37	27.13	27.22	82,078,200
28-Apr-04	27.05	27.05	26.47	26.56	72,849,170
29-Apr-04	26.53	26.94	26.31	26.48	78,144,210
30-Apr-04	26.66	26.75	25.96	26.13	66,175,600
3-May-04	26.22	26.52	26.19	26.35	66,039,450
4-May-04	26.36	26.54	26.02	26.33	55,497,190
5-May-04	26.32	26.60	26.25	26.30	52,928,870
6-May-04	26.16	26.34	26.03	26.12	62,694,610
7-May-04	26.04	26.38	25.75	25.78	68,297,030
10-May-04	25.64	26.05	25.62	25.93	64,633,150
11-May-04	26.08	26.11	25.79	25.94	57,935,090
12-May-04	25.87	26.00	25.43	25.94	64,163,500
13-May-04	25.85	26.19	25.79	26.10	63,868,470
14-May-04	25.98	26.17	25.64	25.86	43,781,220
17-May-04	25.48	25.79	25.42	25.54	55,160,510
18-May-04	25.69	25.97	25.64	25.83	58,158,830
19-May-04	26.06	26.27	25.62	25.62	60,063,820
20-May-04	25.74	25.87	25.59	25.73	52,092,790
21-May-04	25.90	26.20	25.78	25.89	57,810,100
24-May-04	26.05	26.17	25.74	25.76	56,258,010
25-May-04	25.70	26.19	25.60	26.10	66,620,280
26-May-04	25.99	26.15	25.85	26.14	50,341,470
27-May-04	26.16	26.19	25.92	26.19	49,089,690
28-May-04	26.16	26.35	26.02	26.23	37,396,190
1-Jun-04	26.11	26.27	25.87	26.11	48,377,690
2-Jun-04	26.14	26.28	26.01	26.13	54,022,500
3-Jun-04	26.06	26.13	25.86	25.89	45,946,520
4-Jun-04	26.11	26.24	25.94	25.95	48,819,770
7-Jun-04	26.08	26.43	25.97	26.43	65,229,570
8-Jun-04	26.27	26.65	26.24	26.60	58,252,830
9-Jun-04	26.41	26.65	26.40	26.47	50,386,070

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
10-Jun-04	26.43	26.79	26.38	26.77	48,111,700
14-Jun-04	26.57	26.90	26.53	26.90	67,440,980
15-Jun-04	26.98	27.60	26.97	27.41	114,245,010
16-Jun-04	27.34	27.50	27.15	27.32	67,437,040

Advanced ABC Filters

In this section we will cover

- **ABC Price Ranges**
- **Volume**
- **ABC Time Filters**
- **Overbalance in Price Trades**

Filter #1 - Price Ranges

As a trend gathers momentum, the size and duration of ranges in the direction of that trend will generally increase. By the same token, the size and duration of ranges against the trend will decrease.

Expanding ranges in size and duration are a sign of strength. Contracting ranges in size and duration are a sign of weakness.

Comparing the A to B range to the previous swing in that direction is something I introduced to you during the **Trading a Stock Index Futures Exercise** in the *Smarter Starter Pack*. This was a filter to allow for the 33% entry limit to be used during strongly trending markets.

To rate a trade's strength here, compare the last four price ranges in that direction, including the A to B range. Are they expanding or contracting?

Then compare the last four price ranges in the direction of the B to C range, including the current one. Are they expanding or contracting?

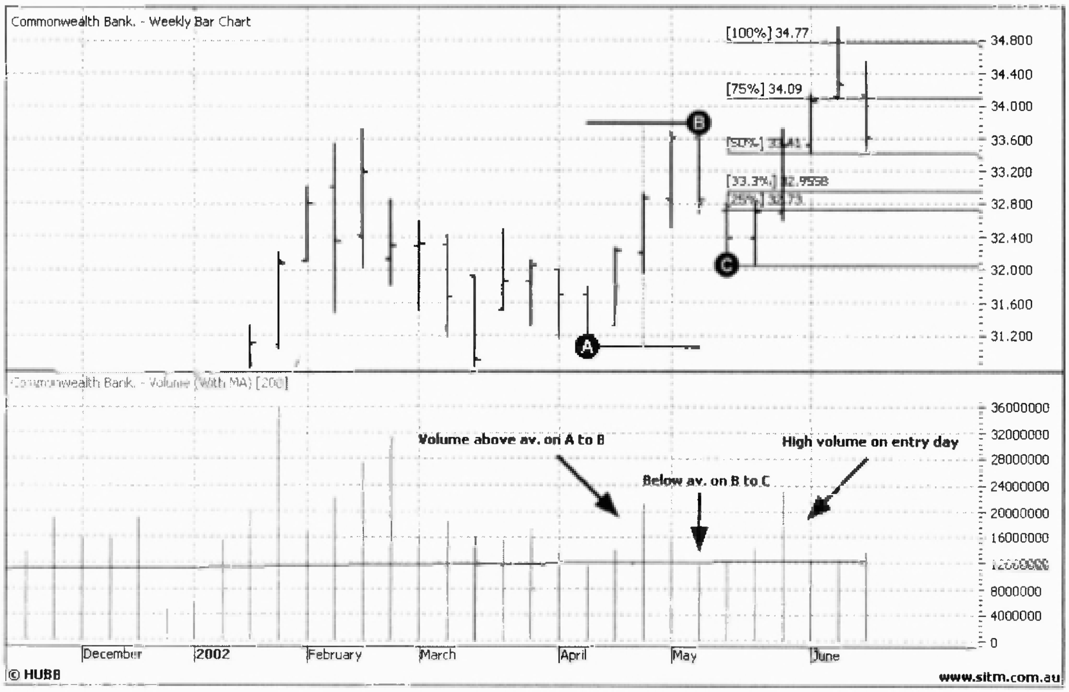
Mark both of these results down as expanding, contracting or uncertain.

Filter #2 - Volume

I have talked about the importance of volume many times. Volume is one of the most useful, yet overlooked confirming indicators. Movements under high volume show strength in a trend.

With respect to ABC trading, the most important thing I want you to look for is higher average volume in the A to B range than in the B to C. This indicates that the move in the direction of the trend (A to B) has strength behind it and the retracement move (B to C) does not. You are confirming that the market is supportive of the move with the trend.

CBA Volume



The example shows the kind of volume fluctuations expected in a strong ABC trade in that volume was above the 200 bar average during A to B and below or equal to the average from B to C. While it may not be completely clear on the chart, the entry stop was actually triggered on the high volume day two days after Point C. Even though this would most likely have been observed after entry, it is still a good confirmation of the trade's strength.

I actually offered this valuable rule on the **Road Map Chart** contained in the *Smarter Starter Pack* for those who were ready to see it. There I made the point that volume increasing at the 33% mark is an important confirmation of the change in trend back in the direction of the A to B range. Do not underestimate the power of volume!

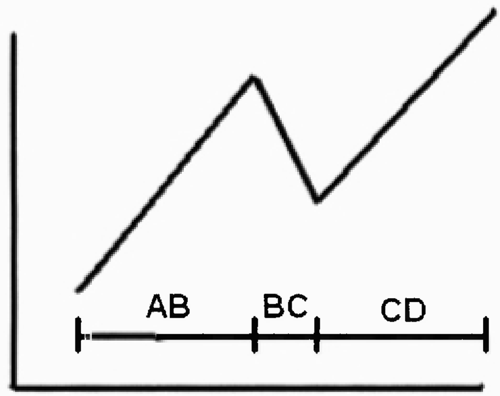
Filter #3 - Time

As an extension to your initial introduction to time in relation to the duration of AB in relation to BC, I want you to now look at the same ranges as I have listed above, but instead measure and compare the 'time' of each range.

Now also mark these results down as expanding, contracting or uncertain.

In the *Smarter Starter Pack* I limited my references to time and for good reason. Now that you have taken this second step I feel you are ready to bring a time element to your trading. Think of this as part of your introduction to my time based analysis.

Measuring the duration in time of the A to B range and comparing it to the B to C range is another way of reading trade strength. Obviously we prefer the A to B range to be significantly greater than the B to C.



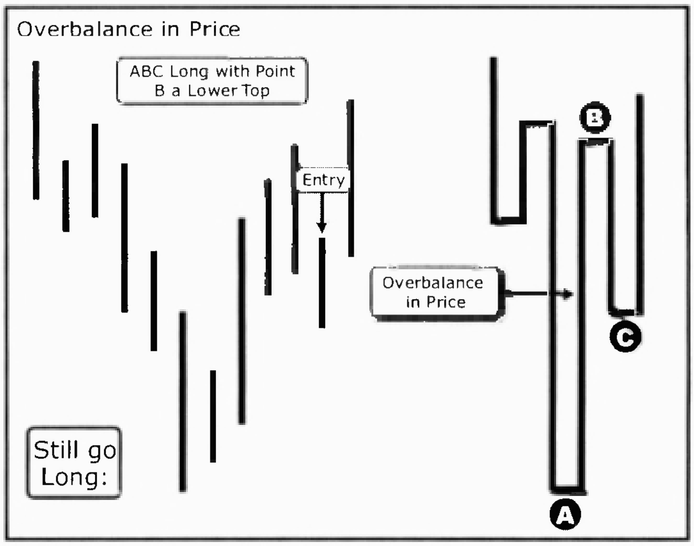
From here, project the time in days or weeks of A to B from C. This will give you a estimated date of Point D, much the same as the 100% milestone gives an estimated price. It is also worth noting where the 50% points in time and price line up.

This technique is especially useful when dealing with instruments that have expiry dates like options and futures, when trading them near expiry dates.

Filter #4 - Overbalance in Price

Overbalances in price often occur at the beginning of significant change in trend. The concept of price overbalance that I want you to become familiar with is when a market is still in its current trend by definition (higher tops, higher bottoms or lower tops, lower bottoms) but has retraced against the trend by 2.25 times or more of the previous range in that direction. The figure of 2.25 is open to debate, use it as a guide. You occasionally may push this back to just 1.5 as your experience grows.

As you can imagine, Overbalance in Price trades often occur at the same time as a standard ABC in the opposite direction. The key here is to watch for abnormally large B to C retracements when compared to the previous movement in the same direction.



So the rule in its simplest form is, if the last swing is 2.25 times the size of the previous swing in that direction, Point B does not need to cross the previous swing top or bottom.

Overbalance in Price Trading Exercise

Using the data in the Appendix to this section titled **Price Listing – Aussie Dollar Futures**, it is time to put pen to paper again. I want you to fill in an **ABC Trading Plan** from the *Smarter Starter Pack* and establish which of the exit techniques outlined in the *Smarter Starter Pack* would have been the most profitable.

The trading rules are as follows:

1. The basis of the trading plan is the swing chart. You will construct your daily chart exactly as I have shown you.

2. Only trade with the trend.

   An up trend is defined as a market in which the most recent swing high is higher than the swing high which preceded it, and the most recent swing low is higher than the swing low which preceded it.

   A downtrend is the opposite, that is, a lower swing high, and a lower swing low.

3. In respect to trades on the long side, the intended trade is identified by the formation of a Point C.

   Point A is the start of the immediately preceding up move.

   Point B is the termination of the first up move and is identified by a swing down.

   Point C is the termination of the counter-trend, corrective move and is identified by a swing up.

4. The distance between points A and B is measured for three reasons:

   Firstly, the long trade must be entered at, or before, the market has traveled up a distance equal to 33% of the A-B range, from Point C.

   Secondly, the progressive 25% mileposts are used for the placement of stop-loss levels and the exiting of positions.

   Thirdly, you will rate the strength of a market by comparing its retracements against the main trend. In a strongly trending market the retracement will usually be 50% or less of the A-B range.

   Refer to Point 5 of 'Now its Your Turn' (on the next page) for the exit rules.

5. Upon entering an initial trade, a stop loss is placed one point (tick) below Point C.

   For a long trade on AUD/US Dollar, this will be 0.0001 below Point C.

6. Trade the Stock, Currency and Stock Index Exit Styles, recording the exit point and profit based on each.

Now it is your turn!

Take another large sheet of *Safety in the Market* charting paper and have in front of you the AUD/US Dollar Contract data table, which is in the **Appendix** for this section. You have my permission to photocopy this table – this will make it easier for you to plot the data while referring to this manual.

1. **Label Your Chart**

   Label your charting paper "AUD/US Dollar Daily Bar Chart" in the middle, up the top of you chart. As time passes you will accumulate more and more charts.

   Always label them clearly to avoid confusion.

2. **Label the Price Axis**

   We now write the scale on the left-hand side of the chart. To determine the scale you look for the highest high, and the lowest low, in your data table. This gives you a guide to the minimum market range that you will be plotting. Also, if the market you are charting is likely to exceed the highest high, for example, you would allow more space at the top of the chart. Don't panic if a market moves beyond the top or bottom of your chart – simply glue more charting paper to the chart, and continue the scale up or down.

3. **Label the Time Axis**

   Write the dates of each day for which you have data across the bottom of your chart. The first date is 2 February 2004. You will construct what is called a trading-day chart, and hence you do not leave spaces for weekends and holidays.

4. **Plot the Data and Paper trade the Market**

   Your final and most important step is to commence to plot the data one day at a time. Make this exercise as realistic as possible, by covering your daily and weekly data so that you only reveal the daily (or on a Friday, weekly) data you need at that time.

   Rather than taking every ABC that comes up, I just want you to keep and eye out for the overbalance in price. Despite my statement above, I am just as happy for you to skip over the data to the section that you believe the overbalance is in.

5. **Paper Trade All Three Exit Styles**

   Using the three ABC Exit Styles outlined in the **ABC Trading Rules** section (pages 46-49), compare the profit made on each method to establish which was the most profitable. Doing this gives you a chance to practice testing multiple exit strategies at once. I want you to pretend you have to come back to me personally with the answer before you make your final decision. So be sure to double-check your answer!

Trade-By-Trade Analysis

Stock Style Stop

Entry stop is outside entry limit – no trade based on the Stock Style Method.

Currency Style Stop

Overbalance of price trade			Ref. Range Points	25%	33%	50%	75%	100%
	Price	**Date**	0.037					
Point A at	0.7980	18-Feb-04	**Range**	0.01	0.01	0.02	0.03	0.04
Point B at	0.7610	20-Feb-04	**Price**	0.7708	0.7677	0.7615	0.7523	0.7430
Point C at	0.7800	24-Feb-04						
Entry at	0.7686	26-Feb-04						
Stop at	0.7801		**Estimated Point C -**		0.7795			
Risk	0.0115							
Exit at	0.7430	3-Mar-04						
Profit (Loss)	0.0256	points						
Profit (Loss)	US$2560 / contract							
Exit trigger:	100% target reached							

Stock Index Style Stop

Overbalance of price trade			Ref. Range Points	25%	33%	50%	75%	100%
	Price	**Date**	0.037					
Point A at	0.7980	18-Feb-04	**Range**	0.01	0.01	0.02	0.03	0.04
Point B at	0.7610	20-Feb-04	**Price**	0.7708	0.7677	0.7615	0.7523	0.7430
Point C at	0.7800	24-Feb-04						
Entry at	0.7686	26-Feb-04						
Stop at	0.7801		**Estimated Point C -**		0.7795			
Risk	0.0115							
Exit at	0.7617	3-Mar-04						
Profit (Loss)	0.0069	points						
Profit (Loss)	US$690 / contract							
Exit trigger:	Progressive Stop triggered 2 points above 50% milestone							

Advanced ABC Check List

Based on what we have covered, here is a basic checklist in with which you can gauge the strength of price set-ups. Place a "+1" in score box if the answer to the question is yes and a "–1" if the answer is no. Preferably you would like to see a score of plus six, however a minimum of plus three is suggested. I have also included a criteria relating to the entry stop based on the extended entry plus commission rules outlined previously.

Filter	Score
Are the A-B direction price ranges expanding or contracting?	
Are the B-C direction price ranges expanding or contracting?	
Are the A-B direction time ranges expanding or contracting?	
Are the B-C ranges in time contracting?	
Is the average volume greater between A to B than B to C?	
Is the time taken to form the A to B range greater than time taken to form B to C?	
Total Score	

What % is the entry stop at?	%
What is double this level for Entry plus exits?	

Section 8 Review

In this section we have covered

It is important to understand and trade with major and minor market cycles

Always trade with the minor and major trends in sympathy

Use Multi-Day Swing Charts to gain a longer-term view

Add to positions in strongly trending markets

Use the Thermometer to gauge the temperature of a market

Use a checklist to rate potential ABC Trades

Advanced ABC Filters Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. If the B to C range on any particular trade is greater than the previous swing in the same direction, we can say it is a:
   a. Strong Trade
   b. Weak Trade
   c. Neutral Trade
   d. Impossible to say
2. Decreasing volume in the B to C range is a sign of:
   a. A stronger A to B range
   b. Weaker A to B range
   c. Lack of interest in the stock market
   d. Stock has gone ex-dividend
3. Time Filters are especially useful when trading with which type of instrument:
   a. Futures
   b. Options
   c. Indices
   d. a & b only
4. An Overbalance in Price is indicative of which of the following:
   a. A possible change in trend
   b. A bull market
   c. A bear market
   d. None of the above

Price Listing - Aussie Dollar Futures

Data Date	Open Price	High Price	Low Price	Close Price	Total Volume
02-Feb-04	0.7602	0.7615	0.7518	0.7535	8,152
03-Feb-04	0.7558	0.7640	0.7547	0.7612	10,482
04-Feb-04	0.7605	0.7612	0.7545	0.7578	5,833
05-Feb-04	0.7588	0.7640	0.7570	0.7578	6,179
06-Feb-04	0.7578	0.7683	0.7568	0.7661	8,706
09-Feb-04	0.7639	0.7752	0.7623	0.7723	8,802
10-Feb-04	0.7733	0.7807	0.7733	0.7776	10,237
11-Feb-04	0.7778	0.7869	0.7733	0.7852	14,245
12-Feb-04	0.7859	0.7874	0.7830	0.7856	6,458
13-Feb-04	0.7881	0.7930	0.7838	0.7859	-
16-Feb-04	0.7868	0.7906	0.7867	0.7905	7,719
17-Feb-04	0.7900	0.7965	0.7886	0.7956	11,018
18-Feb-04	0.7962	0.7980	0.7845	0.7875	10,603
19-Feb-04	0.7871	0.7908	0.7840	0.7889	8,063
20-Feb-04	0.7905	0.7914	0.7610	0.7654	25,350
23-Feb-04	0.7681	0.7738	0.7633	0.7679	9,168
24-Feb-04	0.7724	0.7800	0.7676	0.7779	7,959
25-Feb-04	0.7774	0.7799	0.7687	0.7701	8,461
26-Feb-04	0.7700	0.7725	0.7647	0.7695	10,036
27-Feb-04	0.7700	0.7735	0.7646	0.7722	9,280
01-Mar-04	0.7720	0.7760	0.7692	0.7700	9,918
02-Mar-04	0.7714	0.7734	0.7567	0.7623	13,748
03-Mar-04	0.7601	0.7601	0.7392	0.7496	28,029
04-Mar-04	0.7475	0.7553	0.7468	0.7500	7,920
05-Mar-04	0.7500	0.7621	0.7479	0.7584	12,414
08-Mar-04	0.7586	0.7599	0.7522	0.7572	16,205
09-Mar-04	0.7603	0.7654	0.7561	0.7584	19,648
10-Mar-04	0.7580	0.7589	0.7445	0.7500	7,407
11-Mar-04	0.7474	0.7508	0.7318	0.7387	8,386
12-Mar-04	0.7275	0.7279	0.7175	0.7242	1,204
15-Mar-04	0.7237	0.7305	0.7212	0.7280	8,299
16-Mar-04	0.7283	0.7360	0.7273	0.7333	7,716
17-Mar-04	0.7345	0.7355	0.7285	0.7335	6,278
18-Mar-04	0.7331	0.7494	0.7327	0.7444	7,488

Advanced ABC Entries

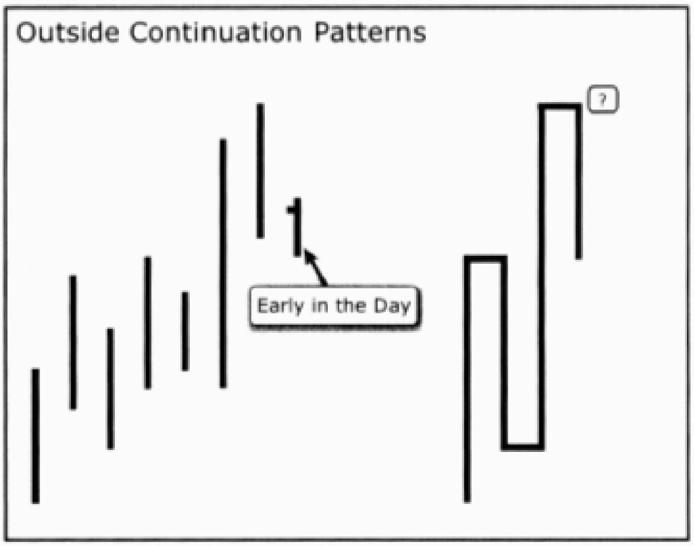
In this section we will cover

- Outside Continuation Patterns
- Outside Reversal Days
- Ignoring Outside Day Swings
- First Higher Swing Bottoms
- Opener's Rule
- Closer's Rule

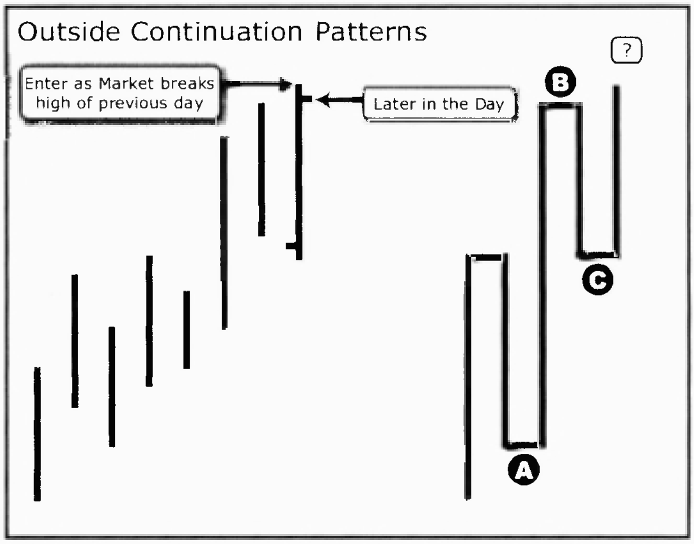
Entry #1 - Outside Continuation Patterns

Outside Continuation patterns often indicate a small amount of profit taking within the existing trend. They offer a great opportunity to enter additional ABC trades. Legitimate entry into these trades will often require you to check a market half way through the day using intra-day data in order to place your entry stop.

In a long trade, place your entry stop 1 point above the high of the previous day – the potential Point B day. If the market trades above the high of the previous day it will in effect confirm Points B and C simultaneously.



Checking the market half way through the day, an entry stop can be placed one point above the previous day's high.



In this the market trades higher, hitting your entry stop and getting you into the trade. Stops are then placed as normal behind the low of the day.

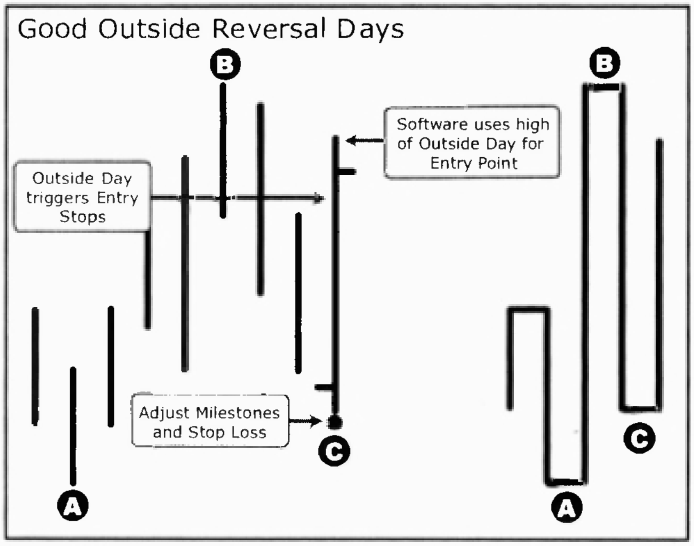
This is definitely a technique that I recommend to more experienced traders. As harmless as it may seem, checking the market half way through the day can be dangerous for new and impressionable traders. It offers the potential for all sorts of temptations from moving stops to entering based on punt. However, once you feel ready, making a lunchtime check of the market part of your day is time well spent when additional trades such as these can be taken.

The characteristics on an Outside Continuation Day Trade are:

- Market is moving up (or down) in a strong fashion
- After a number of up days the market breaks the low of the previous day early in the day
- Indicating early to turn swing chart down for a potential Point C
- During the day the market finds strength (and volume) and rallies, breaking the previous days' high
- Enter the trade, as the previous day's high is broken
- Needs intra-day data!
- Taking ANTICIPATION just one step further
- The reverse applies for short trades

Entry #2 - Outside Reversal Days

Outside reversal days in this context are outside days that make a new Point C before crossing your entry stop. As shown below, if you are not following the market intra-day, these days will require you to recalculate your milestones once in the trade to reflect the new Point C.

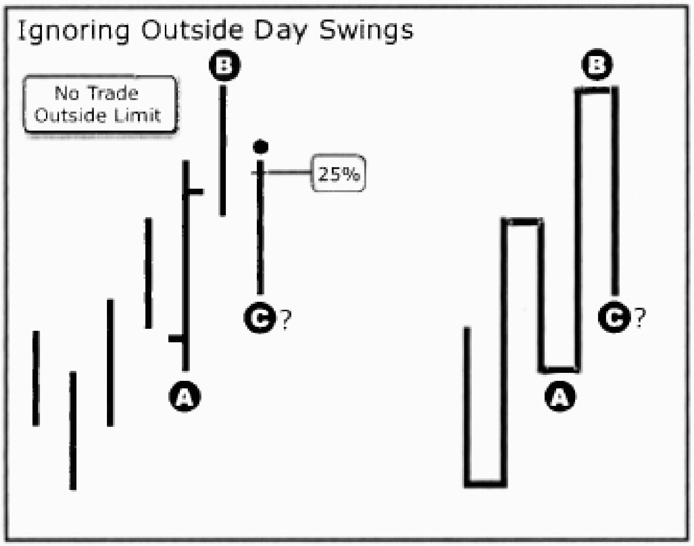


The entry stop is placed as per standard ABC rules based on the potential Point C.

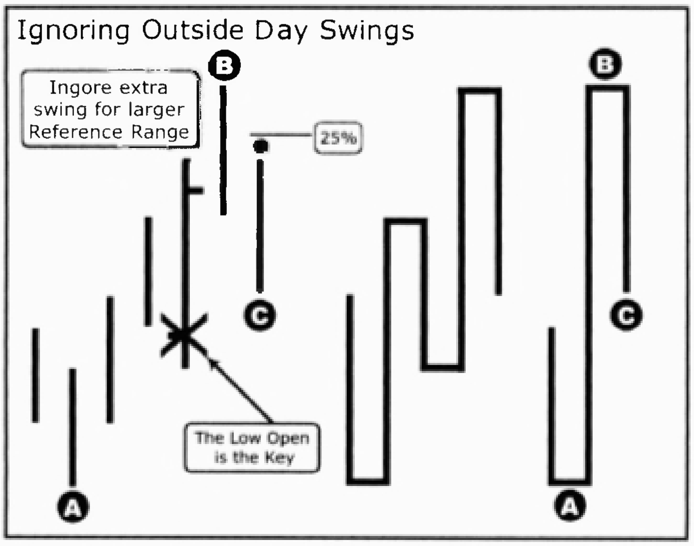
Both the outside reversal and outside continuation ABC trades are valuable techniques that can easily be added to your trading plan as they are based on simple changes to the standard ABC rules.

Entry #3 - Ignoring Outside Day Swings

At this point I want to highlight clearly that in this course I am teaching you more subjective trading techniques. When used by sensible and experienced traders these tools add to your profitability, however in the wrong hands they can be dangerous. Please ensure you first understand the standard ABC rules backwards and backtest these new techniques before attempting to use them with real money.



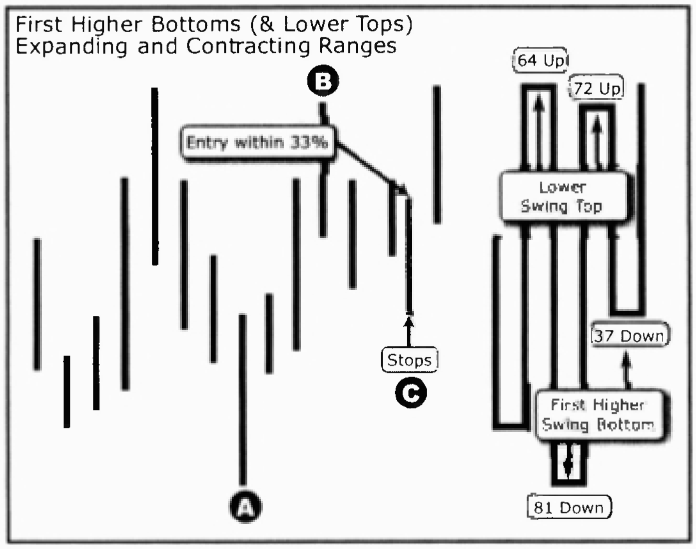
Ignoring outside day swings is something I first exposed to you in the S&P 500 trading exercise in the *Smarter Starter Pack*. This technique is best used on ABC trades when an outside day, especially after a very small range day, creates an extra swing that places your entry stop outside the standard limits.



Entry #4 - First Higher Swing Bottoms

Similar to an overbalance in price trade, first higher swing bottom/ lower swing top trades allow entry without a standard ABC confirmation. As the name indicates, these trades are designed to anticipate a change in trend and should only be taken when a significant trend has been broken.

Unlike the overbalance in price trade, there is no specific criteria in relation to range sizes, however it is important that current trend ranges are contracting and the counter trend ranges are expanding as confirmation.



When trading First Higher Bottoms (And Lower Tops) on the basis of a price forecast or supporting evidence by expanding and contracting ranges the basics are...

- Focus on your ranges
- Long trades – expanding up swings, contracting down
- Short trades – contracting up swings, expanding down
- Take the first higher swing bottom or lower swing top trade
- Entry within 33%
- Stops behind the swing bottom (long) or swing top (short)
- Needs you to ANTICIPATE – be on the ball!

Entry #5 - "Openers Rule"

The Opener's rule can assist in entering standard ABC trades early or entering trades with entry stops outside the standard limits. In the latter case, the trade would normally be overlooked, however entry to these trades can often be gained legitimately using the Opener's Rule. Another benefit of this technique is entering closer to Point C and in so decreasing the total risk on the trade in dollar terms.

Be aware that this anticipation technique does increase the risk of the trade moving against you as no clear change in trend has been confirmed. Make no mistake, this is a technique for advanced ABC traders only. For best results, use in conjunction with the confirming indicators in your 'Advanced ABC Checklist.'

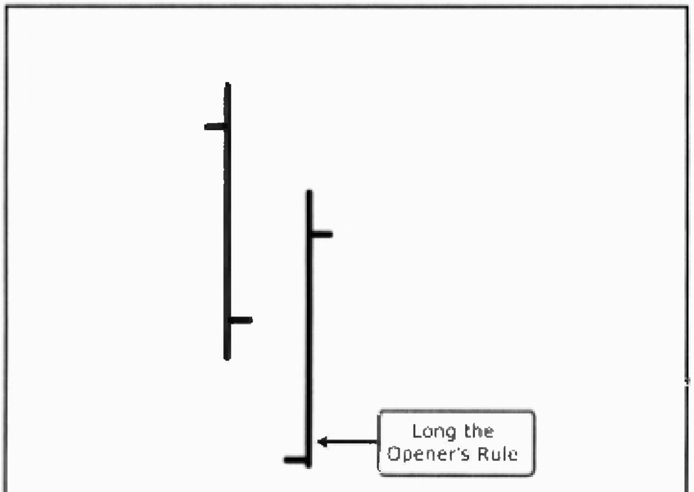
The Open - Controlled by the Amateurs

Look at the market 15 to 20 minutes after it opens, and draw a bar of the market at that time. If the market is comfortably ABOVE the open, we say that the market is Long the Openers, and expect higher prices. Reverse if it is below the open. Ideally we would like to see good solid volume.

Openers Rule *(oversimplified):*

- Likely to become a regular part of your plan
- Looking for overwhelming push from bulls or the bears from the opening bell
- Not a Stand Alone system
- Final piece of confirmation before placing orders
- Open drive consistent with view point from bigger picture
- Place stops 25% of the average range behind the open
- Trade long if the market runs up from the open

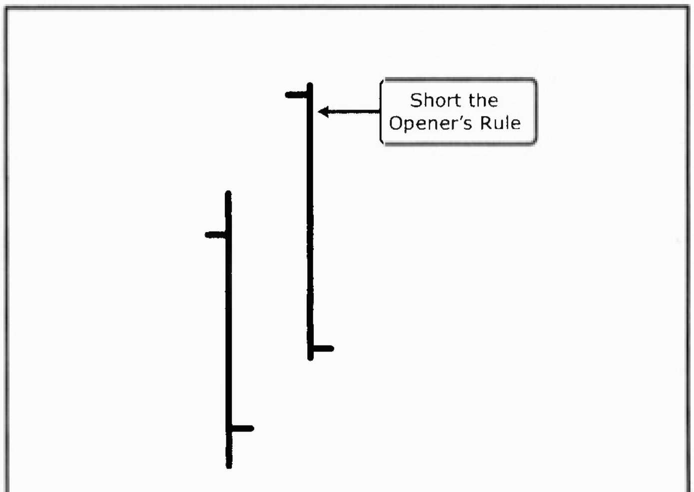
Long the Opener's



Check the market 20 minutes after open.

Trade short if the market runs down from the open.

Short the Opener's



Check the market 20 minutes after open.

The Opener's rule will mostly likely become a regular part of your trading plan. The Openers rule has us looking for an overwhelming push by either the bulls or the bears from the 'starting bell'.

The Opener's rule does not represent a stand-alone system, however the versatility of the concept warrants study and a plan to introduce it to your trading methods. Taking your trade indications from the daily or weekly bar and swing charts will remain your focus. However under certain trading conditions we are looking for one final piece of confirmation before placing our orders. To see an 'open drive' consistent with your viewpoint from the daily and weekly charts may be your final trigger to take the trade – the confirmation you where looking for.

Leading on from this, it is important to get to know a market before using this rule. The most important observation will be the average volume after 20 minutes of trading. This will allow you to gauge the strength of the Opener's signal based on the momentum behind it. 10% of the average daily volume is a good starting point, however this is just a guide and should be verified. Like adding any new trading method, test your ability to trade the signal profitably on paper before incorporating it into your trading.

When to Use

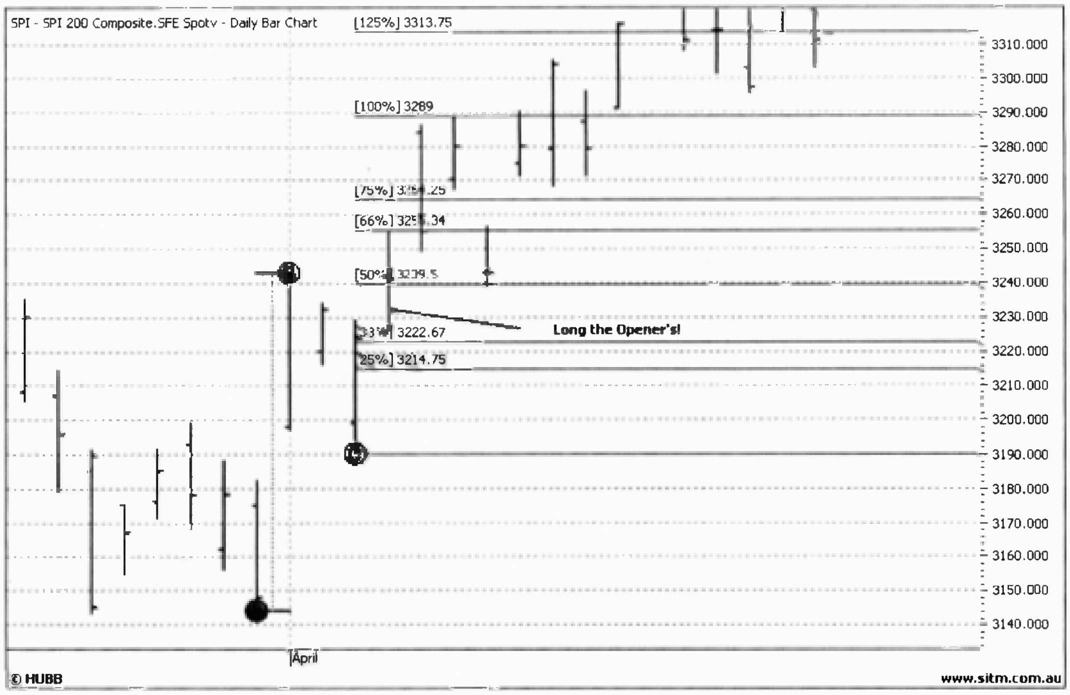
Conditions in which you would consider applying the Opener's Rule:

- Taking trades that ordinarily would be outside entry limits due to Risk and Reward
- Lower risk on entry for additional contracts on the breaking of tops or bottoms
- Placing a trade in 'Intensive Care' after an overnight gap
- Entering or Exiting on a Time by Degrees date

The Opener's rule can also be used to enter trades once they are already outside the entry limit.

Below is an example of an additional ABC trade on the ASX SPI200 entered outside the entry limit via the Opener's Rule.

Long the Opener's Rule outside entry limits



The Opener's Rule is a powerful trigger that can be used to get in early standard ABC trades or enter trades outside the standard ABC rules. However, once you master price and time forecasting techniques, the true power of this technique will no doubt be revealed.

Entry #6 - "Closers Rule"

Just as they say the open is controlled by the amateurs, the close is controlled by the professionals. Gauging the strength of the close can be highly effective way of getting the jump on an expected price or time set up.

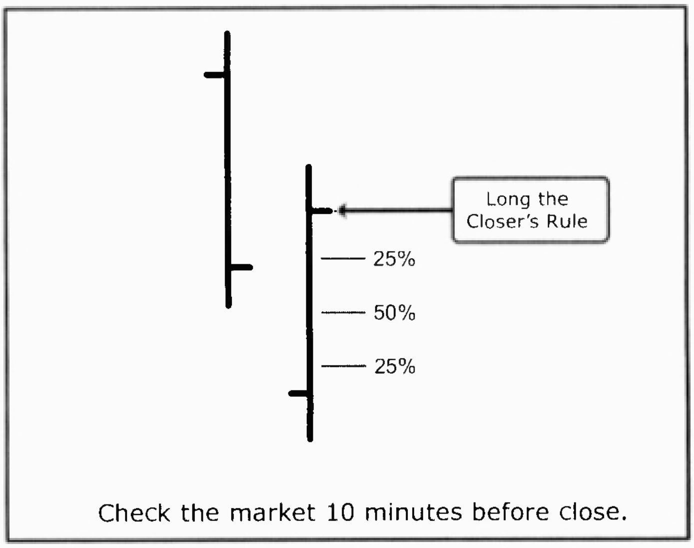
Once again the "Closer's" is a rule designed to be an entry trigger rather than a sole trading system. Please ensure this is the case in your trading.

- The Close – controlled by the professionals
- Look at market 10 minutes before close
- Draw bar for the day
- Determine top and bottom 25%
- Compare last trade to top and bottom 25%
- Place stops one tick behind the opposite end of the bar to the close

Determining a signal on the Closers Rule is relatively easy to calculate. The first piece of information required is the range of the day. Take the range of the day and divide it by four or in other words determine 25% of the daily range. Check the market 10 minutes before the close and record the range of the day and the last trade. If the last trade is in either the upper or lower 25% of the bar then you have a signal on the Close Rule.

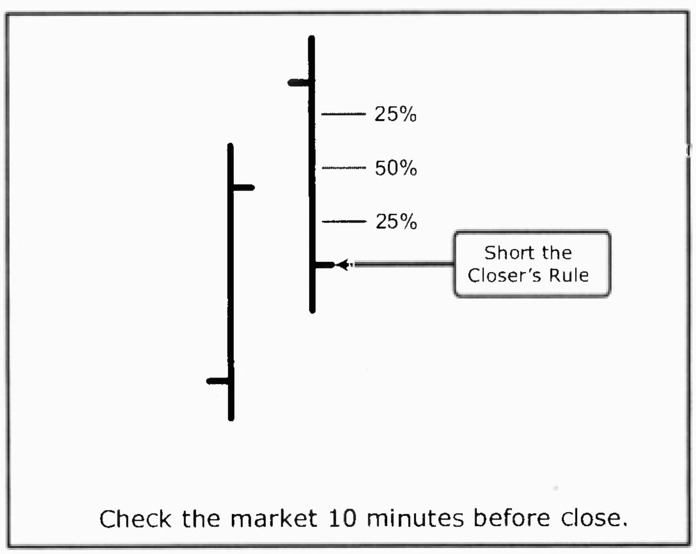
If the market is trading in the upper 25% then you have a 'Buy' the close signal.

Long the Closer's



Long the Closer's rule signals are also a good place to take profit on short positions. On the other side, if the market is trading in the lower 25% you have a 'Sell' the close signal. In turn, this is also a good place to close long positions.

Short the Closer's



When to Use

Conditions in which you would consider applying the Closer's Rule:

- Exiting the market for a profit
- Entering the market based on a price forecast

- Looking for confirmation to hold a newly set position
- A precursor to a potential entry expected on the following day

One key part of the Opener's and Closer's Rules is to set yourself a regime. The first part of the regime for the Opener's Rule is if you trade 24hr markets, check the close of the night market. Now that doesn't mean sit and watch it all night – just find out where it has closed as a guide to where the day session might open that morning.

The second part of the regime is to ensure you have access to the data you need and the time to focus. Mental rehearsal will play a big part in this. First always ensure you have completed a trading plan based on advanced ABC or Swing trading rules. You can then confidently use the Opener's or Closer's Rules as a trigger to enter the trade. Focus will be required and you need to be in a place free from distractions.

With regards to the Closer's Rule, you need to be able to stop and take the time to update the chart so as to be prepared for making the decision at 10 minutes prior to the close. The market waits for no man – you need to be available at the key times.

Section 9 Review

In this section we have covered

There are additional rules to filter potential ABC Trades

Techniques to enter and exit positions that extend beyond standard ABC theory are useful, but need to be applied sensibly

Advanced ABC Entries Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. To benefit most when trading outside continuation days it is best to consider the market:

   a. At the close

   b. At the open

   c. At Midday

   d. Weekly

2. We may chose to ignore an outside day swing on some occasions, these can be when:

   a. The market continues in trend after an outside day

   b. The market reverses trend after an outside day

   c. After any inside day

   d. An outside day creates an extra swing that places your entry stop outside the standard limits

3. When trading, first higher swing bottoms a trader should always:

   a. Focus on ranges

   b. Enter within 33%

   c. Place stops below swing bottoms

   d. All of the above

4. A trader would go "long the Opener's" if:

   a. The market opens higher than the previous close

   b. The market is trading higher than its open after 15-20 minutes

   c. The market is higher in the afternoon

   d. Only on low volume

5. A trader would go "short the Closer's" if:

   a. Ten minutes before the close, the market is trading in the bottom 25% of its daily range

   b. Ten minutes before the close, the market is trading in the bottom 33% of its daily range

   c. After analyzing the day's close

   d. None of the above

Advanced Price Setups

In this section we will cover

- **Double Tops and Bottoms and Reversal Rules**
- **Power of Gaps**
- **Multiple Chart Tops**

In this section I introduce you to trading strategies that do not fall directly under the banner of ABC trading.

Double Tops and Bottoms

Double tops and bottoms are a price set up widely accepted in most major forms of technical analysis. While opinions may vary on the confirmation and trading of them, there is no doubt of their value in your trading tool box.

How to be right when you are wrong – Trend Reversal Rules

Rule 1

Failure to take out Point B, followed by a breaking of Point C, constitutes a new trend. This is what we refer to as an "ambush".

Following on from that, buy once a double or triple bottom has been confirmed. Sell once a double or triple top has been confirmed. If these tops or bottoms are broken it will indicate the main trend has changed, so you should reverse and go with it.

I swore I would never ell anyone about this little gem, but I weakened:

Rule 2

After a double top or bottom a market can be expected to complete 200 percent of the previous range.

This may be the best rule I've ever written. It will pay for this Course many times over!

The trend-reversal rules are really a re-emphasis of Rule 3 from **Seasonal ABC Trades** (page 44). You see, if a double top or bottom is confirmed, you can expect a run of 200 percent of the previous range. This is a major profit move. What I am saying is that once the top or bottom is clearly taken out, there is still another 100 percent in the move. You are getting the whole lot, and you are getting it for free. This is the rule I often use to trade markets at the extreme tops and bottoms. Many of you have bought this course just to learn this particular style of trading. This is what is called a SET UP. As has been said before, the chance of a change in trend is greatly enhanced if the actual target price is a recognizable percentage of an all-time high or low. The trade is just too good to miss. I will tell you what constitutes a tradable double top or bottom, but for now, just realize that they have the potential to make you a hero! I will give you an example of how traders have used this rule to make very significant profits and to do precise forecasts.

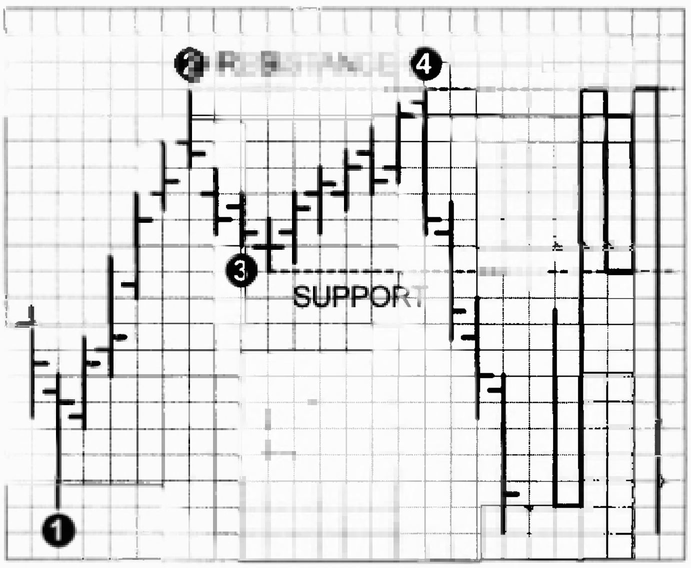
For now, look at it as a way to be right when you are wrong. If you incorporate this rule, you have a fall-back position in place. Take it from a guy that knows - double tops and bottoms deserve some extra emphasis due to the profit that can be derived from trading them correctly.

How do you know when you are right?

Human nature being what it is, when a trader is given a rule like the trend-reversal rule, he or she tends to use it excessively. This is known as "forcing a trade".

The trend-reversal rule only works with double tops and bottoms. They do not swing into play when a Point C is taken out. Many traders cannot handle double tops and bottoms so they just leave them out of their trading plan. For the purpose of example, we will do a small exercise on these much-maligned terms "double tops and bottoms".

Figure A



You can see from **Figure A** above that "2" and "4" are resistance and support points, depending on which way the market is trending. However, that is all they are - support and resistance, until "3" is taken out. You would, under normal circumstances, get a leading indicator from the *Smarter Starter Pack* under the rules for a change in trend situation. It is only when Point "3" is taken out, as it is in **Figure A**, that you can start talking about double tops and bottoms as defined in traditional technical analysis text books. Of course, on pages 63 and 64 of the *Smarter Starter Pack*, I show you how to trade double tops and bottoms with entries that can be as close as the day after the right-hand top or bottom.

The time between tops and bottoms is of major importance. In this case a weekly chart will be a much stronger indicator than a daily chart.

Figure B

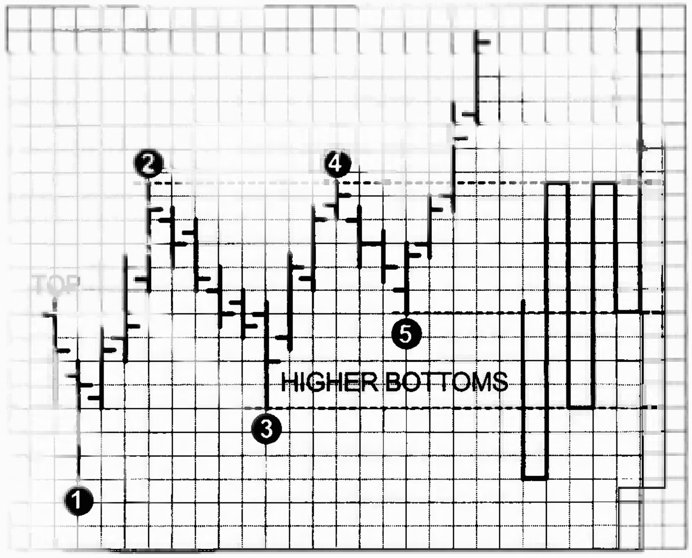


Figure B is an example of the pattern that gives traditional double tops and bottoms a bad name. This pattern is just a retracement before resumption of the current trend. Volume will help you to recognize the prevailing trend in a case like this. Low volume on the downside and high volume on the upside (see the Road Map Chart), coinciding with higher bottoms, would confirm a bull market to the street-wise trader.

Perhaps the definition of a double top or double bottom needs to be tightened up, because you are approaching the point of trading these charts with real money.

Once again, time frames will come into definitions. We often say **the wider double tops and bottoms are apart, the stronger they are**. This means the time difference between them. What I am saying is, if the market makes a top on 4 January, then a second top on 10 January, it would not be as strong as if it made a top on 4 January and a second top on 4 July. The first two tops are six days apart; the second two are six months apart. So, this is the first point to consider.

If a market has been running down, for example, for 11 trading days; that is it has been making lower tops and lower bottoms for 11 consecutive trading days, and then for two days it makes the same low price, that is, a double bottom; to constitute a double bottom, it would have to make a low at exactly the same figure.

If these lows were a matter of six trading days apart, they would have to be within three percent of the price. Taking the Swiss Franc as an example, if we had a low of, say, 78.98, the next low would have to be within 2.37 points of that low, giving us an overall variance of 4.74 points. **With stock indices, I look for the lows to be within one percent.** This rule is only for double tops and bottoms that confirm in the traditional sense.

Broken Double Tops and Bottoms

Now we will talk about double tops and bottoms that are broken. If the double tops and bottoms that we are talking about occur on two consecutive days, I do not bring in a time rule for them to be broken. Similarly, if they were only six trading days apart, I would not introduce a time filter. If, however, they are one month apart, I expect the top to be broken on a basis of two days and it must close over the top for two successive trading days before I say it has actually broken. Unless it closes for two successive days above the particular top, I would be concerned that it would be what is termed a "false break-out". This is a break-out that does not follow through.

If the market makes a top on small volume, that again creates suspicion. If it cannot close above an old top and the volume is light, I regard this as a complete loss of momentum. I call it a "rope-a-dope" top.

From the above discussion, you can see that you have to do a lot of work on double tops and bottoms but believe me, the rewards are there. Me - I love them!

In my opinion, the best way to measure the strength of a double top is still with the human eye. Having said that, some key guidelines are as follows:

- The more time between tops (or bottoms) the stronger the pattern
- Allow a price differential of 1-3% between tops (or bottoms) at similar levels
- The more symmetrical the pattern the better
- The larger and stronger the double top, the more a strong trend is likely when it is either confirmed or broken

Power of Gaps

The saying "Mind the Gap" is a one tried and tested in the trading world. The term 'gap' refers to a market opening higher than the previous bar's high or lower than the previous bar's low. If the market then continues in that direction it creates a physical gap in the price action.

Markets will often gap away from a significant high or low. Gaps may also occur at the start of a strong trend. These are both things to watch for in your trading.

When I talk about a market filling a gap, I mean it is trending back over the section missed that created the gap. Once a market trades into a gap, it often fills it quickly and this alone can offer profitable trading opportunities or confirmation to potential trades.

If in turn, a market does not fill the gap, this is a strong sign of weakness in the trend and often marks the start of a significant change in trend also.

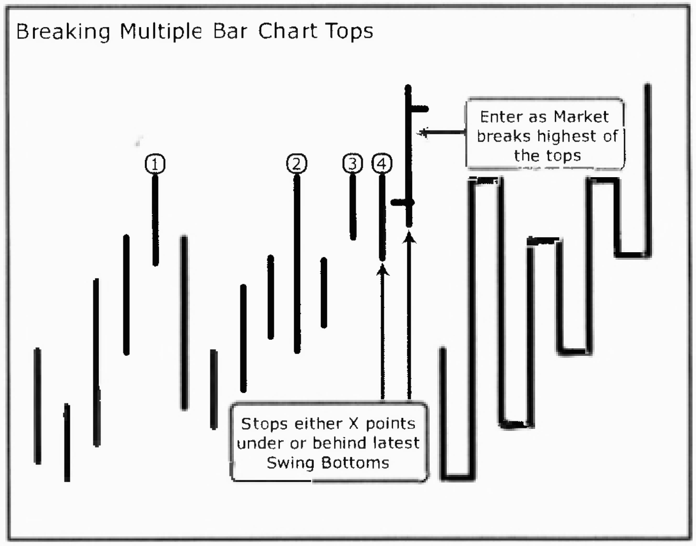
- The market will often gap away from significant low or high
- If the market tends to find a gap as support or resistance you have a top or bottom in place and should continue to trend in the direction of the gap
- If a market fills the gap quickly, you have mostly seen a change in trend

If you desire to study the topic further, *How to Make Profits in Commodities* is one of Gann's best books on how to use price gaps in your analysis.

Breaking of Multiple Chart Tops

The breaking of multiple tops relates to tops on a bar chart rather than a swing chart. For this rule, you want to see three tops or more over a short period of 1 to 4 weeks when using a daily chart.

Place your entry stop 1 point above the highest of the tops and use a stop loss based on the previous swing bottom or a figure equal to the average daily range away from your entry stop. The decision on where to put your stop loss is a more subjective one, and will depend on your risk tolerance.



Simply reverse these rules for trading short off multiple chart bottoms.

Rules for Multiple Tops

- Shorter Period of Time – 1 to 4 weeks
- Look for equal bar chart tops, rather than equal swing tops
- A minimum three tops is required, the more the better
- Enter once highest of all tops is broken by one point
- Reverse rules for short trades

Breaking of multiple chart top (or bottoms) trades are another useful entry trigger that has stood the test of time.

Like any of the techniques covered, don't try to force these trades. Instead wait for the trend to be confirmed by the break in either direction.

This concludes the lesson on price set ups and the last of our mechanical trading techniques in the *Number One Trading Plan*.

Before we move on to methods that *can* become more subjective, take the time to write your own clearly defined trading plan based on all the techniques you feel comfortable in applying. These are your foundations to wealth. From there you can then use **Price Forecasting** to help flag and confirm significant changes in trend that will in turn produce trades based on your trading plan.

Section 10 Review

In this section we have covered

The breaking of Double Tops and Bottoms can cause a strong trend to follow

Reverse Double Top and Bottom Trades once the pattern is broken

Gaps in price can provide strong support or resistance that can be used to confirm trades and price targets

If a market has more than three attempts at a price level, it is likely to break it

Price Forecasting

In this section we will cover

- **Know your market**
- **Bottoms forecast future tops**
- **Symmetry in Markets**
- **Pressure Points**
- **Prime Numbers**
- **Resistance Cards**
- **Trading Price Forecasts**

Know your Market

In the *Smarter Starter Pack* manual I gave you a reasonably spirited run down on contracts. The main point I was trying to make was that each contract is a living thing, as is any market. I said you must have adequate history to complete a forecast. In this course I have delved further into **prime numbers**. So that you can obtain maximum benefit from your work on prime numbers I will explain a little about the apparent discrepancy, in what is often called the all time high or low of a contract.

It is usually the case that May beans will have a different high or low than November beans, in any given year. It follows, therefore, that if you are a May beans trader you will have a different set of figures to a November beans trader. The problem occurs when you trade stock indices and currency contracts, as will be shown in some of our lessons. Most traders of these contracts use a continuous chart - as described in the *Smarter Starter Pack* manual.

You **MUST** know the major high or low for each contract, and the exact time that it occurred. A near by, or next-to-come-on-the-board contract, may be trading at a premium or discount to the spot month. Therefore, on a continuous chart, as you change contracts, you may show a new all time high or low, although that particular contract may have made its top or bottom earlier than shown on the chart.

In other words, if we are talking about a major top, you will have three sets of figures to record:

1. The time and price of the spot month high
2. The time and price of the nearby contract high
3. The time and price of the continuous contract high

Rule

From any extreme low level of Wheat, Soy Beans, Cotton, or other Commodities, use the low level as a base and use the percentage of this base to determine the Resistance points from TOPS to BOTTOMS on the way up.

Remember this rule, that a 100 percent advance from any BOTTOM, or a 50 percent advance from any BOTTOM, are the two most important points to watch for determining Resistance Points, high or low levels. You must apply time cycles and time rules in connection with figuring percentages on the BOTTOM.

The correct way to calculate resistance based on percentages is to divide the price by 8, which then gives 12.5% increments. These are the most important percentage resistance points to watch. If percentages out from a bottom needed to be placed in order of importance, the sequence would be 50%, 75, 100%, 25% and then each 12.5% mark in between.

The more I study the markets, the more I realize that everything is just the same. One market is the same as another, from currencies to corn. They operate under the same conditions - they all operate under the same natural laws, that is, they are bound by the same parameters, which is just what Solomon told us.

Trading the markets has proven this to me to my satisfaction. There must be a symmetry to the markets if technical analysis is to work at all. Either history repeats, or we are all wasting our time. This is a concept that many will ponder as they commence trading. I hope the work that we have put into this lesson will help you to come to a conclusion on this thorny issue.

In my early days of trading, I came to the conclusion that markets operated on the basis of one of the following three systems:

We are all trained to leap up and down and buy and sell like fleas in a flea circus. I call this the Flea Circus Principle.

It is all rigged - we are controlled like puppets. I call this the Big Brother Complex.

There is symmetry to the markets, as in nature. It is all prewritten. If this is true our aim must be to decipher the text.

Most traders, at some stage or other, have drawn a trend line across a series of tops. Many draw a parallel line under a series of bottoms. Drawing trend lines and trend channels is part of many a trading plan. Of course, you are aware that there is much more to the harmony that exists in the markets than this - you will notice the relationship between the ups and downs, in the alternate ranges.

The Flea Circus Principle

It is my understanding that they train fleas for a flea circus by putting them in a shoe box and letting them jump up and down. When the lid is removed, because the fleas are used to finding overhead resistance at the lid, they will not jump past this level. They continue to jump up to that height as if the lid were still in place. Some say that this is how the market operates. It is certainly a useful analogy.

The Big Brother Complex

The big brother complex basically states that in the morning before each market opens, we have the gnomes of Zurich, or the money lenders of London, all conspiring to establish an opening price, as well as the daily high and low, for every currency, stock and commodity. I accept that there is a certain amount of this happening, however I do not believe that such activity controls the market. Some would like to think otherwise. If it is all a secret, it is a well kept secret. I have known some of the biggest brokers and many a financier, and not one of them has ever told me that this is the case.

There must have been a lot of phone calls on the morning of 19 October 1987, the day of the famous 1987 stock market crash. Perhaps someone lost the plot?

I am really not all that interested in the conspiracy theory, as I trade the market to make money. I believe that trading commodities can be the best way to make money without a gun. It is often said that God picks the absolute tops and bottoms, and that we just trade what we can of the center part of ranges.

I accept that there is a little bit of truth in the Flea Circus Principle and in the Big Brother Complex. Perhaps there is a little more truth than we would like to admit. I also think, however, that even these things are governed by a rational harmony which exists in everything. Without this harmony, I could not make accurate forecasts.

Symmetry in Markets

I believe the number 447, which I quoted as one of God's numbers, proves beyond doubt that there is a harmony, or a synchronization of numbers to markets, and indeed, to everything. I concede that this is a strong statement to make, but I have good reason for making it. I do not expect you to accept this statement just because I said it, but I do expect that you will do some work on a few markets and as a result, you may come to the same conclusion. This is my understanding after studying the work of W.D. Gann. It is the legacy that Gann left behind.

The first area to survey of your market is the relationship between alternating runs. By this I mean the relationship between the run up, to the run down. We use this as the basis of estimating Point C. Of course, it has more uses than this. Often, when a market changes trend, even that change of trend is forecast by the previous range.

The simple term double bottom means that the range up must be the same as the range down. When double tops or bottoms are confirmed we can expect a range of 200 percent. This is covered in both Rule 3 (p. 44) and by the Trend Reversal Rules (p. 118). The following example, sent to me by one of my clients, Max Clarke, illustrates this point extremely well. Study the example closely, and see how Max uses the rule in his everyday trading. Can you read the markets as well as this trader?

Hello David,

I refer to our discussion regarding double tops and equal ranges in December Wheat, late last year. Wheat lends itself very nicely to Gann-style analysis. It is a good contract for novices and professionals to trade. The average daily range is not too big, which makes stop placement easy, and allows a trade to be managed properly according to the Smarter Starter Pack rules.

The following is an excellent example of how well wheat follows the rules of W.D. Gann!

07/05/92	*= 387.50*			
21/05/92	*= 349.75*	*Range 37.75*		
21/05/92	*= 349.75*			
10/06/92	*= 387.50*	*Range 37.75*	***Double Top***	
37.75 x 2	*= 75.50*			
387.50 - 75.50	*= 312.00*	***Projection***	*= 312.00 **	
13/08/92		***Actual low***	*= 312.50*	

This is also a very important support area.

History Range

December Wheat history high (26/02/74) = 582.00

December Wheat history low (25/11/32) = 41.50

History range = 540.50

50 percent of history range= 270.25

*270.25 + 41.50 = 311.75 **

The market turned within 0.75 cent of this price!

Major Range

11/02/92 = 440.00

08/07/91 = 272.50

Major range = 167.50 (440.00 - 272.50)

75% of 167.50 = 125.63

*75% retracement = 440.00 - 125.63 = 314.37 **

Price Cluster *

(312.00 + 311.75 + 314.37)/3 = ***312.71 ****

Actual low on 13/08/92 = ***312.50***

David, the 37.75 range worked well on the next leg:

312.50 + 37.75 = 350.25 (Target for first leg upward)

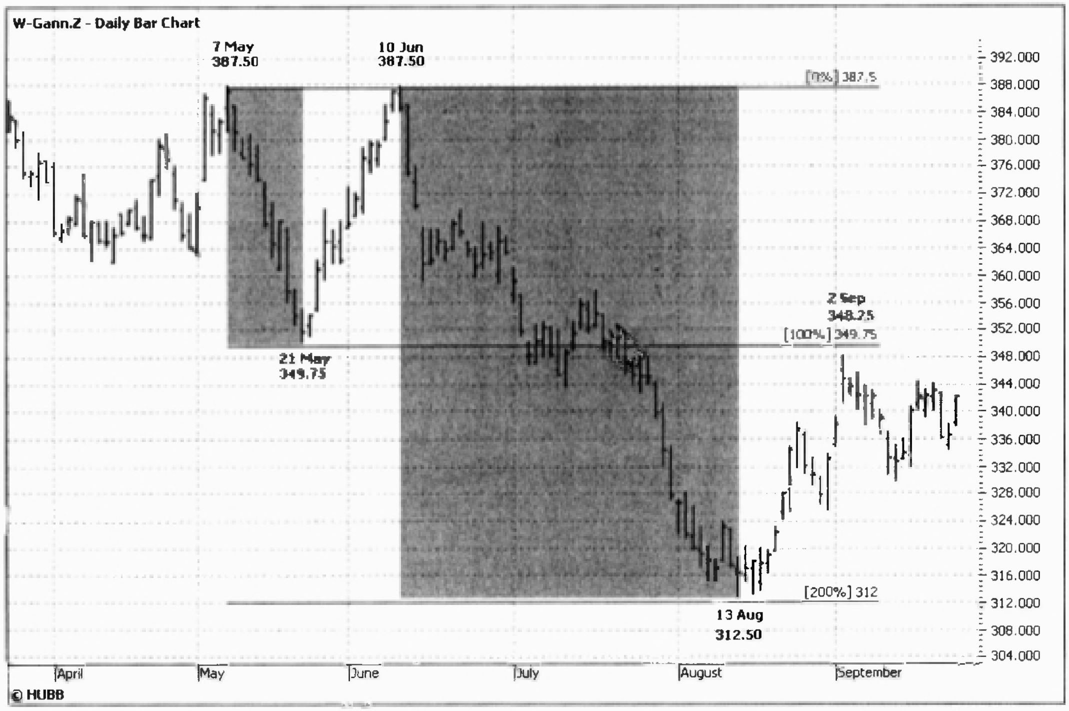
Actual top (02/09/92) = 348.25

The price was two (2) cents short, but close enough!

Regards,

Max Clarke

December Wheat 1992



Pressure Points

Please turn to page 33 of *45 Years in Wall Street*. This whole section is based on the chapter called **Market Action Proves the Rules**. I am going to show you how I work things out from Gann's work. This is all about prime numbers. Gann often referred to them as "squares".

Where it says "Name of Security" write "DOW". Where it says "Year of Range End" write 1919 - that is the top year. It is the first year. I want you to write the year 1896 immediately underneath it. Now, to tell you what you are doing, refer to *45 Years in Wall Street* where it says **Market Action Proves the Rules**. You will see Gann says "Example:" (on page 33) and he says "1896 low 28.50 to the high in 1919 - 119.62".

			Example 1	Example 2	Example 3
Name of Security			*DOW*	Today's Date:	
Year of Range End			1919	1929	1929
Year of Range Beginning			1896	1896	1921
Prime Numbers		- High	*119.62*	*386.10*	*386.10*
		- Low	*28.50*	*28.50*	*64.00*
		- Prime	*91.12*	*357.60*	*322.10*
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5			
90	1/4	25			
120	1/3	33.3			
135	3/8	37.5			
180	1/2	50	*74.06*	*207.30*	*225.05*
225	5/8	62.5			
240	2/3	66.6			
270	3/4	75			
315	7/8	87.5			
360	1	100			
540	1.5	150			
720	2	200			

In the chart at right I have recorded the high the same as Gann did. The high for 1919 was 119.62, so you write where it says "High" in that first column, "119.62". That was the 1919 high, and you take away the low for 1896 which was 28.50. So where it says "Low" write "28.50". The range is 91.12. Now go to 180 degrees or the halfway point. The mid-point between those two figures is 74.06. You can calculate the remaining pressure points for the range. This concludes Gann's first example. I find it easier when I'm working on these examples to number them all. I make it as clear as I can because understanding Gann's work is hard work!

Now Example 2 - Gann says "a low of 28.50 to the extreme high of 1929 - 386." Under the second column write "1929" for the year. The low is once again 1896 (second column under the word "DATE"). The top was 386.10, the low was again 28.50 and the range was 357.60. Once again I have calculated the 180 degree point. The 180 degree point, or the half point, or the 50-percent point is 207.30.

Think about this for a minute - these were Gann's' instructions - this is how he sorted out ranges. He used the major high for 1919 and he took away the major low of 1896. Then he used the major high for 1929 - and he took away the major low in 1896 to get his ranges. He was looking for major ranges. He says market action proves his rules and this is how he did it. This is how I work out major ranges and major moves - in exactly the same way. I can get so close that you can have a shave with it! That is how I knew that the All Ordinaries was going to top a year in advance at 1855 - by the work you are doing here.

In the third column is Example 3. In the book Gann listed the 1921 low at 64.00, 386.10 to the 1921 low of 64.00 gives the halfway point of 225.05.

Examples 4, 5 and 6 can be put on a new chart.

For Example 4 in the first column, Gann notes the high of 1930 - so up the top in your "Year" column write 1930 and underneath that in the "Year" column write 1921. Gann said the high was 296.25 and the low was 64.00 again. The range was therefore 232.25, and the mid-point 180.13.

Now we get to Example 5. The high is 1930 and the low is 1896, so in the "Year" column for example Number 5, write 1930 and underneath it 1896. The high was 296.25, the low was 28.50, so the range was 267.75, and the mid point was 162.38.

Example 6. The year of the top was 1937 and the low was 1896. The top was 195.50, and the low was 28.50 which gives us a 167.00 point range and a mid point of 112.00. Now can you see what Gann was doing here? He was using the 1930 and the 1937 tops and he keeps referring back to the 1896 low. He was working over a 40 year time cycle. He had the choice in 1949, when he was writing the book, to put in or pull out whatever he liked, and this was basically how he worked out his major time cycles. This is also how I work my trading to be able to call major tops and bottoms.

			Example 4	Example 5	Example 6
Name of Security			DOW	Today's Date:	
Year of Range End			1930	1930	1937
Year of Range Beginning			1921	1896	1896
Prime Numbers		- High	296.25	296.25	195.50
		- Low	64.00	28.50	28.50
		- Prime	232.25	267.75	167.00
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5			
90	1/4	25			
120	1/3	33.3			
135	3/8	37.5			
180	1/2	50	180.13	162.38	112.00
225	5/8	62.5			
240	2/3	66.6			
270	3/4	75			
315	7/8	87.5			
360	1	100			
540	1.5	150			
720	2	200			

Examples 7, 8 and 9 are put on a new chart.

			Example 7	Example 8	Example 9
Name of Security			DOW	Today's Date:	
Year of Range End			1938	1946	1946
Year of Range Beginning			1937	1932	1942
Prime Numbers		- High	195.50	213.36	213.36
		- Low	97.50	40.56	92.69
		- Prime	98.00	172.80	120.67
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5			
90	1/4	25			
120	1/3	33.3			
135	3/8	37.5			
180	1/2	50	146.50	126.96	153.03
225	5/8	62.5			
240	2/3	66.6			
270	3/4	75			
315	7/8	87.5			
360	1	100			
540	1.5	150			
720	2	200			

Example 7. Our first year is 1937 and our next year is 1938. The high is 195.50 and a low is 97.50, which is basically 50 percent of the high. The range is 98.00 and the mid-point is 146.50.

Example 8. The high is 1946 and the low is 1932. The high of 213.36 minus the low of 40.56 gives us a range of 172.80 and a mid-point of 126.96.

Finally, Example 9. The top was in 1946 and the low was in 1942. The high was 213.36, the low was 92.69 - giving us a range of 120.67. The mid-point was 153.02.

What I have shown you in the last nine examples is how you set up a series of ranges and years for a major pressure point chart. Gann does it on page 94 in *How to Make Profits in Commodities*. He gives you all the time frames for wheat and he goes from 1841 to the 1940s when he was trading, about 100 years. He gives you ALL the time frames - and you think this is very repetitive! He is just showing you that the same thing happens again and again and again.

Now I will quickly show you in *45 Years in Wall Street* how it went for years. He outlines all of this trading starting from page 34. He tells you all the ranges that he works off. Now, he basically tells you that when the market moves above 119.62, the 1919 top, it was in for a big run. It did not do this until the start of 1925.

Currently the Dow and other markets have been getting this buffer for years. If they break through significantly on the high side, they will go to major tops. That is what Gann was saying. It is even on the page you have in front of you: "When prices cross the extreme high level we look at a table of percentages above 64". That was his last low, and to see the resistance levels for tops we find that 500% gives us 384. You have that 64 written there on your chart. "On September the 3rd 1929 the averages made a high at 386.10." Looking over the table of percentages from 28.50, which was his 1896 low, we see that 1250 percent is 384.75. He used to run up all his hundreds of percents.

Years ago, when you had lows like 28 and 40s, you could run on 100 percent of them. The way the market has expanded, ranges are working as well as full prices, but price is exactly how he is doing this here. They still call the tune on the Dow today.

On 3 September 1929 the averages made a high at 386.10. We find that 225 percent of 119 gives us 388.50. He is using that old 1919 top and he is going up in 100 percent increments. 200 percent exactly would have been twice 119, which would be about 240 and he is saying 325 percent - he adds 325 percent to 119. So 300 percent would have been about 360; then he adds 25 percent and gets 388.50. This shows the average resistance levels being 384 - 384.70 and 388.50. The averages made the extreme high at 386.10. The 3-day chart and the 9-point swing chart both showed the market topped at these important resistance levels.

Now the proof of the pudding is in the eating. I did not just sprout about it when it was all over. Hindsight has 20/20 vision. I was putting all this analysis together and I had some very good traders who were in the market, and I was telling them how the market would unfold based on this sort of sequence. Gann used the swing charts as a mechanical indicator, but he was smarter than that. He was much smarter than that - and he had a habit of hiding his real message in his writings. I'm told that when he gave courses years ago, he used to charge as much for the instruction as he did for his *Commodities Course*. In those days the course sold for between 400 and 500 dollars, when you could buy a new Model T Ford for about $200. He would charge as much for the instruction as he did for the course and I am sure it was in the instruction that he expanded on these things. You see he could not write a thing like that and not explain how it happened.

If you have a professional way of trading, this supports your decision-making. Really, the important part is to have a trading plan that keeps you safe. You can be a good forecaster but if you have a lousy plan, you will make a little bit of money some of the time, but if you are a good trader, you will make some money basically all the time. Now if you can add the two together...

These lessons are the very best I can give you. They give you some insight into what we did at Trading Incubators, and just how accurate you can get. If you are struggling with this, do not feel you are alone - many struggle with it. Some have natural trading genes, and that is fine, but if you are struggling do not worry. You have this Study Guide for all time - you can work this out at your own pace.

Let us get back to the Dow in 1929 - the market runs down to a low of 195.35, from 386.10, on 13 November 1929. Half of 386 was 193. Gann was giving you a blow by blow description. He said it held two and a half points above that important support level and it was a buying level - see page 34 of *45 Years in Wall Street*. I know many think this is heavy - they buy a Gann book and think he is going on and on, so they do not set it up and do not study it. Every now and then however, someone does. They are the ones that I encourage to go further. Now this was 1929, and 1929 was the 1987 of that era.

Price by Degrees

In the *Smarter Starter Pack* manual I instruct you to trade on a range alone. That is where you start, however you may find yourself looking for further points of reference to confirm your calculations. This seasonal trading approach is where you get those confirmations. You will start to look at every top and bottom as 360 degrees, or 100 percent, and calculate further resistance levels.

Think of this introduction to looking at movements in degrees as another step towards time analysis. A 180-degree movement in price up from 100 would bring us to 150 - it is that simple. Note that on the Resistance Cards shown shortly, I use three different figures, degrees, fractions and percentages. These all mean the same thing and I have used this repetition to help re-enforce the concepts.

50% = 180° = ½

This concept, although a simple one, is important to understand before moving on to the next section - Resistance Cards. To confirm your understanding, think of which figure is missing in each of the following sequences:

75% = ? = ¾

100% = 360° = ?

? = 720° = 2

The answers of are as follows:

75% = 270° = ¾

100% = 360° = 1

200% = 720° = 2

Now that I have you thinking of price in degrees, let us move on to using Resistance Cards to establish potential major turning points in a market.

Resistance Cards

The term resistance card actually relates to pressure points in price that may provide both support and resistance to a given market. For ease of reference I refer to them simply as Resistance Cards.

Once these four Resistance Cards are understood you will begin to realize that a similar vein runs through them all. The first point would be the market gave us all the prices we need to use – what has been in the past proves to be our best guide to the future.

Also, while one of the cards is called 'Primes' the Lows and Highs Resistance Cards also have the word 'Prime' at the top of each of these cards. Major historically important Highs and Lows can go on being important numbers in terms of Price and Time in your studies for many years, if not the history of your market. They are virtually Squares.

Let's take a look at some theory from Gann on the first of the cards – Ranges...

RANGE OF FLUCTUATIONS

12.5% or 1/8: Take the extreme low and extreme high of any important move. Subtract the low from the high to get the range. Then divide the range of fluctuation by 8 to get the 1/8 points, or 12.5%, 25% etc., which are Resistance Levels or buying and selling points. When Wheat, or other Commodity, stops around these levels and makes BOTTOM or TOP on or near them it shows a change on the time period. This is the place to buy or sell. Sometimes Wheat, Soy Beans, or other Commodities will hold for 3 to 7 days, or longer, making BOTTOM OR TOP around these important Resistance Levels, and at other times may hold for several weeks around them, proving that buying or selling takes place around these levels.

33.33% and 66.66% or 1/3 and 2/3 points: After dividing a Commodity by 8 to get the 1/8 points, the next important thing to do is to divide the range of fluctuation by 3 to get 1/3 and 2/3 points. These Resistance Points of previous moves or when they are divisions of a very wide range. The 1/3 points equals 33.33%, and 2/3 equals 66.66%.

The four main types of Resistance Cards we have to work with are

- Ranges
- Highs
- Lows
- Primes

To create a resistance card, first decide what time frame you wish to analyze a given market on. I suggest working from all time highs and lows, backwards. All you are looking for is an indication of where future support and resistance points, highs and lows, will occur based on the price action that has already occurred.

Gann used quarters and eights to look for these prices. The main two approaches I want you to be familiar with are:

1. Looking for near points of potential resistance or support to current market action. This may often be as simple as measuring and noting when a market may be close to a % of previous last major ranges.
2. Finding clusters around the same price based on a number of significant or recent ranges, highs, lows or primes.

To recap, work though from major to minor, measuring and recording the pressure points shown on the cards attached.

Range Resistance Cards

I have chosen to cover range resistance cards first as these are the actually something you have been doing already in the *Smarter Starter Pack*. This time, rather than calculating percentages of the A to B range in an ABC trade, look at ranges of a bigger scale. Work through these from biggest to smallest as follows:

- All time high to all time low
- All major cyclic ranges, high to low and low to high
- Yearly highs to yearly lows
- Recent ranges

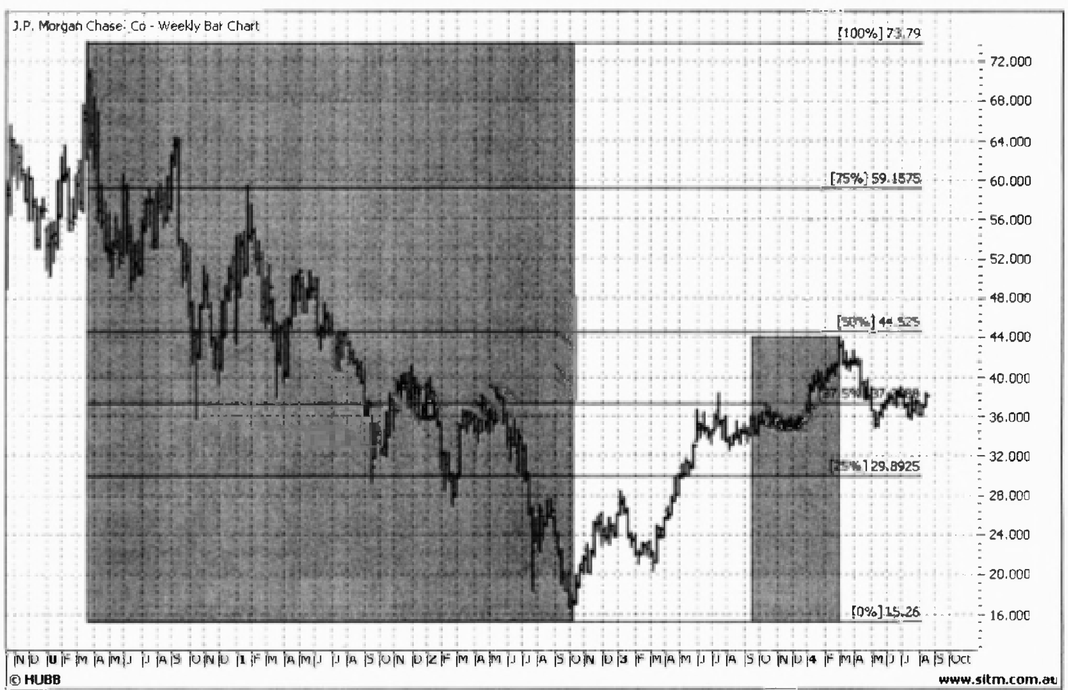
Resistance Cards in Action

Examples of Range Resistance Cards

Gann stated in order of significance, the second most important pressure point in price is 50% of a range, with the 100% being of greatest importance.

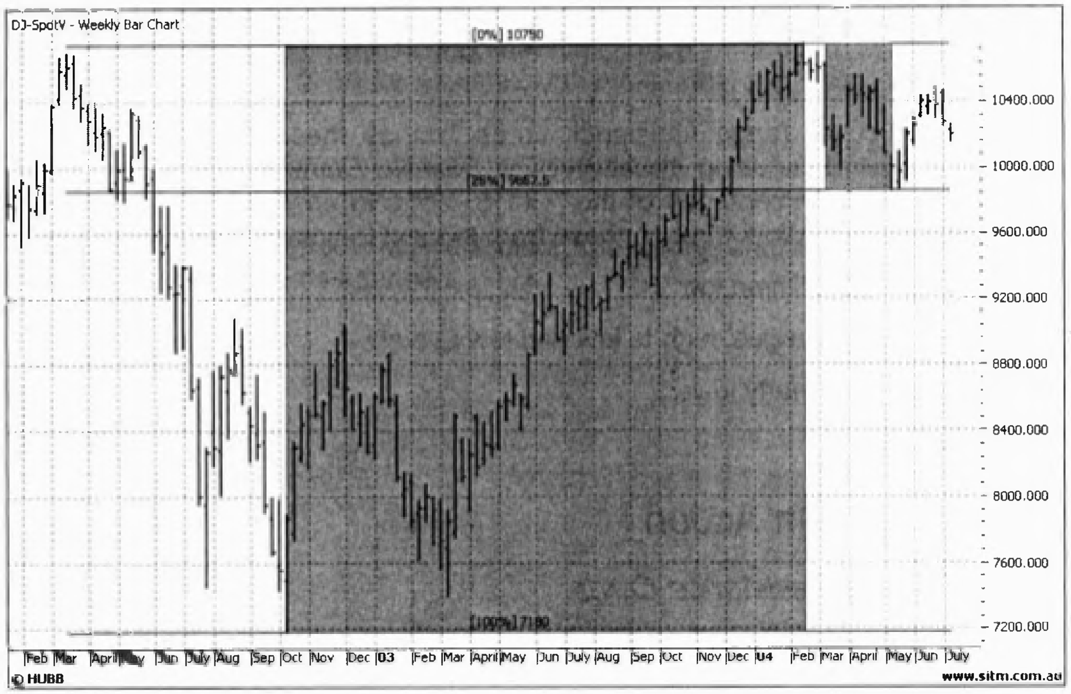
The following JP Morgan Chase Company (ticker symbol JPM, traded on the New York Stock Exchange) chart shows the resistance provided to an upward trending market by 50% of the previous range in this case.

50% Of Major Cyclic Range



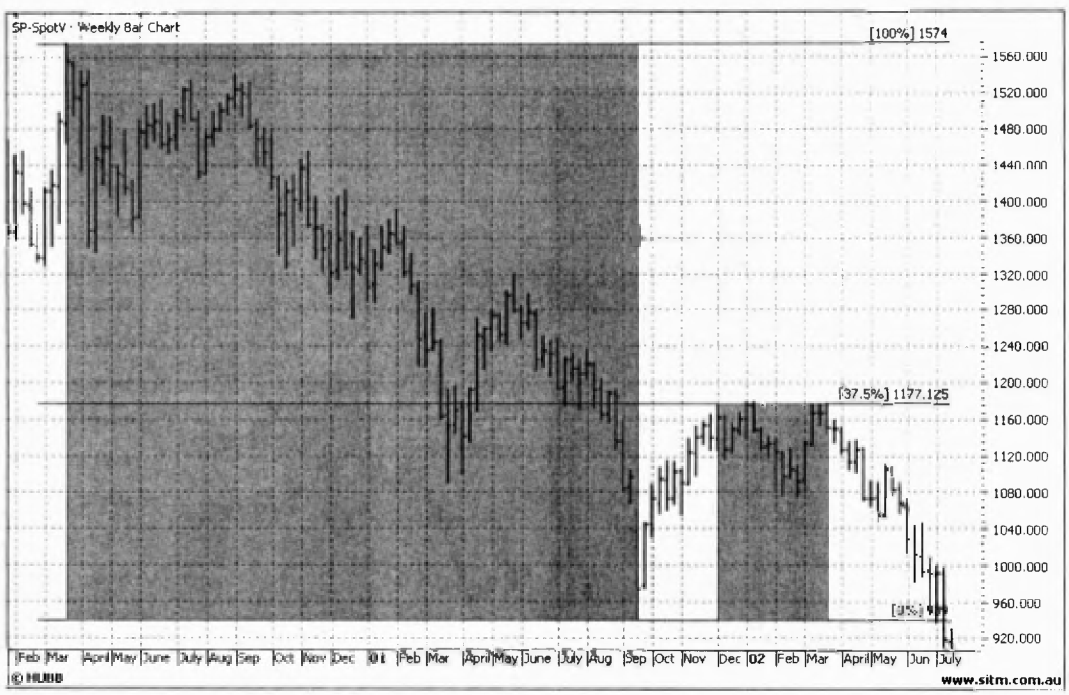
Of next most importance is the 25% and 75% marks. A great example of 25% of a major range providing support to a market can be found on the Dow Jones in May 2004.

25% Of A Major Range



Last we move to eights of the range. While they may be of lesser significance do not underestimate the power of these points to turn a market. The S&P 500 triple topped at 37.5% of a major range in 2003.

37.5% Of A Major Range



Pressure Point Chart
- Ranges

Name of Security			Today's Date:			
Year of Range End						
Year of Range Beginning						
Prime Numbers		- High				
		- Low				
		- Prime				
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5					
90	1/4	25					
120	1/3	33.3					
135	3/8	37.5					
180	1/2	50					
225	5/8	62.5					
240	2/3	66.6					
270	3/4	75					
315	7/8	87.5					
360	1	100					
540	1.5	150					
720	2	200					

Hopefully by now I have proven to you that significant Highs and Lows of varying degrees will have an effect on market participant's decision making as they observe the current price moment and in turn effect the future price movement.

Construct your high and low resistance cards in the following order:

- All time High or Low
- Major cyclic highs and lows
- Yearly Highs or Lows
- Recent Highs or Lows

Examples of High Resistance Cards

You don't have to look far to find examples of resistance cards in action. Below are a number of examples of major highs calling turning points in price. As you can see, software makes life far easier. Many set ups that may have been missed by traders can be found quickly and easily when the data can be retrieved at the click of a button.

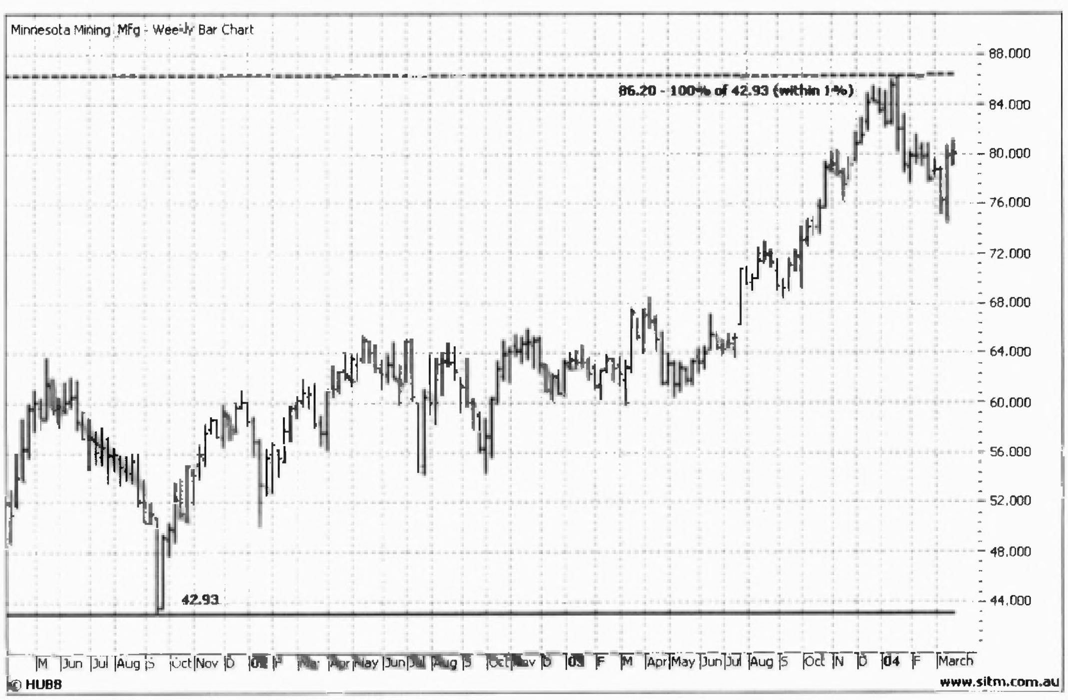
I still recommend you practice these techniques the old fashioned way. Writing numbers and dates down also helps you become more familiar with the markets you trade.

75% Of Major High

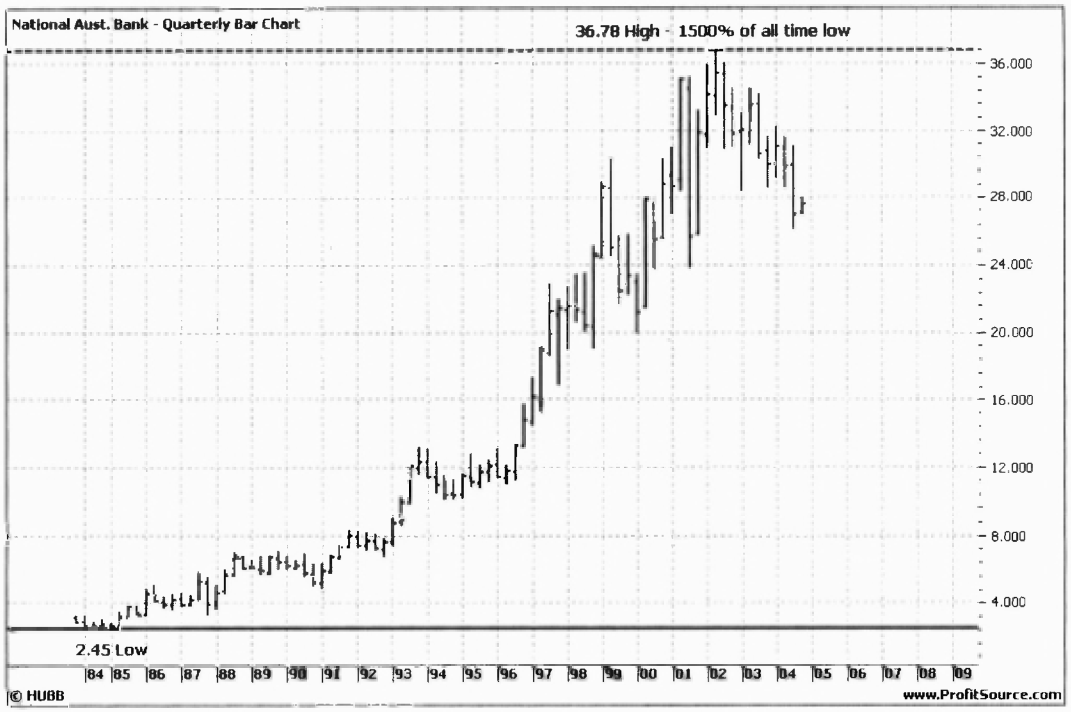
25% Of Major High

Examples of Low Resistance Cards

100% Of Major Low



1500% of Major Low



Pressure Point Chart
- Highs

Name of Security			Today's Date:				
Year of High							
Prime Number - High							
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5					
90	1/4	25					
120	1/3	33.3					
135	3/8	37.5					
180	1/2	50					
225	5/8	62.5					
240	2/3	66.6					
270	3/4	75					
315	7/8	87.5					
360	1	100					
540	1.5	150					
720	2	200					

Pressure Point Chart - Lows

Name of Security				Today's Date:			
Year of Low							
Prime Number - Low							
Degrees	Fraction	Percent	Price Resistance	Price Resistance	Price Resistance	Price Resistance	Price Resistance
360	1.00	100					
540	1.50	150					
720	2.00	200					
900	2.50	250					
1080	3.00	300					
1260	3.50	350					
1440	4.00	400					
1620	4.50	450					
1800	5.00	500					
1980	5.50	550					
2160	6.00	600					
2340	6.50	650					

Prime Numbers

When we start out in any endeavor we usually have a visualized ending - a goal. The traders who came to me initially may have had some temporary problems, in either making losses, or not making adequate profits, but they all had a long-term goal of being able to do solid forecasts - to call market tops and bottoms in advance. That is why they sought me out. I will tell you now that the biggest influence, or secret if you like, that I had to share with them in doing correct forecasts was **prime numbers.**

In this context I define a prime number as being:

- A high
- A low
- The difference between a high and a low, and
- The sum of a high and a low

At this point I wish to clarify my use of the term "prime number." I want to make clear that I am doing this so as only to avoid confusion. Understanding this definition completely is far less important to trading than understanding the context in which I use the term prime number.

By mathematical definition a prime number is a number greater than 1 whose only positive divisors are itself and 1. The series of these numbers starts as follows:

2, 3, 5, 7, 11, 13, 17, 19, 23, 29, 31, 37, 41, 43, 47, 53, 59, 61, 67, 71, 73, 79, 83, 89, 97, 101, 103, 107, 109...

Numbers that are not primes are called composite numbers. These numbers can be divided by at least one other number aside from 1 and themselves. An example of a composite number is 4. 4 can be divided by 1 and itself as well as 2. This will be the last time I refer to prime or composite numbers by mathematical definition.

There are two accepted ways of establishing prime numbers covered in W.D. Gann's *45 Years in Wall Street*. This is how you arrive at these numbers, which govern your decision-making.

The first way is to subtract the bottom from the top, or B-A, and this gives you a range. [Range = B-A.]

The second way involves considering the highest and lowest price a stock or commodity has ever traded. Previous tops and bottoms, and major ranges, all give us indications of future price levels. You are instructed to divide these highest and lowest prices into eighths and thirds. This is a comparatively simple way of establishing pressure points, where you can expect a change in trend. The likelihood of a change in trend increases if several pressure points occur at the same level. We call this grouping a "cluster". I give examples of these calculations in the *Smarter Starter Pack*. I also refer you to pages 30 to 38 of *45 Years in Wall Street*. In later lessons I give you my complete breakdown of this section.

So far this is all basic Gann, but now I would like to add a derivation of my own that has proven to be very effective. I have set the original trading plan up to cover this calculation. You are already using it. To obtain your third, and probably most useable prime number, initially add the all time high and low together. You then divide this number into eighths and thirds. Once you see the effect that these numbers have over long-term market movements, you will start using all major tops and bottoms in this manner. You are already well down this track. To establish your estimated Point C you are instructed to add A + B, then divide by two. You are actually using the 50-percent resistance level in your calculations. Now I want you to use the 12.5 percent; 25 percent, and so on, levels. Later you will add the 112.5 percent; 125 percent, and so on, resistance points to your plan. I will give you ample evidence in later lessons of the effectiveness of this method.

You do not have to be that clever to get your numbers in line. It is a bit like riding a bicycle. Once you master the skill, you have the ability for all time.

The reason that I have not introduced you to this process of **prime numbers** earlier, is that you need to develop skills in trading before you attempt to forecast. Your trading results are your report card. You develop skills by trading the ranges.

Gann often referred to prime numbers as "squares". Already you are using these prime numbers in your calculations. I have you adding the tops and bottom together, and dividing the sum by two, for an estimated Point C. If this point is taken out, then when the market again retraces to the calculated area, it is in a "danger zone".

It is the actual tops and bottoms that call the tune, more so than the ranges. A range is just a reflection of every top and bottom. The highest or lowest figure at which a stock or commodity ever trades, are two of its prime numbers, so they will have a major influence over the ranges that the stock or commodity will trade in for many years - actually forever.

The highest price becomes Point A, the lowest price becomes Point B, and by being familiar with these figures and their combinations you get closer and closer to Point C. It is their combinations that hold the keys to the market performance of a stock or commodity. You will have a process to estimate future point As and Bs. Later in your career you may start drawing angles from these points. When you fully appreciate the numbers, you will understand the angles - but this is well down the track.

I started you working on the range because the discussion of ranges was the first part of Gann's writings that made any good workable sense to me. In other words it was the first part that returned me a profit.

I bought all of Gann's books plus his courses in late 1985. I could see he left us some valuable keys but I just did not know what they were keys to. Like most of us, I read the last chapter of the books first. Finally I worked out what a range was - the distance between the top and the bottom of a run. So on the very first page of my research in 1985, I wrote the highs and the lows and the resistance levels. This is why I start you along your path of learning by working out the resistance levels in a range, and then teach you to buy and sell at the appropriate times. The price tells you the time.

As you have read the *Smarter Starter Pack* manual, you will be aware that I divide the actual trading process into four zones. These are illustrated on the **Road Map Chart**.

Prime Numbers in action

Gann said the next top came in April 1930 - that is off the 1929 low, and the market went up 150 percent of the low and his low was 195.35. The market went up 293.02 which was 150 percent. Now that is why I have these 150 percents marked as possible changes in trend. In the All Ordinaries Share Price Index for 1989 there was a low of 1408 and it had a top of 1855 - a range of 447 points. Then it turned around and ran down to 16 January 1991. It ran down 671 points, which is 150 percent of 447. The upside range does have a relation to the downside range.

In all of this, just get the message that whole numbers mean a lot - that is, absolute tops and absolute bottoms. If you are ever going to get to the point of picking a Point C exactly, you must start to realize that the exact number of Point A and Point B are of major importance. I am often asked how far I look back on a market to do my price forecasts. We have already seen where Gann was going back 30 or 40 years, so I suppose in 1993 I would have to look at the 1974 low and work things out from there. I would not use the 1932 low as much, as I would use the 1929 top. That is because I think the figure of 40.56 just looms around too quickly, whereas the 386.10 would be more relevant to 1993 prices on the Dow.

The low for the Dow for 1992 was 3089 points. Now 8 times 386.10 is 3,088.80. It was point two out. Of course nine times 386.10 was 3,474.90 - or let us just say 3,475 points which certainly gave the Dow a headache in early 1993. By a headache I mean the Dow was having a lot of trouble closing above that point. It was a point of resistance. Probably the most relevant figure to these current days is 2746.60, which was the 1987 top. Now that was a real top. If you add that figure to the 1974 low - the 1974 low was 570.00 - plus 2746.60 which was the 1987 top, you get 3,316.60. These were the sorts of figures that were giving the Dow a headache at the start of 1992. I am not breaking these figures down into quarters or eights, I am just using the whole figures. **These highs and lows are working examples of prime numbers.**

When the Dow is in new territory, you have to see how it reacts when it hits these numbers. All around here you are getting these pressure points, just like Gann was getting pressure points at 388 for the Dow in 1929. They become targets. The range for the Swiss Franc for the 1991 year was 1855, and 1855 was the top of the All Ordinaries Index for 1989. We also saw where 447 points was a very strong range in both of those markets. Well, to go a bit further, the 1990 low for the Dow was 2344.30. The Australian All Ordinaries Index (the futures contract) peaked at 2343 in 1987. So you see the same numbers coming up again and again, and that was what I was trying to tell you when I said that you should get to love numbers because whole numbers are so important. You must experiment with them so you recognize them when they appear.

It is from yearly or seasonal ranges that you get the ability to call the big moves. There is no other way.

There are many lessons to be learnt on price. The following is a simple breakdown of how the market throws up a range or a price which can be used to complete a forecast. I have tried to show you how to recognize this phenomena early in the piece. You can learn these lessons by desperation or inspiration. Sometimes to get the inspiration we need repetition. In this lesson I am trying to show you the process of repetition. While it is said that desperation is the mother of invention, in technical analysis repetition is, without a doubt, the mother of skill! This is just an introduction. At a later stage you can add from your own grab bag of tricks, as you become more familiar with this form of analysis.

We start our study of price by calculating a major range. The range is, of course, the difference or space between a market top and a bottom. The definition of "major" may vary with the time frame that the individual trader accepts as a unit of time. This is determined by length of time we use to construct a bar on our charts. By this I mean you may use a quarter-hour, daily, weekly or monthly chart as your main decision-making vehicle. In that case you must make up your mind if you live in a daily world, for example. Regardless of your time frame, you use a major top or bottom as a zero. That's where your world starts.

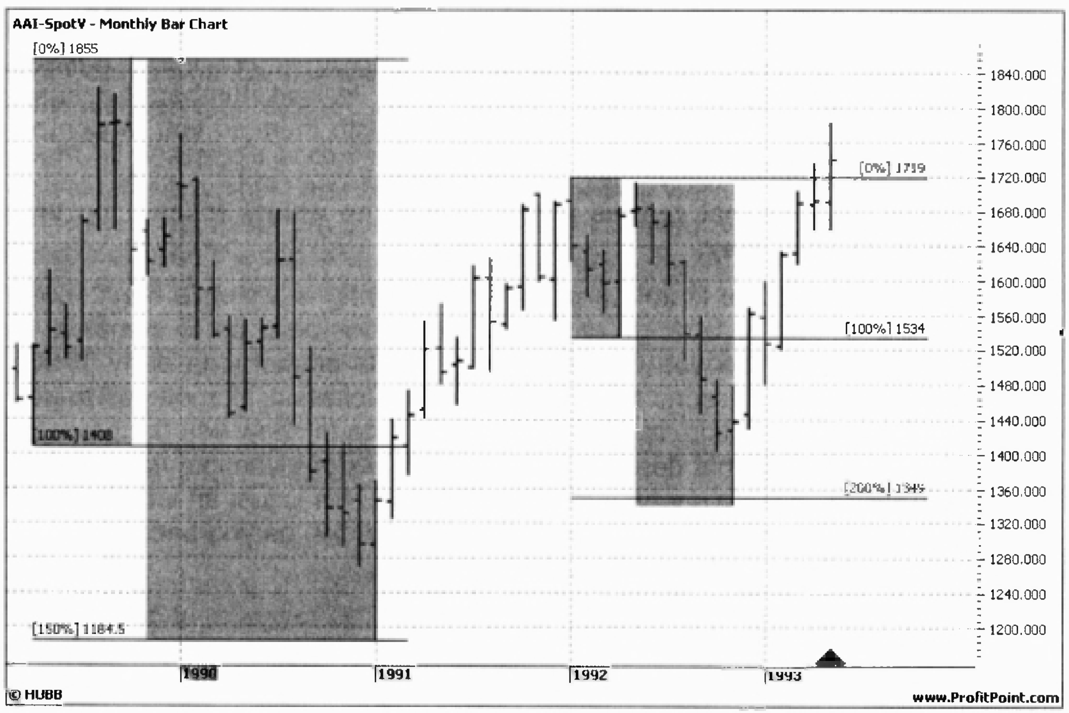
I am convinced there is harmony in the markets. The Australian All Ordinaries Share Price Index is my home ground. I cut my teeth on this particular contract. I came to some sort of prominence by nominating the top of the market in 1987. It is possible to get to know a contract this well. I am not telling you this to boost my own ego - as my two sons tell me, it is inflated enough already. I want you to know how this system operates - I offer this as some sort of proof. As many of you know, I published the day of the top for 1989 well in advance. I did it to prove these calculations. As I have said before, it is all thanks to W.D. Gann and to God's gift of numbers.

The first place to look for key numbers is in the seasonal range. This is the range a market covers in a cycle. The 1989 range was 1855–1408 = 447. The low that followed occurred in the Australian market on 16 January 1991, at a price of 1184. 1855-1184=671. 671 is 1.5 times 447 (to the nearest point)! From this scenario, we could expect a rally to at least 1184+447=1631. We experienced a sharp reversal at 1625, and many of my traders were ready for it.

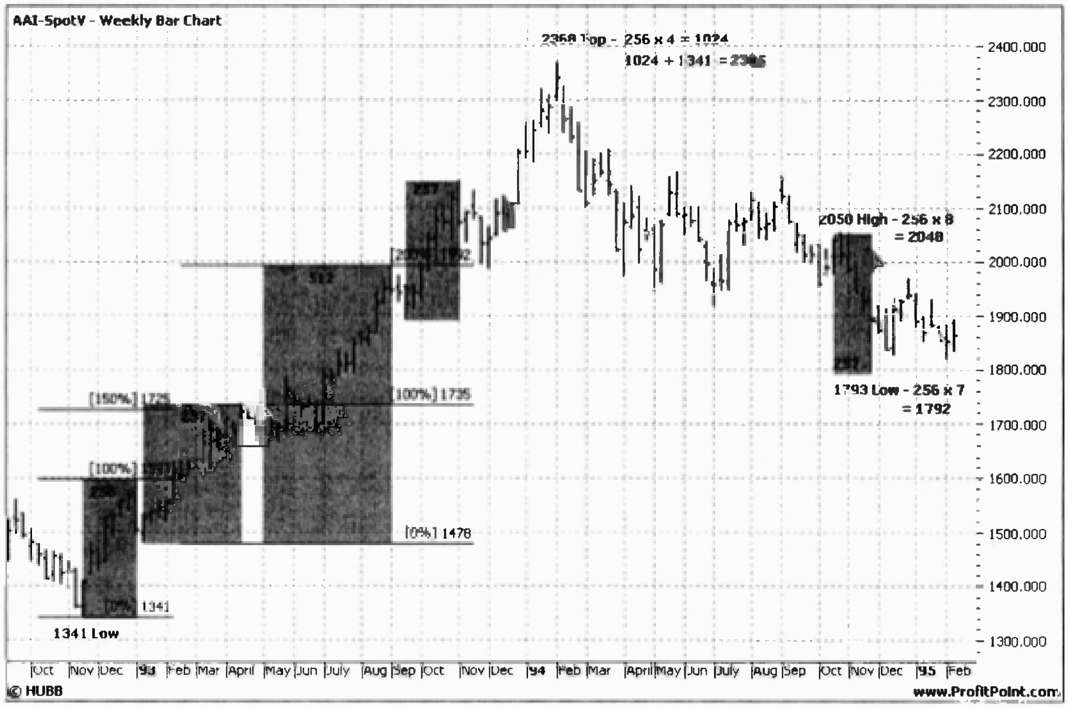
Let us now look at the big picture and what the market has done since. It reached a peak of 1719 in January 1992, then ran down to 1534 - a range of 185 points. Our next top (1712) occurred on 25 May 1992. Our low for the year was 1341 on Monday 16 November 1992. This gave us a range of 1712-1341=371, or 200 percent of the first run down. 185x2=370, but 371 is close enough for me!

Where does 1341 come from you ask? 447x3=1341. Another way of putting it is 671x2=1342.

SPI 200 Chart 1989 to 1993



SPI 200 Chart 1992 to 1995



It is from yearly or seasonal ranges that you get the ability to call the big moves. There is no other way.

For this exercise we will use the daily chart, for I believe that's were you should begin, and so as to have a fair sample of time, we will use the low of 16 November 1992 as our zero. This gives us about three-and-a-half years of market action. Remember, we are only using price in this lesson, so we will note that the price on that day was 1341.

The low of the year, 16 November 1992, was a very forecastable day for a major change of trend. 1341 was recognized as a buying point by many of my traders. We are studying price action and reaction so we will let the market tell its own story.

This day proved to be a major bottom so we will use that as a zero. For us the world starts from this point in time. At this stage of our development we are well advised to pick all zeros with hindsight. Tops and bottoms are for someone else, but hindsight becomes foresight if used often enough.

The first run out went until 5 January 1993 and the high came in at 1597, giving us a range of 256 (1597 - 1341 = 256). It is important that you read Tony Morgan's analysis of this particular section of the market. (See Super Traders, pages 127 to 129.) We will call this range 360 degrees, or if you prefer 100 percent. This is to emphasize that the number 256 is a complete cycle and the market has thrown it up. You could say we are working on a square of 256. In time you will recognize such numbers as they keep getting placed in front of you. As I say, hindsight becomes foresight. I could write about the significance of numbers, and from where they evolve, but it would need a book, or series of books, to paint the entire picture. It does not make a lot of difference to the check book indication whether or not the chicken came before the egg. For that reason many a good analyst should resign from the debating society and get on with the business of trading and making money.

So we recognize a major range, once again with hindsight, but when the low of the year for 1993 comes in we are in a position to rate the next run.

From this low, which is yet to happen, if the market does less than 256 points on the upside it can be judged to be weak. If it does the exact 256 points it is in balance - and if it goes over this figure it is strong. In that case we would not expect a significant retracement, or change of major trend, until we witness a decrease in range. It is as simple as that, so don't complicate it. This is all pure Gann technique. He was the original source. Tubbs' Law of Proportion was based on the same principle but came in a more tradable package. William Dunnigan and Charles Lindsay came later. Gann balanced both time and price as illustrated by his lesson of that name on page 36 of the W.D. Gann *Commodities Course.* You may wish to break this range into quarters, which I call seasons. They give me my price pressure points. If you wish to go further into this subject an excellent, but rare source of wisdom is Tubbs' *Stock Market Correspondence Lessons*, in particular, Lesson Nine covering his Law of Proportion.

In any event the low for 1993 came in on 11 January at 1478. We would expect the next top to be 1478 + 256 = 1734. In real life the first top came in at 1735 on 5 April. This gave us a range of 257 points - our forecast was one point out. The market had a minor retracement then proceeded to the price of 1990 on 2 September. 1478 + (256 x 2) = 1990. The SPI (Australian Share Price Index) then had a short, sharp retracement, the biggest for the year to date, to 1891 on September 15. We will be bold enough to say we will complete a trading plan and trade the market from as close as our analysis allows us to get to the 1891 low. Our target is, of course,

1891 + 256 = 2147. This turned out to be one point from the cycle high for the year 1993. It came in on 2 November. This was again a very forecastable date using Gann technique. I had newspaper articles published throughout 1993 calling for a top in the first week of November. Probably more importantly, a number of traders made what would be regarded as sizeable profits trading, exactly as outlined in 1993. A number traders forecasted the price of 2148 exactly. What's more important is the fact that they traded their forecasts!

As is common knowledge, the top for the 1992 to 1994 bull run came in on 3 February 1994 at 2368. Once again our first range out called the market. 1341 + (256 x 4) = 2365. (Of course, 1184 x 2 = 2368 exactly!)

What I'm talking about here is the square of 256.

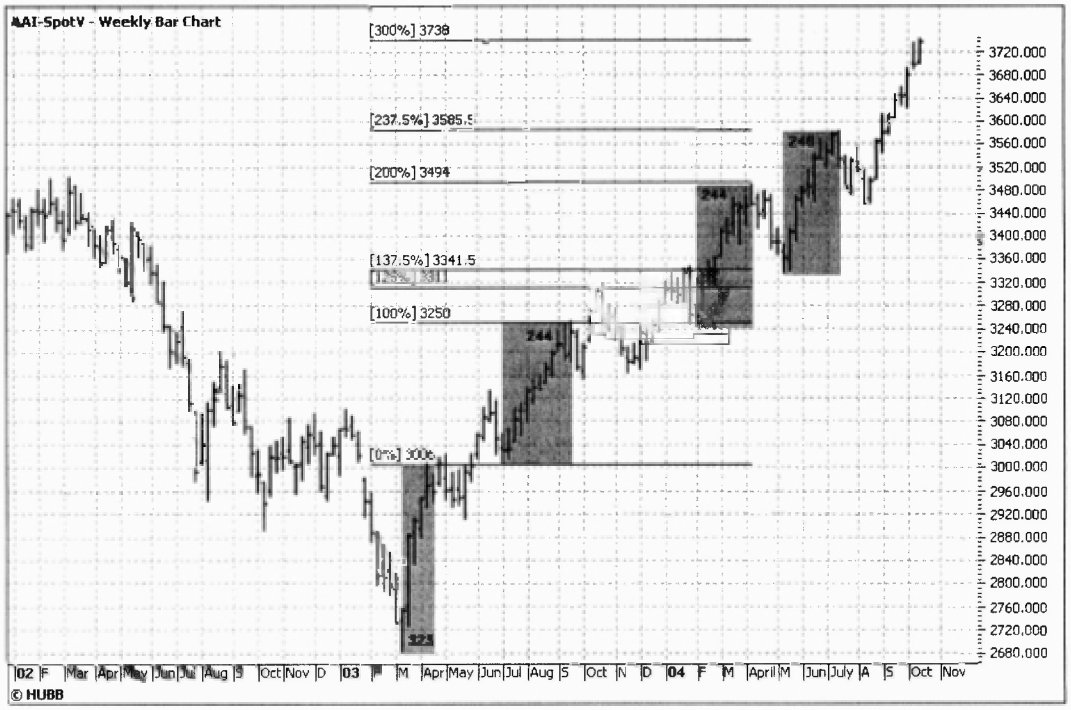
I have covered approximately three years of market movements, illustrating how 256 gave a trader a series of major pressure points. The market put in a major low of 1793 (256 x7 = 1792) on Wednesday 23 November 1994 (Also, 447 x 4 = 1788!) The swing top previous to this had occurred on Monday 24 October 1994. The top on that day was 2050 (256 x 8 = 2048).

To make things easier to comprehend and to get traders focused, I actually wrote to every attendee of my *One-Day Mini Trading Incubator* for 1995 and suggested that they select and study just one number ~ 256 for 1995. I also supplied on the day the time pressure points for all of 1995. I can't help but wonder how many took that advice to heart and did some research on 256 and Time by Degrees? Were you one of those individuals? If you were you would have done well in 1995. Please do not assume that these principles only apply to the Australian All Ordinaries Share Price Index. Read the following letter from Max Clarke. Max makes reference to a different stock index market - the Standard and Poor's 500 (S&P 500). Please study these examples conscientiously.

Moving on to the SPI in more recent times, using a weekly chart we can see more symmetry in numbers. It is important to note that this kind of analysis can be applied to any market. I feel it is somewhat my duty share recent activities on the SPI with you as it is the one of my favorite markets and a favorite for many of my long-standing clients.

I have spoken many times of the years of the' power of the first range out. Here is another great example of its power. The first range up was is in fact 341, however the first move up before a stutter was 325. 75% of 325 = 243.75. 244 happens to be a figure that we can see repeated in ranges a number of times during the bull campaign of 2003/2004:

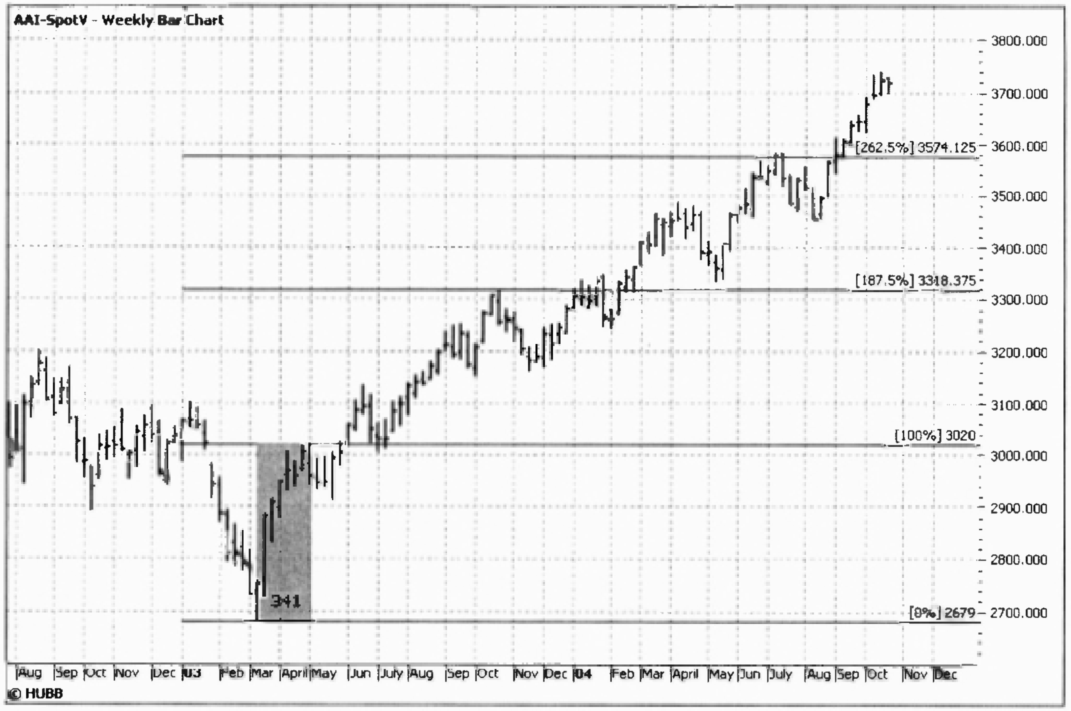
SPI 200 Weekly 2002 to 2004



During this campaign, all significant highs occurred within points of major percentages of the first range of 244.

This second chart is arguably more straight forward, being based on the first actual range up of 341. You can see that the 187.5% and 262.5% milestones both provided clear resistance as the SPI 200 moved through 2003 and 2004.

SPI 200 Weekly 2003 to 2004



Please do not assume that these principles apply only to the Australian All Ordinaries Share Price Index (SPI).

Read the following letter from our friend Max Clarke, with some more great work on a different stock index market – The Standard and Poor's 500 (S&P 500) Futures (ticker code SP-SpotV). His letter explains the chart that follows.

Letter from a Client

28 January 1993

Hi David,

Several quick thoughts re. recent discussions on double tops...

S&P 500 Futures:

31/7/92 = 425.05

25/8/92 = 408.00 range down = 17.05

14/9/92 = 425.40 range up = 17.40 double top

Average of tops = 425.23

Average of ranges = 17.23   200% of range = 34.46

Target = 425.23 - 34.46 = 390.77

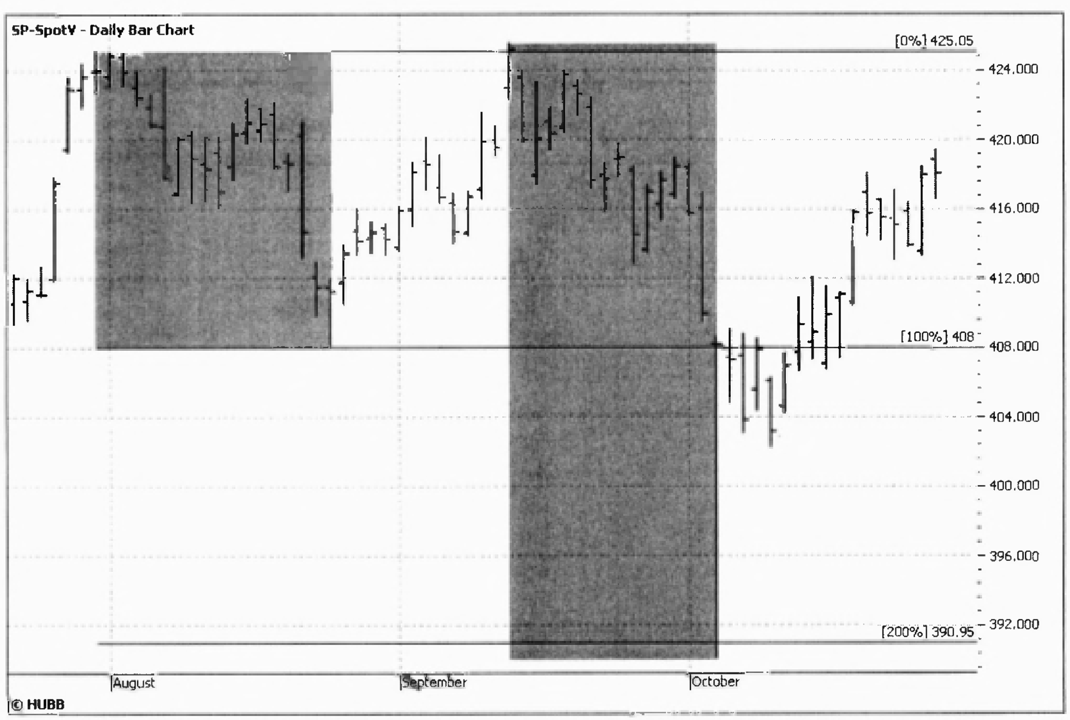
Market actually traded to 390.00 on 5/10/92.

I bought 390 put on 18/9/92 on retest of 14/9/92 top for 3.4 points (USD1700) and exited on 6/10/92 for 7.0 (USD 3500); over 100% of margin in 12 trading days.

Regards,

Max Clarke

S&P 500 Chart



To finish off the investigation of the four Resistance Cards we will now look at Primes Resistance Cards. However, it would be wise to recall that we also refer to Highs and Lows as 'Primes'. Now if we think about it, what three value does the market give us after one complete cycle? The answer is simple in the end...we get the price of the High, the Low and the value of the Range. We must believe and realize that these numbers were not given to us by mistake or accident – these are the numbers the market has given us to use to determine future turning points in the market – the market will give you all you need to know if you listen carefully enough.

Prime number resistance cards can effectively be made up of all of the three types of resistance we have covered so far, plus natural numbers that can be observed time and time again through nature. Look for primes as follows:

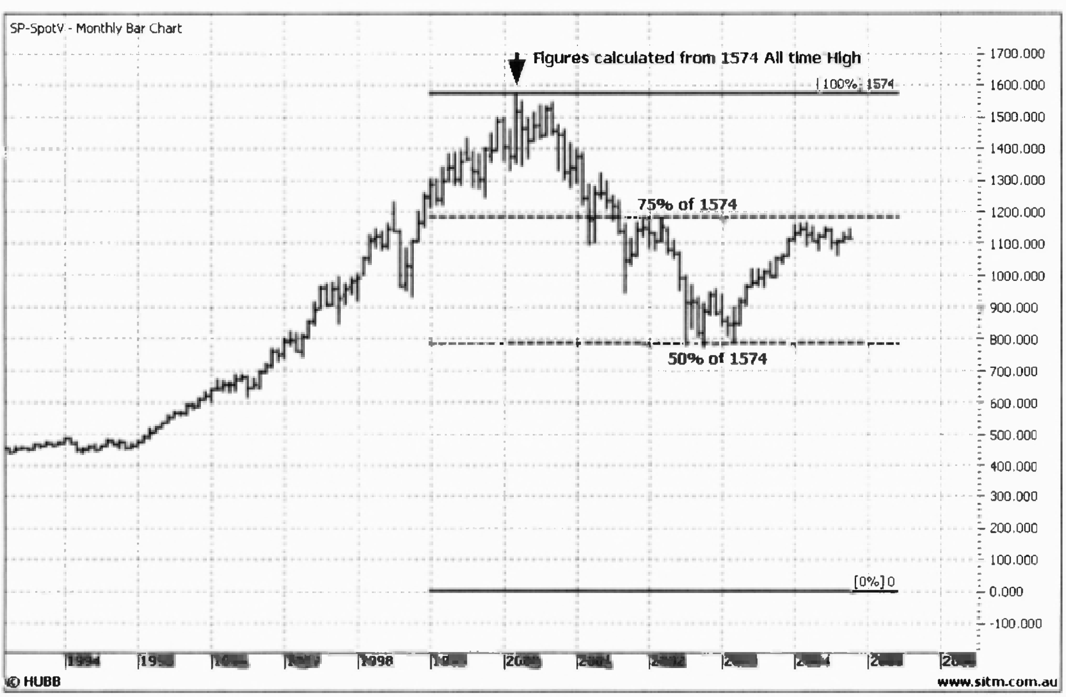
- All time Highs/Lows
- Natural Squares – "God's numbers"
- Major ranges
- Major Highs or Lows

Examples of Primes Resistance Cards

S&P 500

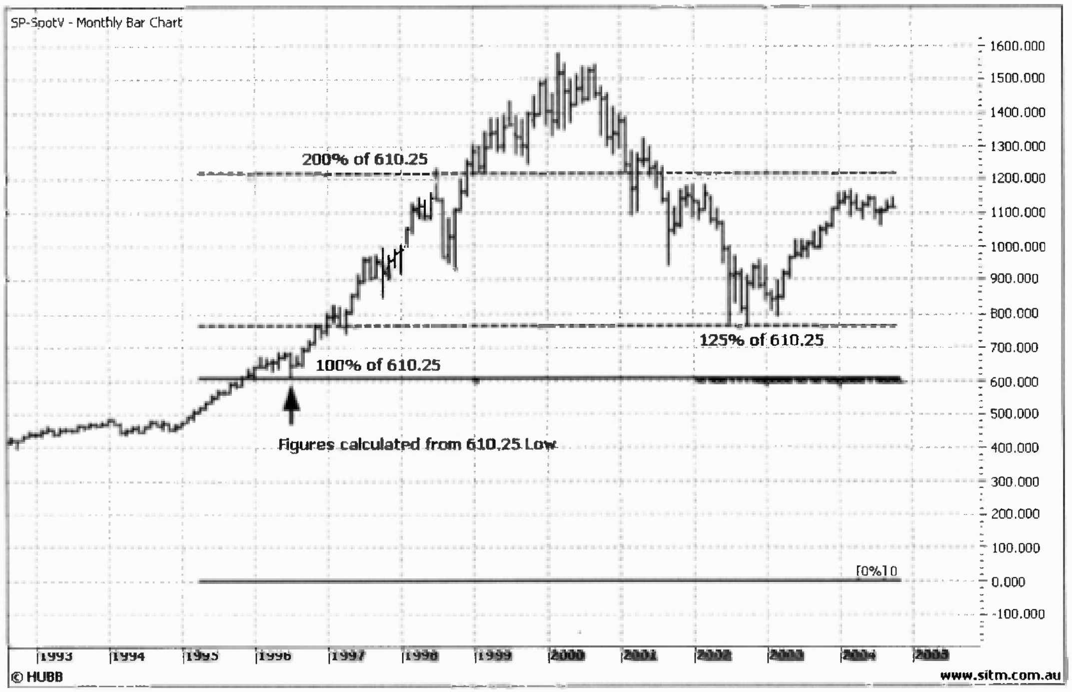
The easiest way to find these points of resistance and support is by filling in the resistance cards attached or using software to break up the percentages of the prime number. In this case we can see that 75% and 50% of the 1574 All-time High made on 24 March 2003 has provided some strong resistance and support to the S&P.

S&P Prime - High



Note with all resistance card examples, the prices are not always exact and they don't need to be. Here we are simply flagging potential points of resistance and support from which significant changes in trend may occur.

S&P Prime - Low



This time in the example above I have used the 610.25 Low of 16 July 1996 to again forecast a major line of support. Hopefully now you are starting to see what I mean about watching for clusters in price based on different highs, lows, ranges and primes.

This is but one example. Now it is up to you to put in the work required to prove these methods in your own mind. I wish you luck!

Pressure Point Chart
- Prime Numbers

Name of Security			Today's Date:				
Year of Range End							
Year of Range Beginning							
Prime Numbers		- High					
		- Low					
		- Prime					
Degrees	**Fraction**	**Percent**	Price Resistance	Price Resistance	Price Resistance	Price Resistance	Price Resistance
45	1/8	12.5					
90	1/4	25					
120	1/3	33.3					
135	3/8	37.5					
180	1/2	50					
225	5/8	62.5					
240	2/3	66.6					
270	3/4	75					
315	7/8	87.5					
360	1	100					
540	1.5	150					
720	2	200					

Putting it all together

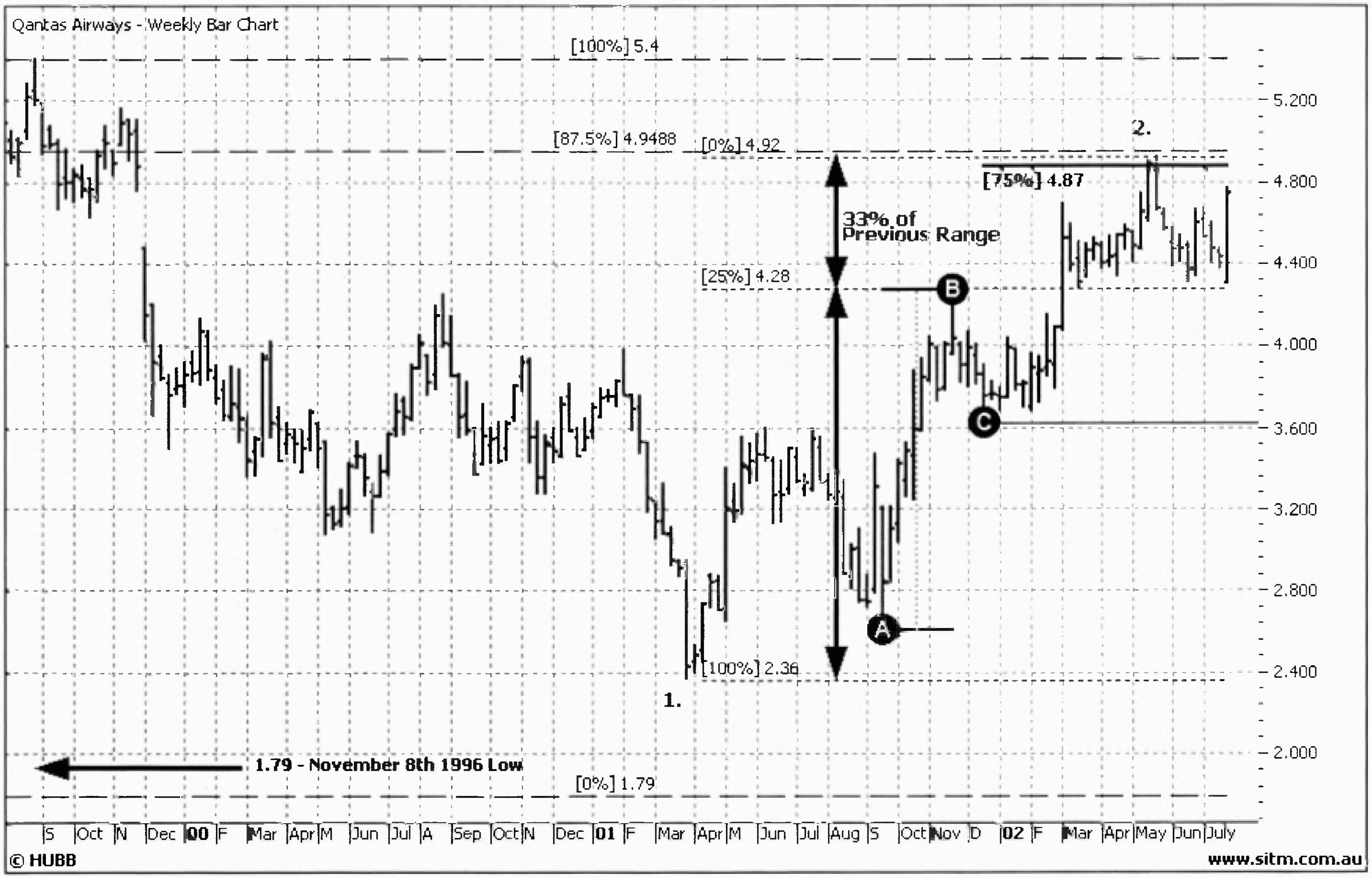
Now comes the time to combine the various techniques I have taught you to find strong, high probability trades. Clustering is a term I like to use to describe this. Essentially my aim is to find a cluster of set ups or reasons around the same point that all suggest a similar outcome.

QANTAS Trade

Qantas Airlines is a company many will be familiar with around the world. It is a company renowned globally for its flight safety record and bouncing kangaroo logo. QAN trades on the ASX and is listed in the S&P ASX 200 Index. The following is an example of a short trade combining long-term price analysis with medium term price set-ups and trading signals. Coming into this trade QAN had seen a run up which had more than doubled its share price in little over a year. This run occurred from points '1' to '2' on the chart labeled 'QAN Major Range'.

Before continuing with the larger scale range analysis, please bear with me as I digress for a the moment to the point in time where this trade first came onto the radar. The low marked '5' on the second chart labeled 'QAN Price Set Up' signifies a confirmed triple bottom as QAN pulled back to, then ran up from the price gap shaded in gray. This gap occurred months earlier and encompassed 25% of the 0.64 range from '2' to '3'. Price action is often the catalyst to exploring the price movement further. However, there will also be times when you notice the large set ups first and work down from there.

QAN Major Range



Now, knowing where the analysis started, moving back to a weekly bar chart a major range from 1.79 to 5.40 was completed back in 1999. Using this as the first measuring stick, the May 2002 High (2) occurred just beneath 87.5% of the range.

Moving on to the range mentioned earlier from 1 to 2, it becomes apparent that the 4.92 high was almost exactly 33% of the range from '1' to 'B'. After applying large scale ABC analysis, it becomes apparent that the 4.92 high was capped at the 75% milestone of the range A to B when projected from C. Sounds familiar doesn't it?

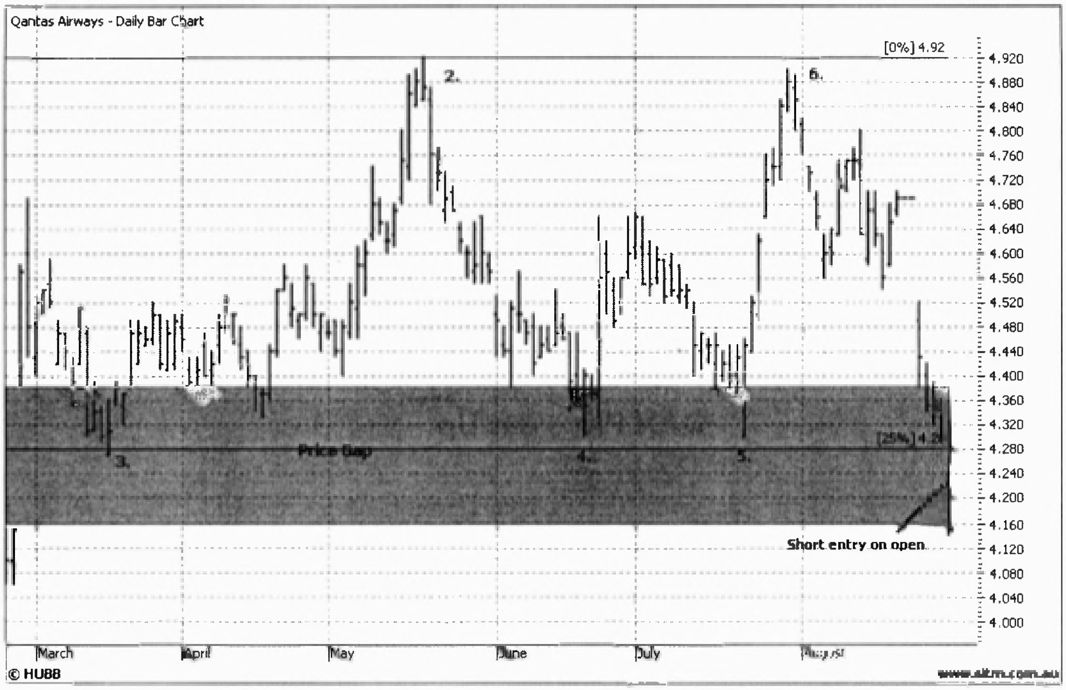
The price gap shaded in gray and 25% range pressure point initially offer support for the lows marked 3, 4 and 5. However, we know that once a market makes more than three moves against a support or resistance line, it is likely to break . A potential breaking of a triple bottom, coupled with an unfilled price gap underneath it is a prime example of a solid price trading set up.

QAN Price Set Up

Now we have established a solid potential trade, it is a matter of watching the market to see what unfolds. An aggressive strategy would have us short off the double top that occurs at 6. However, in this case the strength required to cause a gap up and a triple bottom should be respected until broken.

As QAN trades down towards the 4.26 lows it is now time to man battle stations as a break of the triple bottoms looks imminent. An entry stop is placed below the lowest of the three lows, marked 2, at 4.26. As QAN trades down, it gaps below the triple bottoms and 25% pressure point, signaling a strong down trend. Entry is gained at open on the 29/08/02 at 4.22.

QAN Double Top



A target of 3.64 is then set (7), based on 50% of the 2.36 to 4.92 range and 200% of the 4.90/92 double top. The target is further confirmed by a second, smaller double top that occurred in mid September with a 200% target of 3.67.

The September double top is also an ABC short and is used to add to the position at a price of 4.11.

Price Target and Additional Entry

As often occurs with levels of support/resistance during a strong trend, QAN gapped below the price target to 3.60, where both positions were exited on open.

This returned a profit of 0.62 on the initial position and 0.51 on the additional position for a total profit of 1.13 per share. Based on the initial entry price, 1.13 is more than 25% of the stock's price in just over a month. Not a bad trade!

Section 11 Review

In this section we have covered

Significant Highs and Lows will effect the price movement of highs and lows that take place in the future

Markets move in symmetry with their previous movements

Prime Number is a term I use for a significant price in a markets movement

Resistance Cards are designed to highlight clustering of percentages from different significant turning points

Trading Prices Forecasting is best done via a combination of different forecasting tools and entry triggers

Price Forecasting Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. Gann drew much of his inspiration from the Bible. In his only "novel", *Tunnel Thru the Air* (p.76), he quotes *Ecclesiastes 1:9*:

> ***"The thing that hath been, it is that which shall be; and that which is done, is that which shall be done: and there is no new thing under the sun."***
>
> *Ecclesiastes 1:9*

   This particularly important quotation from Gann supports the:

   a. Flea Circus Principle

   b. Big Brother Complex

   c. Theory that market action is prewritten

   d. All of the above

2. The Flea Circus Principle is a useful market analogy in explaining:

   a. Why overhead resistance is found at a particular level

   b. Why markets often retrace 50 percent of a move

   c. Why double tops and bottoms often lead to a 200-percent retracement

   d. All of the above

3. The Big Brother Complex is a conspiracy theory which suggests that:

   a. All future market action is revealed in the Bible

   b. Market action is prewritten, to the extent that previous cycles repeat

   c. The world's most powerful financiers agree on market price action in advance

   d. The big brothers of flea circus owners control the market

4. In suggesting that there is symmetry in the markets, I am saying that:

   a. Present market action often reflects previous market action

   b. Range AB will equal range CD

   c. Range BC will equal one-half of range AB

   d. All of the above

5. Evidence supporting the fact that markets have symmetry is the fact that:
   a. Range AB often equals range CD
   b. Range BC often equals one-half of range AB
   c. Double tops and bottoms often retrace 200 percent of range BC
   d. All of the above
6. In this lesson I shared with you a letter from a client, Max Clarke.

   Max's letter provides an excellent example of:
   a. My 200-percent rule for double tops and bottoms
   b. Prices meeting strong resistance around Gann resistance points
   c. The fact that a range in one direction often equals the previous range in the same direction
   d. All of the above
7. I also included a second letter from Max Clarke.

   In the second letter Max outlines how he traded a double top in the Standard and Poor's 500 futures contract - a share price index contract not unlike the Australian SPI. Max's target was 390.77 points. The market actually turned at 390.00 points. His error margin was 0.20 of one percent! Max calculated his target using the principle that there was a high probability that:
   a. Range AB = range CD
   b. After the double top, the market would fall by 200 percent of range BC
   c. Range AB = 2 X range BC
   d. All of the above

Advanced Money Management

In this section we will cover

Risk Tolerance

Multiple Contracts

Recovering for Overtrading

Money Management is an often over looked, but highly important aspect of any trading plan. This is of course built into the ABC trading plan with the 10% risk rule.

Example One

This is where you have the opportunity to gauge your reaction to different levels of risk and reward as a trader. Imagine, two games of roulette are being played simultaneously. You can only play one of them and the wheels are already spinning.

Option 1, Game A: You are automatically given a color - either red or black. In the first instance if the ball settles in your color you receive $20.00. If it settles in the other color you lose $10.00. There is only one turn of the wheel

Option 2, Game B: In the second game all of the conditions are the same. Except if the ball settles on your color, you receive four times the money you have won so far, let's say you have won $5,000. However, if it settles in that dreaded "other" color, you lose your all your winnings.

What is your decision? The wheels are currently spinning? Some of you will play Game A, as $10 is not much of a risk for someone with $5000. Despite the risk/reward ratio being 1:2 in game A and 1:4 in game B!

For those thinking, they would risk the $5,000. This time, let's say you have just won a jackpot and are $10,000,000 richer. (To put things on an even footing, let's assume this is far more money than your current net worth and is enough for you to live comfortably).

Which would you choose? The chance to make $40,000,000, but the risk of losing your newfound wealth or the ability to make $20, while only risking $10? While it is easy to say otherwise here and now, most given the pressure of the moment would be far more comfortable playing Game A all night than a single spin of Game B.

Why is this so? Clearly, your decision is not based on risk or reward but on your own "comfort zone" or "what you can live with". In the first instance you are quite comfortable with either winning $20.00 or losing $10.00, as you have considerably more money to back you up. In Game A you are not overtrading, you can live with the outcome, whereas in Game B you cannot. This is what so many traders do not understand, but is fundamental to their outlook and market performance. If I can get them into their comfort zone, then their decision-making becomes rational. At this point I can make great traders out of them, and not before. At this point I can expand their trading tools and abilities from this solid base.

The bottom line of this is that when you commence drawing up your trading plan, make sure that you and those around you can live with the outcome. After all, this is the major reason for your plan in the first place. Go back over the **Money Management** section in the *Smarter Starter Pack* manual and look for the safeguards or filters that we have placed there to benefit you - and your broker. If you are not concerned with safeguards, you had better adopt the saying "a quick game is a good game" as your motto - as you will not be around very long.

Example Two

% Loss of Capital	% Profit Required
10	11
20	25
30	43
40	**67**
50	100
70	233
80	400
90	900

How to do it and not get it-
By one who did it and got it!

The following scenario is unlikely to happen. I am putting the case this way to secure your attention. This is a meaningful section in this significant course, but sadly it is often studied after the events described have occurred. In the unlikely event that I was given only five minutes to teach my two boys the most relevant lesson to their survival in the trading business, this is what I would explain to them, as it takes only five minutes to learn, but for some a lifetime to comprehend. As I said, it is unlikely that I will ever have to teach my boys such an important lesson in such a short time frame, but if you spend enough time trading I promise you everything will happen to you. Lock the following story away for when you are caught in a storm. It will happen.

The lesson is from page 153 of the *Smarter Starter Pack* and is titled **How to Cope with the Tough Times**. This is it in a nut shell. If you lose 10 percent of your capital, you need to make 11 percent on your remaining capital just to break even. If you lose 20 percent, you must make 25 percent to get back to where you started. If you lose 40 percent, you must make 67 percent on your capital. **Remember ~ a return of 67 percent per annum, not 67 percent per month, is about as good as the very best fund managers make!**

The next lesson is on "compounding". Before you study this lesson, I want you to leave the addition of compounding to your money management until you have a proven track record of profits for at least a twelve-month period.

Multiple Contracts

Example Three

Now I will tell you about compounding your trades. To compound your trades means that as your account increases, you take more contracts at each predetermined point. Conversely, you lower the number of contracts if your account decreases through trading losses or cash withdrawals. While we were discussing your proposed trading plan (Section 4, pages 27 to 36), I mentioned optimization. I spoke about the capital required to trade a weekly swing chart and questioned whether your emotions could handle four $5,000 losses in a row. Perhaps you should go back and re-read that section as it applies equally with what we are about to study.

SPI Trades

For the purpose of this exercise, we will use the trades from the **Trading a Stock Index** section of the *Smarter Starter Pack*. We will not complicate this lesson by pyramiding trades, although pyramiding would further increase the overall return. The margin requirement was $7,500 per contract so we will add a new contract for each $10,000 profit credited to our account. Don't add more contracts on "paper profits". Wait until the trade have been completed. In 1991, the Share Price Index (SPI) contract paid $100 per point. Later it was reduced to $25 per point and the deposit reduced to $2,000 per contract. I have based this lesson on the contract as it traded in 1991, as you should be familiar with these trades from your *Smarter Starter Pack* studies. The commission is $85 to buy and sell, or as they say, for a round trip. This is of course, a simulated exercise only. The "trading statements" for these 18 trades are illustrated at the end of this lesson.

Compounding SPI Trades

Trade No.	Long/ Short	Buy Price	Sell Price	Points	Contracts	Profit	Account Balance	Com-pounded Contracts	Profit	Account Balance
Opening Balance							$30000			$30000
1	Long	1285	1318	33	1	$3300	$33300	1	$3300	$33300
2	Long	1347	1393	46	1	$4600	$37900	1	$4600	$37900
3	Long	1383	1418	35	1	$3500	$41400	1	$3500	$41400
4	Long	1445	1462	17	1	$1700	$43100	2	$3400	$44800
5	Long	1454	1470	16	1	$1600	$44700	2	$3200	$48000
6	Long	1513	1535	22	1	$2200	$46900	2	$4400	$52400
7	Long	1543	1557	14	1	$1400	$48300	3	$4200	$56600
8	Short	1465	1501	36	1	$3600	$51900	3	$10800	$67400
9	Long	1498	1470	28	1	($2800)	$49100	4	($11200)	$56200
10	Short	1503	1493	10	1	($1000)	$48100	3	($3000)	$53200
11	Long	1509	1548	39	1	$3900	$52000	3	$11700	$64900

Trade No.	Long/ Short	Buy Price	Sell Price	Points	Contracts	Profit	Account Balance	Com-pounded Contracts	Profit	Account Balance
12	Long	1533	1548	15	1	$1500	$53500	4	$6000	$70900
13	Long	1598	1584	14	1	($1400)	$52100	5	($7000)	$63900
14	Short	1513	1573	60	1	$6000	$58100	4	$24000	$87900
15	Long	1548	1573	25	1	$2500	$60600	6	$15000	$102900
16	Long	1573	1646	73	1	$7300	$67900	8	$58400	$161300
17	Short	1584	1602	18	1	$1800	$69700	14	$25200	$186500
18	Long	1581	1651	70	1	$7000	$76700	16	$112000	$298500
			Less Commissions				-$1530	Less Commissions		-$6970
			Final Account Balance				$75170	Final Account Balance		$291530
			Less Opening Balance				-$30000	Less Opening Balance		-$30000
			Profit				**$45170**	**Profit**		**$261530**
			Return on Capital = **151%**					Return on Capital = **872%**		

Is this sort of return on your capital possible?

I have seen more aggressive compounding plans than this one!

While most would have to agree that all of this looks very good on paper, it is a very rare trader indeed who would use such an aggressive compounding formula consistently. Trade 9 illustrates the problem, where the market gapped down and broke our 10-percent-of-capital rule that we discussed in the last exercise. This same rule would outlaw the number of contracts thrown up by our plan for Trade 18. But this is not the main reason for us treading wearily. It is the constant pressure that such a formula produces that would tend to stop the trader from functioning at his or her potential. Over a period of time you would experience a build up of healthy fear that one bad trade could have a dramatic effect on your trading balance. You may tend to focus on that outcome, and like Job, your worst fears could come upon you.

This is only a paper exercise. It is designed to illustrate the point that as your account increases one should increase the size of your commitment. I would say that in these circumstances a new trader should take one extra position for every $20,000 in earned profit.

In this, what is essentially trading in theory, we have increased our position in a predetermined manner. Over the years you will develop a skill in recognizing profitable trades. We call them set ups. Some trades will rate better than others, and it is these trades that warrant a larger investment. This is what I did during the trading sequence described in the **Super Traders** section. That trading sequence was, of course, taken from my real-time trading - that is the difference.

Opening Trading Statement

TRADING ADVICE AND SETTLEMENT STATEMENT

ADVICE No: 1 **PAGE No.** 1 **DATE:** 16/01/91

MARKET THE SYDNEY FUTURES EXCHANGE LIMITED

LOT SIZE & CONTRACT $ VALUE OF 100 X INDEX IS TRIAL
ALL ORDINARIES SHARE INDEX
PRICE/RATE** SHARE PRICE INDEX

No. OF LOTS		TRADE TYPE	DATE OF TRADE	PRICE**
Sold/Granted	Bought/Taken			
	1	OPEN	16/01/91	1285.00

OPENING	1	COMMISSION	A$	42.50DR
CLOSING	0	BALANCE	A$	29957.50CR

ISSUED SUBJECT TO THE CORRECTION OF ERRORS AND OMISSIONS

Closing Trading Statement

TRADING ADVICE AND SETTLEMENT STATEMENT

ADVICE No: 36 **PAGE No.** 1 **DATE:** 31/12/91

MARKET THE SYDNEY FUTURES EXCHANGE LIMITED

LOT SIZE & CONTRACT $ VALUE OF 100 X INDEX IS TRIAL
ALL ORDINARIES SHARE INDEX
PRICE/RATE** SHARE PRICE INDEX

No. OF LOTS		TRADE TYPE	DATE OF TRADE	PRICE**
Sold/Granted	Bought/Taken			
16		CLOSE	31/12/91	1651.00

OPENING	0	COMMISSION	A$	680.00DR
CLOSING	16	BALANCE	A$	291530.00CR

ISSUED SUBJECT TO THE CORRECTION OF ERRORS AND OMISSIONS

Section 12 Review

In this section we have covered

Risk should be based on sound money management principles as well an individual's tolerance

The return on capital required to make back large losses increases exponentially with the size of the loss

Your trading account can be grown many times faster with the right money management approach

Advanced Money Management Questions

Please note these questions may relate to content from either the *Smarter Starter Pack* or *The Number One Trading Plan*.

(Select the best answer from the four alternative answers given.)

1. Paper trading:
   a. Is more profitable than gold trading
   b. Is of value to a complete trader
   c. Allows you to trade using borrowed money
   d. All of the above
2. If you have never traded before, and wish to trade stocks, an appropriate amount of capital to commence trading with is:
   a. $ 5,000
   b. $10,000
   c. $20,000
   d. $30,000
3. A broker is best used:
   a. As a good source of market "gossip"
   b. To stop you from placing a bad trade
   c. To buy and sell stocks/options/commodities as instructed by you
   d. All of the above
4. Stop-loss orders are designed to:
   a. Eliminate losses
   b. Limit losses
   c. Prevent losses exceeding 40 percent of capital
   d. Prevent large profits from being made
5. If 40 percent of one's capital is lost, the percentage profit required on the balance, to return the balance to one's initial capital is:
   a. 25.0 percent
   b. 66.7 percent
   c. 100 percent
   d. 400 percent

6. The best way to increase one's trading capital is to:

   a. Borrow money

   b. Use savings

   c. Sell assets

   d. Make profits

7. The *Smarter Starter Pack* manual suggests that you go to the 'sin bin' (stop trading for one month) when trading losses exceed 40 percent, because this allows:

   a. For a 'cooling off' period

   b. For 'withdrawal symptoms' to be experienced

   c. Losing trades to be analyzed to determine the cause of the losses

   d. All of the above.

8. The best point to take profits when following the *Smarter Starter Pack* rules (50%; 75%; 100%; or using a trailing stop loss) is determined by taking into account:

   a. The trader's temperament

   b. The most profitable point based on past data

   c. How experienced the trader is

   d. All of the above

9. If a Share Price Index (SPI) trading account increases in value from $30,000 to $45,000 after, say, seven months of trading, it is permissible to add to the trading account up to:

   a. $ 5,000

   b. $ 7,500

   c. $10,000

   d. $30,000

10. Windfall profits should be:

    a. Added to existing trading capital

    b. Traded immediately to increase them further

    c. Banked

    d. Donated to charity

Super Traders

In this section we will cover

Becoming a Super Trader

The attributes of a Super Trader

Becoming a Super Trader

This lesson, the final lesson, is designed to break down any barriers you may have that can prevent you from reaching your potential in trading. I have never accepted the status quo. I have always gone about my business believing that records are there to be broken, and that I am the one to do it.

In trading, the major limits to your success are placed there by you.

These self-imposed limits can be raised and lowered. Don't ever think something cannot be done just because at this point in time YOU have never done it. That is a self-imposed limit. Look at these things as goals to be put on your list of accomplishments.

I have devised techniques for breaking you through these limits just as I have techniques for explaining the mathematics of W.D. Gann. You must do the work required to progress along this path.

I am prepared to share these with you, however, you must also learn to take responsibility for your actions - not just to mouth the words. If you can take full and genuine responsibility for your mistakes or losses in the market, it goes without saying that you can go to the root cause and fix the problem causing these mistakes or losses.

You can do very little to change me; even less to change the market; and if the truth were to be known, less still to change the modus operandi of your broker. You can change yourself, however, quite easily. At the beginning of the *Smarter Starter Pack* manual I wrote a very clear, maybe even provocative, disclaimer. In it I said

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"... it has been my experience... that if a trader does not accept complete responsibility, that person has little or no chance of success in trading markets. In a strange way this statement may be the sole reason for your success."

It is my belief that if ever you are to become a "super trader", you must take complete and utter responsibility for the decisions that give you both success and failure (profit and loss) in the market. This may be the first time in your life that you have ever been confronted with this fact, but do not walk away from it. You must make the decision, and be responsible for it - not me; not the market; not your broker.

There is just no such thing as a super trader who does not accept the complete responsibility for his or her actions. I see this as the number one psychological reason why traders fail. It prevents traders from correcting weaknesses, both major and minor, in their trading plan. Their progress is inhibited. Why should you correct trading plan weaknesses if you are never at fault? True analysis and improvement are impossible if you are forever ducking the blame.

In extreme cases such traders, subconsciously, are driven to look for a broker who will accept their way of looking at the world. They search for a newsletter that will always be right. Their relationships do not last long and are usually rocky. It is such a shame, as this is a comparatively simple problem to fix.

If ever you want to be a heavy hitter, just write down the following - "**the buck stops with me**". Make a decision to accept this fact and please, never go back on the decision. Open your mind to the good things that flow from your commitment. You can fix anything. You can live with change. Change is no longer your enemy.

My Development as a trader

I have to accept that for some, the subject of Super Traders is seen as the sole reason to study these lessons. They feel they will be satisfied with nothing less. Having dealt with thousands of traders over the years, and having witnessed the work and dedication of the few that really make it, I must caution you right at the onset to allow yourself the time to achieve your goals. In judo you must work your way to the black belt. Along with your goals, set yourself a workable time frame. Celebrate your success each time you reach another rung in the ladder. Remember, each day is a gift and enjoy it well.

To help you along the way I have given you some common denominators of the greats. In the introduction I spoke about the similarities in the conclusions drawn by Charles Dow, W.D. Gann and R.H. Elliott on the subject of ranges. This is very valuable knowledge, but you must study the market, past and present, if it is to be valuable knowledge for you.

I do not regard myself as a great anything, but over the years I have come to appreciate that many like to hear about my beginnings as a trader. Mine is the only story I can tell on a first-person basis, but I can also share with you the success of some of my friends who have become known as the Super Traders. I can talk about them and me from the very beginning. The things I write about here are all backed up with trading statements.

The first thing I must emphasize is that I was not always a success. I had a similar series of hits and misses when I started out, as has just about every successful trader that I have ever met. I found I had to work my way through this thing. I had to earn each belt on the way through to the black belt.

If you are going to succeed in the business of trading stocks or commodities, you will be called on to \draw upon strengths of survival untapped in your previous business career.

What I propose to put in front of you now is the series of strategies that enabled me and those around me to emerge from the pack. This was my way of obtaining my "belts".

We are all most vulnerable at the beginning of any career and as I wish to assist you as much as possible to make this difficult journey, I will share with you some of the mistakes I made when I first started out - and how I lived to tell the tale.

After I initially spent two weeks trading with a friend, I set out on my own. In those initial weeks we had shown a profit of $4,852 on a $30,000 account. I really thought I had it all together. The initial $30,000 stake was a combination of $15,000 obtained by placing a lease over a motor vehicle and $15,000 I borrowed from a friend who had been my partner in a number of successful ventures. It was all so wrong!

After a couple of months the profits were starting to be matched by losses, so I returned my associate's capital. I was starting to realize that I did not know what I was doing. It was a particularly stressful period as a number of changes to the income taxation laws had left me hundreds of thousands of dollars in debt. I was trying to use the leverage of the market to get up, but found that this same leverage could easily work against me.

In Australia at the time, the stock market was focused on our "balance of payments" day, with Australians collectively beginning to realize that they were all in debt. The balance of payments is really the comparison of imports to exports - and the imports were clearly winning. As a consequence, the stock market was experiencing extreme volatility at the time that the balance of payments figure was announced. I was attempting to trade on the news and was in the wrong way at the end of the day. In February 1986 I shot myself in the foot by having too many contracts in the market when the figure was released. A simple "stop-loss" plan would have saved all of this and God knows I had read enough about stop losses!

The end result was that I had an overdraft with my broker. I had read my account statements incorrectly and had actually challenged my broker's figures. You can imagine how impressed his head office was when I eventually said I could not pay the bill!

I had traded profitably up to this point, but had drawn on both my capital and profits to live. I was not broke but I had reached the point where I had to sell some assets to restructure my position - so the bank said.

It took a little time and the broker stayed with me. He even put $500 of his own money in there to pacify head office. His name was Roy Kennedy. He was a good mate to have in my early days.

It was at this time I drew up my first trading plan. Once I had an initial plan constructed I tested my theories in the market to give the system its baptism of fire. Fortunately, it was profitable, but of greater importance was the fact that the plan lowered my anxiety level considerably, not to mention the broker's!

Knowing what was achievable, I then went about constructing my second prototype which I will call Trading Plan Mark II. In the Mark II plan I put in so many buffers that I felt I could not be wiped out quickly, as had been the case in February 1986. These are the same filters I have put into the *Smarter Starter Pack* program. It took me six months being out of the market to work out clear guidelines for my individual comfort levels, as well as the risk/reward ratios that I felt were relevant in my case. Technically, I had to arrive at a level of return that was acceptable, given the movements of the SPI contract I intended trading. I then had to formulate an action plan that, based on previous performance (I still do not know what else to base it on), would make the whole operation worthwhile. The key to it all was simply trading the equal ranges, though I was at times attempting to trade both sides of the market.

With some hindsight I could have done things a little better, but not to any huge degree. I had monitored closely my improvements after this construction process, as I never want to go back to the hell that was February 1986. I saw my future as a trader, not as a forecaster.

So how did I go when I finished? I did some things right and some others...

I borrowed $30,000 in August 1986 to get started and I placed my first trade on 1 September for a loss of $270, including broker's commission. By the end of September the account stood at $49,167.77. At the end of October it stood at $95,351.31 (I had been trading just 12 months so this was my first anniversary), and by the close of November it was $103,679.77, although in November I made a cash withdrawal, so it was not the correct figure.

Trading Statements of Sep., Oct., Nov. 1986

Date	Reference			Debit	Credit	Balance
	B/Fwd Balances					
						$ 30,000.00
01-Sep-86	Trade Adv.	AOI	86	$ 270.00		$ 29,730.00
05-Sep-86	Trade Adv.	AOI	109		$ 857.50	$ 30,587.50
09-Sep-86	Trade Adv.	AOI	102		$ 1,065.00	$ 31,652.50
16-Sep-86	Trade Adv.	AOI	93	$ 1,142.50		$ 30,510.00
17-Sep-86	Trade Adv.	AOI	104		$ 15,360.00	$ 45,870.00
18-Sep-86	Trade Adv.	AOI	95	$ 1,185.00		$ 44,685.00
19-Sep-86	Trade Adv.	AOI	103		$ 4,230.00	$ 48,915.00
29-Sep-86	Trade Adv.	AOI	80	$ 135.00		$ 48,780.00
30-Sep-86	Interest to 20-Sep-86				$ 387.77	$ 49,167.77
02-Oct-86	Trade Adv.	AOI	86	$ 92.50		$ 49,075.27
08-Oct-86	Trade Adv.	AOI	98	$ 1,735.00		$ 47,340.27
10-Oct-86	Trade Adv.	AOI	81	$ 1,485.00		$ 45,855.27
14-Oct-86	Trade Adv.	AOI	122		$ 28,310.00	$ 74,165.27
15-Oct-86	Trade Adv.	AOI	113		$ 13,545.00	$ 87,710.27
17-Oct-86	Trade Adv.	AOI	71		$ 7,730.00	$ 95,440.27
21-Oct-86	Trade Adv.	AOI	81	$ 485.00		$ 94,955.27
24-Oct-86	Trade Adv.	AOI	83	$ 85.00		$ 94,870.27
31-Oct-86	Interest to 20-Oct-86				$ 481.04	$ 95,351.31
06-Nov-86	Trade Adv.	AOI	77	$ 185.00		$ 95,166.31
10-Nov-86	Trade Adv.	AOI	73	$ 1,135.00		$ 94,031.31
11-Nov-86	Trade Adv.	AOI	80		$ 11,300.00	$ 105,331.31
12-Nov-86	Trade Adv.	AOI	88		$ 365.00	$ 105,696.31
13-Nov-86	Trade Adv.	AOI	106	$ 1,370.00		$ 104,326.31
20-Nov-86	Cash Withdrawl			$ 3,000.00		$ 101,326.31
26-Nov-86	Trade Adv.	AOI	85		$ 4,230.00	$ 105,556.31
27-Nov-86	Trade Adv.	AOI	74	$ 770.00		$ 104,786.31
28-Nov-86	Trade Adv.	AOI	66	$ 1,555.00		$ 103,231.31
28-Nov-86	Interest to 21-Nov-86				$ 448.46	$ 103,679.77

It would be fair to say that the first 12 months of my trading was a steep learning curve. It would be nice to be able to write that after the first lesson I never had another bad day in the market, but this was not the case. Like most of us, I had to learn a tremendous amount from my experiences - both good and bad.

What had I done wrong? Borrowing money to trade? The answer to this question is both yes and no. I had done the work before I borrowed the money and it was only a bite-sized chunk of capital. The debt did add to the pressure of trading, but for me it was a time of pressure.

I had walked away from a career in real estate that had been worth $400,000 per year and my goal was to replace it with a career in trading. For me, the $30,000 of borrowed capital was not exactly a fortune in seed capital. At the same time my family and I lost our house due to adverse court rulings on the taxation laws, so it was not a happy period.

Overtrading was my mistake in early 1986 and I still have to watch my capital rules, as I tend to build up a fair head of steam when I am trading and the market is going my way. Given these conditions, discipline can easily go out the window. This is when I need the rules of money management. What I am saying is that **a good analyst will sometimes make a lot of money but a good trader will always make some money**. In the long term your success will rest on your money-management rules as much as on your analytical skills. So please spend sufficient time developing both sides of your personal equation.

In terms of my trading, I was using a combination of short-timeframe charts to establish my position and a 24 hour (daily) chart to hold positions, which is still my preference. I was trading both sides of the market (I was a bull and a bear). It was wrong, but that is what I was doing at the time.

Believe me when I say that what I have written in this section would be of little value without some procedure or method to overhaul one's self. It is in one's own will that the seeds of destruction usually lie. In trading we are our own worst enemies.

I found that the analysis of the market is hard, but the analysis of ourselves is harder.

This chapter would not be complete without a detailed description of how I turned myself around. There are a number of points that must be taken into consideration while analyzing my trading results for 1986. Firstly, I was a baby of less than twelve months of age. Secondly, I was staring down the face of a financial abyss at this stage of my career. As I mentioned earlier, it was through a series of changes to the taxation laws I found myself owing hundreds of thousands of dollars to the Taxation Office. It cost me a very lovely home that we had previously owned, unencumbered. On November 6 1986 we lost our house and I faced personal bankruptcy - so don't ring me up saying you are under pressure.

My win to loss ratio, at that stage, was 10/14, but my average win/loss profit factor was $8,452.25 to $830.00. Even so, I had to apply every technique I knew to keep myself positive: The first thing you need for this complete turn around is faith in yourself, and in your system (you must always think of it as **your** system). You must believe it will work; that you can show-a profit; that you can be a success before seeing it happen. Anyone can believe in a thing after they see it happen. The hard part is believing in it before it happens. That is faith. So few have it and that is the reason that so few succeed in the business of trading.

While I must thank W.D. Gann, Charles Dow and R.H. Elliott for leaving the blue prints for my technical analysis package, I must also thank Jake Bernstein for writing *The Investors Quotient*. It is the book that enabled me to get myself together. In it Jake talks of a complete turning around. That was my metamorphosis. I have many people to thank for my success, but none more than Jake.

I don't want to spend an eternity discussing psychology or psychiatry. I will, however, discuss with you a framework of what individuals do when they are trading and how their trading results can improve by modifying, how they interpret a trading opportunity. In other words I will discuss a number of techniques to maximize your success in speculation. I know, because I have experienced the change. I was not and have not always been successful. As Jake Bernstein would say:

A. I started off full of myself, with unrealistic expectations of what my success would be in trading.

B. My knowledge of how markets operated was faulty or close to non-existent.

These two things combined to make me a loser. Not a big loser, but it did create a losing attitude. So what did I do to change that?

My Metamorphosis

I studied the master traders, namely W.D. Gann, R.H. Elliott and Charles Dow, for they were demonstrably the most successful. Books like *Big Hitters* and *Market Wizards* also broadened my approach.

I stopped associating with losers in the market and looked for winners.

I developed a series of checks and balances that I incorporated in my trading noting that when I stuck to them I made money. What I am talking about is my money management.

I found that when I religiously locked in on Gann technique and shut out all external factors that had never proven to be successful for any investors, factors such as reading the newspapers, my forecasts could be earth-shattering.

I organized all my indicators into a simple fashion and would do my homework before a market, with its emotion, was in play. Then, while the market was in play, I could make my decision inside of 30 seconds when, say, four of my proved indicators said go, I would go and bring into play all my trading rules.

I obtained all the figures on success rates of traders in markets. I saw that mine was above average from the beginning. As a result, I figured I had a chance to. became good in this field. I made a holy and solemn vow to do so. I examined closely every trade I had ever completed concentrating on the conditions that gave me profits and the conditions that generated losses (guaranteed losses). I isolated these conditions into categories, and called these road blocks. I worked out a favorable outcome to each of these roadblocks and worked, and continue to work, to that aim. I gave up my real estate and car dealing history, and set my sails in commodities.

I wrote out my fall-back position. I told myself that each trade would be the best in my life and I approached it as if my capital was enough money to do the trade - but it was all the money I had in the world.

Trading

An analysis of my trading statements revealed that I last between 10 and 20 percent of my profits in sideways movements, so I stopped trading sideways movements. This increased both my profits and my peace of mind.

I broke off associations with all negative people. This can be painful, but it was necessary in my development as a successful trader - this really takes care of 90 percent of all managed accounts and is the reason why I will not trade for other people. What we are aiming far is conditioned reflexes. That is why I study how I made my profits. These days I only work with positive brokers.

I calculated:

- My percentage of winning trades, break even trades and losing trades
- My average profit amount (in dollars), versus my average loss amount (in dollars)

The positive or negative quality of these outcomes definitely determined my mental condition as I approached the next trade. In simple terms, by dearly highlighting the profits (pleasurable results) it became a natural thing for my responses to act in a certain way. I also. highlighted the losses (painful events) so it became natural that they would decrease. One should celebrate the wins but not the losses. Now this specific form of self instruction is basic to all human learning. I am standing here as proof of this adjustment of circumstance resulting in drastic changes in results. So it is possible to shape new behavior or eliminate current behaviors by manipulation of the elements. The ramifications of this are immense; some would say awesome. They have trained chimpanzees to perform highly complex tasks ranging from assembly line work to number sequence recognition. I have often said a well trained monkey on a stick could be trained to pick a yearly top in the stock market. That's how good and how robot-like you must become.

It becomes very easy to see from this approach that you must do a lot of work on your signals or indicators, as they act as a reinforcing tool. If you have a system that is generating the wrong signal, all the work we have spoken about is not worth a cracker. In fact, it's worse than that. It's a guaranteed way for a tailspin because you will receive a reward or pleasurable outcome each time you don't follow a signal.

You must start with the best possible system of generating the clearest possible answers and then follow them if the whole machine is to work in your favor. It should now be apparent we must do our homework carefully. The best result you can hope for is to do your work carefully then follow your signal (or trigger) to act and ignore outside news which has never proved reliable in the past. I don't believe you can start so smart that you can interpret outside news or advice as a contrarian and so act accordingly - I believe you will acquire this trait. Now the most favorable outcome of this action is a profit. If it is done several times the learning experience has begun and becomes stamped in our subconscious mind. Unfortunately most traders never even attempt step one, much less pass it. Their very first trades are triggered by outside influences not related to any system. So their system is never tested, much less validated.

My Philosophy of Trading

It was from this series of trades that I shaped my philosophy of trading, and it has not changed markedly over the years. It can be summed up like this. My research leads me to points where the odds are in my favor to enter the market. My rules give me exit points which will provide a reasonable return for the calculated risk. I am AUTOMATICALLY removed from any trade when reality does not match my expectations. I then go back to determining my next entry point. I expect four to eight set-ups to materialize, in my selected markets, each calendar year. I maximize my exposure to the extent that my money management rules will allow in a strongly-trending market, because such markets are hard to find. I will be fine-tuning this overall process for the rest of my trading life, and monitoring closely the results (profit or loss) of any changes.

I could have easily shown you some later campaigns that would have involved larger figures and more spectacular trading results. I could have also glossed over my mistakes which really centered on overtrading. I would not advise any new entrant to the market to borrow money to trade but if your work is thorough enough, you will have no trouble in securing the funds.

Super Traders

This section would not be complete without some form of input from one of my Super Traders. This is the proof that the whole thing works for someone other than myself. It is here to encourage you to take the necessary steps to ensure your success in the world of trading. I am not interested in the ones who want to survive in a zoo. I am interested in those who want to survive in the jungle, where you have to catch and kill your own.

Over the years many of you have had the experience of meeting my friend Tony Morgan at one of our Trading Incubators or Trading Congresses. I will attempt to give you a run down on Tony's progress as the most-asked question seems to be "How long will it take me to develop as a trader?"

Firstly, Tony did not stand out from the pack in his first twelve months as a trader, so don't be too hard on yourself if you are currently a little behind this time frame. The main quality you need is persistence. I often quote President Calvin Coolidge when I speak to new traders:

Nothing in the world can take the place of persistence:

Talent will not

- Nothing is more common that unsuccessful men with talent

Genius will not

- Unrewarded genius is almost a proverb

Education will not

- The world is full of educated derelicts

Persistence, determination and hard work make the difference

The following is a fax I received from Tony after he had been trading for approximately twelve months.

David

Many thanks for your birthday greetings, now a year older and a year wiser hopefully. It probably is my first anniversary date trading and April was my best month ever. I converted approx $40,000 into $85,000 and it would appear some of my work and your invaluable assistance is paying off.. I can't thank you enough and I will stay in the black.

My confidence has grown. The April trades I'm sure were not a flash in the pan. I returned after the Sydney and concentrated on swing charts. I've drawn 20, 30, 50, 70 point charts. They have made the picture so much clearer and obviously simplify the range picture.

When 1557 low was broken I was shell-shocked. I didn't trade the run up to 1604. I gingerly 'fished' for the 50% retracement at 1567, traded it and have Starter Pack traded since using 'temp' of market, closing price in relation to the mid point and ranges to assist. 70 point ranges have been kind to me.

I waited for the 1606 low as I was keen to trade once the market had passed thru the 1x1 cal from 1719 and returned to sit on it. I had studied it and had seen it happen on the run up from 1553 low (I had previously written on my chart classical Gann).

I was a little disappointed that I didn't attend the Incubator but I had attended the previous one, and was busy putting some runs on the board. Would it be possible to buy from you the audio tapes?

Trust the incubator went well for you and once again many thanks for your assistance. I'm not getting carried away with 1 excellent month's results, however it sure is a great start.

Tony Morgan

To give you a better perspective of Tony's growth, I have included the following Trader's Profile on Tony that appeared in our Winter 1995 *Safety in the Market Ticker Tape*:

Safety in the Market

TAPE TICKER

In 1991 I received a flyer from Research Technology concerning Gann and a David Bowden seminar. Despite having worked in the mining industry for 20 years, I had done restricted share trading and thought the futures market was the casino of the stock market. The big players were thought to be multinationals with huge computer banks. I thought a small player with a PC had no chance. As I was to be in Sydney at the time of the seminar, I decided out of curiosity to attend and also meet up with my brother, a computer systems analyst. Over a few chardonnays he told me I would be rather surprised at the results many of the large corporations were achieving with their large computer banks. He knew of a number of small traders who would run rings around some of the so-called heavies.

The seminar was a hit of an eye-opener. Firstly, there were people who had made correct forecasts. I was lead to believe the futures market was not a random walk. I was told that 70 percent of traders lost, 20 percent broke even and 10 percent made heaps. This made me interested. I had been mostly successful in business and this seemed a challenge I was keen to accept. I wanted to know more about Gann and his methodologies, particularly as it was mathematically based The reported 50 million dollars he made seemed a handy sum.

I figured if I wanted to be a trader I wanted to be part of the 10 percent and to be in this group I needed the best that was available. I bought Gann's course and David's *Safety in the Market Video Series*. Thank goodness the tapes came with the course. The course wasn't quite what I expected and certainly wasn't after-dinner reading. I figured if I wanted to fast track the learning side I should attend one of David's seminars. This really pulled the course apart for me. Had I not done this I'm not sure if I would have proceeded. My trading was erratic; the more I learnt, the more I realized how little I knew. I had some good hits and took a few on the chin.

As my trading improved I spent more time and money on research. In 1993 I attended David's seminar at the Observatory Hotel on September the 17^{th}. I bought *The Number One Trading Plan* at this seminar, which I think had just been released. On returning to Cairns I started reading the book. On page four in dark type was "One area of agreement between Elliot and Gann is that two of Elliott's impulse waves in a five wave sequence will tend towards equality in time and magnitude." The penny immediately dropped for me on the Share Price Index market. We had just had a retracement to 1891 on the 15th September. David had agreed to sell me the audio tapes of the June 1993 Trading Incubator. On these tapes David's long-term forecast called for a top in November 1993. I looked at the first leg of that run 1341 (16-Nov-92) - 1597 (5-Jan-93) = 256 points in 50 days.

As our market started to move away I figured we could repeat the first leg. If so 1891 (15-Sep-93) + 256 points = 2147, 50 days = 4th November 1993. Square of nine supported these prices. The 250s seemed so range friendly.

The top occurred during the Melbourne Cup on the 2^{nd} November 1993 at 2148. My money and attention wasn't in Melbourne. This run was my first six figure win. The restaurant business did a lucrative trade. The top in 1994 was 90 degrees later, on 3^{rd} February 1994. At times Gann seems so simple.

Since then, Gann has been kind to me. I continue to spend money on research and am a frequent attendee at repeat Trading Congresses. The simplicity of Gann initially, and to this day, is of great appeal. I only wish the Starter Pack had been released when I first started out. My golfing partners I think wished the same. I have been trading for four years now and still consider myself a babe in the woods. I certainly wouldn't be trading now had I not been introduced to David Bowden.

Thank you Gann; thank you David Bowden.

I could fill another book with the stories of the fun times I have shared with my traders. I feel as I am doubly blessed as they are great friends of both Pauline and myself. This Super Traders' program started out when Ken Gerber and Joe Meyers came out to Australia from USA where I held my first seminar in 1988. The year before I had met them at a technical analysis seminar in the United States. They said, "If ever you decide to hold a seminar, anywhere in the world, we will attend". They proved to be as good as their word. I actually felt that if this pair were showing the kind of faith and dedication to fly half way around the world to hear me speak on the market I, sure as hell, had better have something good to say. It had better be my best. So I said if they could see their way clear to stay for two weeks I would put together a special course in addition to the weekend seminar. That was the start of my Trading Incubators. Ken was the start of the Super Traders program. Over the years he has proven to be as good of a mate as anyone could ever ask for.

In the early days I had about 100 clients, or friends as I referred to them. They were to become part of my family. Today we have thousands of clients from all parts of the globe, but we try our utmost to maintain the same spirit. The staff and the clients are all part of the family. An extended family, but part of the whole. One day I will step down from running the company and the inevitable work load associated with conducting seminars. I will go back to just trading and associating with my trading mates.

Making a Super Trader

As I say in the **Postscript** of the *Smarter Starter Pack* manual, one of the conditions I place on teaching a student is that I must like him or her as a person. Another condition I will share with you now is that they must be able to handle my answering machine. Yes, my ANSWERING MACHINE! I tell them that they should handle their broker like the answering machine - cold and hard - "just the facts, maam". This may sound a little eccentric, however my reason is simple, and sound. If they cannot handle an answering machine, if they feel intimidated by it, how can they handle the market? You must, at some time, overcome your fears. Why not do so now?

I can talk more about what I look for in a Super Trader than what it takes to make one. What follows are my perceptions and requirements.

A Super Trader must be the type of person in whose company I am relaxed, otherwise the chemistry for trust and learning would not be there. One of my requirements of them is that if I happen to not be in a position to pass on this knowledge and way of life to my sons, they will do it for me. In this way we are interdependent.

They must be successful already. This maximizes my chances of success when investing a considerable period of time with a trader who can absorb and benefit from the experience. You might say that I am trading a higher bottom. This sort of person knows what success actually is, and so can recognize it, they also know how to handle it, when they experience it. In the end we both have every chance of getting what we want.

They must, to a degree, be loners. I have been described as being eccentric on occasions. Some say that I am a hermit! Both of these portraits are painted by people who do not know me. There are, however, some grounds for these descriptions. You see, I am aware that too much input can cause more problems to my decision-making processes than too little, so I choose to keep my own counsel. I have the discipline to work alone.

They must exhibit self-confidence. This is needed if one is to have the persistence to follow through on a trading plan that will, more often than not, put one in direct opposition to the opinion of the majority.

I have never met a successful commodity trader who was negative. The two things do not go together. This is why I look for people with a positive frame of mind - and why I bar negative people.

I appreciate a good sense of humor. This is a healthy way to release pressure, and we certainly experience plenty of that!

Finally, I find that most of these people have a solid marriage, or at least a good grip on life. They have a balance to having fun, as well as making money. Most of these people have accepted the law of sharing, as one law that is beneficial to their advancement. In other words, part of their strategy, or success plan, includes supporting charities or underprivileged groups. They are already solid citizens or role models, and I just add some ingredients by way of knowledge, to raise their performance in the fields of trading and living. It is fun working with such people and I am honored to be associated with my group of Super Traders. They are family members to both my wife Pauline and myself.

Your Aim

To gain an understanding, and an appreciation, of:

- Just how successful a trader can become
- The fact that long-term success is not due to luck, and
- The fact that those who achieve "Super Trader" status have invariably studied and worked hard, and have applied their knowledge and skills to the markets in a highly disciplined manner

Optional Exercise

This lesson is intended to give you an appreciation of just how good a trader can become. To give you a balanced view, and to keep your feet on the ground, I will soon ask you to read Chapter XIV of *45 Years in Wall Street*, titled **Great Market Operators of the Past** (pp.116-122). When you do, give what you read in this important chapter some thought as you work your way through this **Super Traders** section and gain an understanding of just how good traders can become - if you are prepared to accept the responsibility.

The article reproduced in **The Complete Trader**, was published in *The Ticker and Investment Digest* in 1909. This article is printed in full at page 213 in *The Smarter Starter Pack* (3rd edition). It features W.D. Gann, one of the greatest traders of all time. Despite his extraordinary trading record, Gann was a relative newcomer to trading at the time the article was written. He continued to make new discoveries and refine his trading techniques until his death in 1955, almost half a century later.

The section concludes by briefly focusing on the successes I have had in applying Gann techniques to Australian and other world markets, 40 years after Gann's death. The message for you is that if I can do it, there is no reason why you cannot do it also if you are prepared to make the necessary sacrifices!

1. Read Chapter XIV of *45 Years in Wall Street,* titled **Great Market Operators of the Past** (pp.116-122), then complete the following table.

Place a cross (**X**) in the column or columns which best describes the reasons for each operator's (trader's) ultimate failure:

	Power (a)	Unexp. (b)	Overtr. (c)	Trend(d)	Bull(e)
Crawford					
Jordan					
Livermore					
Price					
Scales					
Sully					

Notes

a. Power - driven by a quest for power

b. Unexpected - failing to expect the unexpected

c. Overtrading - risking too great a proportion of capital at any one time

d. Trend - trying to "force" the market to follow the trend that you want it to follow, rather than accepting without question, that the market is always right. Trading on hope or fear

e. Bull - being either a chronic bull or a chronic bear. That is, believing that the market can go only one way - either up, or down

Re-read this W.D. Gann passage and make a list of the "rules" you could follow to prevent you from getting into the predicament of the well-known traders described by Gann. How many "rules" can you find?

2. Read *The Ticker and Investment Digest* article (pp.213-217 in *Smarter Starter Pack*), bearing in mind that the article was written quite early in Gann's trading career. Summarize this article, and include in your summary a comprehensive list of the factors which you believe contributed to Gann's success.

3. Read Chapter 23 (pp.212-213) and Chapter 26 (pp.233-238) of *The Investors' Quotient*. When you have read page 230, add Bernstein's list of characteristics of a successful trader to your summary. On reading pages 233 to 238, see if you can note other valuable pieces of advice given by the super traders quoted by Bernstein, commencing with W.D. Gann.

5. Read about two or three traders of your choice, in *Market Wizards* and *The New Market Wizards*. As you read more and more about super traders, you will realize that although super traders are human beings, they have a number of key success factors in common. These include:

- A passion for trading
- An extensive knowledge of trading and markets; a history of hard work
- A disciplined approach to trading
- An intense determination to succeed

Also, they invariably treat trading as a very serious business!

Section 11 Review

In this section we have covered

Trading success starts with taking full responsibility for all decisions and actions

Super Trades are generally well-balanced, confident, independent and successful people

Super Traders Questions

Please note these questions may relate to content from either *The Smarter Starter Pack* or *The Number One Trading Plan.*

(Select the best answer from the four alternative answers given.)

1. The *Smarter Starter Pack* manual reference for this lesson is headed **The Complete Trader**, yet it is essentially an article about W.D. Gann's trading successes. The heading was chosen because:

    a. Gann's trading results were spectacular

    b. Gann had discovered the "Law of Vibration", which led to his trading successes

    c. All aspects of Gann's trading were thoroughly researched, practiced and integrated

    d. Gann had successfully completed the trading trial reported in The Ticker and Investment Digest article

2. As a broker, Gann was able to study the causes of success and failure in speculators.

    He concluded that more than 90 percent of traders lose, because they lacked the necessary:

    a. Will to study

    b. Knowledge

    c. Trading system

    d. Control of their emotions

3. While preparing for what was to become a spectacular trading career, Gann:

    a. Studied the sciences, and related scientific principles to market action

    b. Applied his theories to historical data from a range of markets

    c. Examined the trades of a range of successful traders of his day

    d. All of the above

4. Gann likened his "Law of Vibration" of markets, to the principles upon which the following invention was based:

    a. The telephone

    b. The motor car

    c. The typewriter

    d. All of the above

5. Gann traded stock and commodity markets between 1902 and 1955. During this time he is reputed to have made many millions of dollars. Indeed, it is widely reported that he made:

    a. $10 million

    b. $20 million

    c. $50 million

    d. $100 million

6. Gann was more than a chartist. Indeed, he was able to:

    a. Calculate moving averages, stochastic oscillators and relative strength indices

    b. Calculate the exact date and price of major market turning points

    c. Apply supernatural powers to the markets

    d. All of the above

7. When I first started to write Section Thirteen, I planned to title it **A Super Trader** and focus solely on the achievements of W.D. Gann. Later, I decided to broaden its coverage, calling it **Super Traders**, and include details of the successes of other traders. I made this decision because:

    a. Gann's success as a trader was grossly over-rated

    b. Gann died in 1955. He would not have been successful in today's markets

    c. I wanted to make the point that super trader status was not reserved only for W.D. Gann

    d. With the advent of computers, Gann's theories became obsolete

8. In *45 Years in Wall Street*, Gann noted that a common cause of failure in traders who had previously made spectacular trading profits was their desire for power.

    Gann rated this passion for power as a negative trait because it usually causes a trader to:

    a. Lose confidence

    b. Lose the ability to act quickly

    c. Ignore the fact that the unexpected can happen

    d. Become arrogant and rude to other people

9. Jesse Livermore was one of the most colorful and successful traders of all time - yet he inevitably lost each fortune he made.

    According to Gann, Livermore failed because he:

    a. Lacked the discipline to study and to practice what he studied

    b. Tried to make the market go his way, rather than to follow the natural trend

    c. Was an eternal bear, never being willing to trade the bull side of the market

    d. All of the above

10. Gann's advice with respect to "abnormal markets" is to:

    a. Study other abnormal markets and note how they reacted

    b. Trade the trend for as long as possible, because large profits can be made

    c. Overtrade them in order to make massive profits

    d. Borrow money in order to increase the size of your profits

11. Bernstein, in listing his eight qualities that differentiate winners from losers, lists "isolation" as one of the qualities.

    This is because he believes that:

    a. Living with a spouse and children results in too many distractions and pressures on one's trading time

    b. History has shown that only eccentric traders can become true super traders

    c. Living a long distance from the stock or commodities exchange reduces the number of traders and brokers who will visit you

    d. Constantly listening to market news items, opinions and tips, clouds thinking and perverts judgment

12. Bernstein also lists a "well-rounded personal life" - socially, interpersonally, physically and professionally, as being an important quality of a winner.

    He considers this to be important because people with well-rounded personal lives:

    a. Are fit, and can therefore handle the physical side of floor trading

    b. Do not allow their relationship with the market to let their personal lives suffer

    c. Can cope better with an extended run of trading losses

    d. None of the above

Conclusion

So now we are drawing to an end, and what do I want you to do from here? In doing these programs I have found the biggest favor I can do for you is urge you to seek your own solutions to your problems. I am not trying to short-circuit you here. I am happy to talk to you at any stage of the game - but there are challenges in trading and you have to learn to meet these challenges head on. Become a person who loves solutions. I have to accept the variance in the knowledge of the traders here, compared with the absolute newcomers who we may call students. These different classes have different perceptions. To all of you I want you to know that there is no one absolute number for all markets. Your study program is quite simple - the market throws up the numbers, and you learn to analyze them. That is what price analysis is all about. Some of you will take this a lot further - some of you are probably quite contented to just play with ranges. Of course, the object for most of us is just to make money out of the market.

In closing, I would like to add a few thoughts relating to technical analysis which have probably crossed your mind from time to time - I know they have mine. It would seem that one can forecast the probable boom and no one will believe it. When it occurs they say they are sorry they did not listen - only the worst of forecasts, which usually range from 50 - 100 percent wrong, are generally heeded. Perhaps this is because they are in the perspective that the general public sees the market - there must be some inverse law. To those who are prepared to accept the previous statement, but wish to press on, your forecasts may not be 100 percent accurate, but with a little study and concentrated effort they can be better than the professional help we have continually thrust at us. This alone can make the difference between success or failure in speculation. Remember they laughed at me when I said I could nominate the exact top of the market for 1987. Few sold their shares on that date, but many had cause to regret. I raised a few eyebrows when I was bold enough to publish the date for 1989 of the top - 12 months in advance, along with reversal of fortunes and panic in the market that must follow. Well they do not laugh any more. Sometimes the great pleasure in life comes from doing what people say is impossible. May God bless you and keep you well.

David E Bowden

Answers to Questions

Answers - Course Introduction

1. The *No 1 Trading Plan* is designed to:

   a. Guide your study in a systematic, efficient, educationally-sound manner

   b. Focus on the most important knowledge and/or skills required

   c. Ensure that more advanced study is built on a solid, proven framework

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Any educationally-sound study guide should direct the learner in a logical, systematic, yet efficient manner. Introductory concepts should be presented early, with the more advanced concepts building on this solid foundation. The main focus should always be on the most important knowledge and/or skills required. Alternatives (a), (b) and (c) are therefore all correct.

2. The amount of knowledge and skill you will gain by completing *The No 1 Trading Plan* is directly proportional to the:

   a. Capital that you invest in the markets

   b. Amount of serious study that you undertake

   c. Number of trading books that you read

   d. All of the above

   The correct answer is (b).

   The *Smarter Starter Pack* program is a comprehensive, proven program. Nevertheless, I cannot master it for you. Your ultimate success will be largely determined by the amount of serious study that you undertake.

a. People with large amounts of capital to invest do not necessarily know more about trading than anyone else. They do have, however, more to lose.

c. Reading trading books indiscriminately does not necessarily help you - indeed it can confuse you and hinder your development as a trader. I have purchased many trading books over the years, and many of them are of little or no value. One or two of these books, written by people who were not successful traders, would be potentially dangerous in the hands of an inexperienced trader!

d. As alternatives (a) and (c) are incorrect, alternative (d) must also be incorrect.

3. Ideally the data you obtain should be:

   a. Inexpensive

   b. Readily available

   c. Accurate

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Your goal at this point in time should be to establish yourself in such a way as to enable you to trade successfully with low overheads. In order to do this, you need accurate, readily available and inexpensive data. Alternatives (a), (b), and (c) are therefore all correct.

4. Which of the following is NOT required when drawing the 'bar' of a bar chart:

   a. Volume

   b. Lowest price

   c. Closing price

   d. Highest price

   The correct answer is (a).

   Volume may be plotted along the bottom of a bar chart, but it is independent of the individual "bars" plotted.

   (b),(c),(d) The minimum data required to plot a "bar" is the highest and lowest price for the time period in question. It is usual, and desirable, to indicate the closing price on the bar with a small dash to the right.

5. When a series of consecutive 'bars' on a bar chart have higher tops and higher bottoms, the market is most likely to be a:

   a. Primary market

   b. Secondary market

   c. Bull market

   d. Bear market

   The correct answer is (c).

   Higher tops and higher bottoms indicate a bull market.

   a. Stock and commodity exchanges are examples of primary markets.

b. A secondary market is an over-the-counter dealer market.

d. A bear market is indicated by lower tops and lower bottoms.

6. Which of the following is the LEAST effective method of improving your knowledge of trading:

   a. Reading high-quality books about trading

   b. Updating your bar charts on a daily basis

   c. Learning essential terms and trading rules

   d. Practicing applying trading rules using old data

   The correct answer is (b).

   It is vitally important that you update your bar chart(s) on a daily basis, however this, in itself, does little to improve your knowledge of trading.

   a. I encourage you to read high-quality books. Being exposed to a range of perspectives and opinions about trading is important for your longer-term development as a trader. Be careful, however, to master the *Smarter Starter Pack* program first - otherwise confusion will reign supreme!

   c. Although learning terms and rules is not exciting, it does increase your knowledge of trading.

   d. Applying your trading rules to old data also lacks excitement - so much so, in fact, that too few traders do this. Gann, in virtually all of his books and courses, urged his students to "prove his trading rules" by applying them to a range of old data from a range of different markets. I urge you to do likewise.

7. The reading list contains two books written by W.D. Gann. Gann's books were chosen because:

   a. He is one of the most popular authors alive today

   b. There are more trading books written by Gann than by any other author

   c. The *Smarter Starter Pack* is based on the works of W.D. Gann

   d. All of the above

   The correct answer is (c).

   The *Smarter Starter Pack* is based on the works of W.D. Gann.

   a. Gann died in 1955.

   b. Although Gann did write a considerable number of books on trading, there are other authors, past and present, who have written more books.

   d. As (a) and (b) are both incorrect, (d) must also be incorrect.

8. 'Volume' is best defined as the:

   a. 'temperature' of the market during a given period

   b. Number of shares or contracts traded in a security during a given period

   c. Highest price anyone wants to pay for a security, at a given time

   d. Difference between the high and the low price for a given period

   The correct answer is (b).

The volume tells you how many shares or contracts were traded in a given time period. It gives you no indication of the share's or commodity's price.

a. The temperature of a market indicates the extent to which a market is overbought or oversold.

c. The highest price offered by an individual is unrelated to the volume.

d. The difference between the lowest price and the highest price is the range.

9. A bar chart of a given stock, plotted over a reasonable period of time, graphically displays:

   a. Price bars

   b. Bull and bear trends

   c. High and low prices

   d. All of the above

   The correct answer is (d), All of the above.

   A correctly-drawn bar chart, plotted over a reasonable time period, shows the price bars, individually; the high and low price for any bar or price range; and any bull or bear trends.

   (a),(b),(c) As (a),(b), and (c) are all correct, (d) must be the best answer.

Answers - The Nature of the Game

1. A "provider" is primarily a:

   a. Trader who is a net loser

   b. Hedger

   c. Speculator

   d. Day trader

   The correct answer is (b).

   Producers of commodities (providers) often use the futures market to lock in a future buying or selling price (hedge). Providers may be speculators, or even day traders, however they are most likely to be hedgers.

2. Speculators:

   a. Trade on a longer time frame than day traders

   b. Prefer to watch the market rather than trade

   c. Are usually greedy people who are after quick profits

   d. Prefer to trade soft commodities

   The correct answer is (a).

   Speculators trade in a time frame ranging, on average, from weeks for commodities, to months for stocks.

b. If you chose (b), you are probably confusing “speculator” with “spectator”.

c. Successful speculators, that is those who can earn a consistent living from speculation, often owe their success to not chasing quick, often high risk, profits.

d. Speculators can be found trading most markets.

3. Which of the following is a day trader?

   a. A pit trader

   b. A floor trader

   c. A scalper

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Pit traders, floor traders and scalpers are all types of day traders. As (a), (b), and (c) are all correct, (d) must be the best answer.

4. A trader who is “long” is expecting the market to:

   a. Rise

   b. Trade in a horizontal price channel

   c. Fall

   d. Consolidate

   The correct answer is (a).

   Traders who are long can only profit from a rising market.

   (b),(c),(d) A trader who is long would not be successful in a market trading in a horizontal price channel, a falling market, or a consolidating market.

5. During a period of accumulation:

   a. Professional investors are buying

   b. The public is buying

   c. The market is trading strongly upwards

   d. All of the above

   The correct answer is (a).

   Accumulation occurs near market bottoms when the public invariably sells to professional investors.

   b. During accumulation, the average member of the public is a net seller!

   c. The accumulation phase is completed before the market trades strongly upwards.

   d. As (b) and (c) are incorrect, (d) must also be incorrect.

6. To "take a bath" is to:

   a. Take an option in Bath Inc

   b. Cleanse one's trading soul

   c. Accept a poor price

   d. Take a large loss

   The correct answer is (d).

   To "take a bath" is a common trading expression which means that you have realized a big loss.

   (a) and (b) You did not really answer (a) or (b), did you?

   c. "Taking a bath" is considerably more serious than merely accepting a poor price - if you doubt this, try it sometime!

7. Which of the following best describes a short sale:

   a. Selling fewer than the total number of shares owned

   b. Selling a small parcel of shares owned

   c. Selling shares that you do not own

   d. All of the above

   The correct answer is (c).

   To short sell is to sell shares that you do not own.

   (a),(b),(d) In both (a) and (b), you are actually selling shares that you own. As (a) and (b) are incorrect, (d) must also be incorrect.

8. A put option would generally be purchased when a trader believes that the market is likely to move:

   a. Upwards

   b. Sideways

   c. Downwards

   d. In a horizontal price channel

   The correct answer is (c).

   The purchaser of a put option has the right, but not the obligation, to sell a share or a commodity at a particular price. The purchaser would therefore profit if the market moved downwards.

   (a),(b),(d) Market movements which were upwards or sideways (regardless of whether in a horizontal price channel, or not) would result in losses.

9. The time value of an option, at the time of expiry, is:

   a. Zero

   b. Dependent upon the intrinsic value

   c. Dependent upon whether it is a put or a call option

   d. Dependent upon whether it is a stock or commodity option

   The correct answer is (a).

An option's time value becomes zero at expiry. If the market price of the stock or commodity is below the option's exercise (strike) price, the option will expire worthless.

(b),(c),(d) The time value of an option is independent of its intrinsic value. The time value is dependent only on the amount of time remaining to expiry - it is irrelevant whether the option happens to be a put option; or whether it is a stock or a commodity option.

10. Which of the following is a technical analyst LEAST likely to use?

    a. A bar chart of stock X

    b. An analysis of the trading volume of company X's shares

    c. An analysis of company X's profit and loss statement

    d. A table of company X's share prices over time

    The correct answer is (c).

    A company's profit and loss statement is of no interest to a pure technical analyst. The technical analyst would argue that any good or bad news in the profit and loss statement would be factored into the company's share price the moment the news became known.

    (a),(b),(d) The basic tools used by technical analysts include share price data, volume data and bar charts.

11. A market is said to be oversold when:

    a. The market's prices have risen too steeply and too fast

    b. The market's prices have declined too steeply and too fast

    c. The market's prices have remained in a horizontal price channel for too long

    d. The number of contracts sold exceeds the number bought at any one time

    The correct answer is (b).

    A market is said to be oversold when the market's price has declined too much, in a short period of time.

    a. Alternative (a) describes an overbought market.

    c. A market trading in a horizontal price channel is neither overbought or oversold.

    d. The commodities and options markets, where contracts are traded, are "zero sum game" markets. This means that for every 10 contracts sold, there must be 10 contracts bought.

12. To calculate a daily range for a commodity, you:

    a. Find the average of its opening and closing prices

    b. Find the average of its high and low prices

    c. Subtract the low price from the high price

    d. Subtract the opening price from the closing price

    The correct answer is (c).

A daily range is the difference between the highest price at which the commodity traded during the day, and the lowest price at which it traded.

(a),(b) Some traders like to calculate the average price each day, however the daily average price is different from the daily range. To calculate the daily average price, one finds the average of its high and low prices, not its opening and closing prices.

d. This gives the net price movement for the day. It is independent of the daily range.

13. A market order is executed:

a. When the market reaches a designated price

b. At, or as near as possible to, the close of the day's trading

c. At the best price obtainable after the order is presented in the exchange

d. In stock exchanges only

The correct answer is (c).

An order to buy or sell "at market" should be executed at the best available price as soon as possible after the order is placed.

a. This is a "limit" order.

b. This is an "at the close" order.

d. Market orders can be placed in any market.

14. The opposite of "resistance" is:

a. "Divergence"

b. "Support"

c. "Consolidation"

d. "Congestion"

The correct answer is (b).

A market finds "support" when it reaches an historical price level at which falling price levels have stopped falling and either moved sideways or reversed direction.

"Divergence" is when two or more index averages or technical indicators fail to show confirming trends.

"Consolidation" is a pause that allows investors in a market to re-evaluate their position.

"Congestion" refers to a series of trading days in which there is no significant, sustained, upwards or downwards movement in price. The market does not demonstrate a clear trend.

15. Most trading systems are trend-following systems. This means that they attempt to:

a. Incorporate the latest technical trend indicators

b. Get the trader to anticipate the next change in trend

c. Keep the trader trading with the trend

d. All of the above

The correct answer is (c).

Trend-following systems attempt to keep the trader in the market for as big a proportion of the trend as possible. ABCD trading, which you will be introduced to in Lesson Five, is designed to have you trading with the trend, however, as you will see, it is not entirely a trend-following system.

(a),(b) Trend-following systems incorporate mechanisms for determining what the trend is, and for opening and closing trades. These mechanisms do not have to be the latest technical trend indicators (never assume that "latest" automatically means "best"), nor do they have to get the trader to anticipate the next change in trend. As (a) and (b) are incorrect, (d) must also be incorrect.

Answers - Your Personal Trading Plan

1. Paper trading is an excellent way to practice applying trading rules without risking your capital. It has one major disadvantage, however:

    a. You cannot be sure of the exact entry and exit price that you would have received

    b. You do not get to hear your broker's views of the market

    c. It does not allow you to experience the emotions of fear and greed

    d. All of the above

    The correct answer is (c).

    Paper trading is an excellent way to practice most aspects of your trading, however its fundamental weakness is that it does not allow you to experience the emotions of fear and greed. Never underestimate the power of these emotions in a real trading situation.

    In the *Smarter Starter Pack* manual, I caution you about telling people how well you "would have done", after completing a paper-trading exercise. This is because actual trading results are rarely as good as paper-trading results early in your trading career. The missing ingredient on the part of the trader is the discipline that comes with trading experience. As you gain this through trading, your actual results should start to approach your paper-trading results.

    a. This is a minor disadvantage, however you can overcome the problem by, for example, assuming that you would have gained the entry or exit price of the first trade of the day.

    b. This is not a disadvantage - it is an advantage. You should not want to hear your broker's advice. When you have a proven trading system, stick to it. If it ceases to be successful, change it. Do not, however, rely on other people's views, or you will end up in a state of total confusion.

    d. As (a) and (b) are incorrect, (d) must also be incorrect.

2. It is my experience that traders who are not organized, who do not have a plan, or who do not work their plan, fail. The most likely reason for their failure is their lack of:

a. Intelligence

b. Experience

c. Discipline

d. Creativity

The correct answer is (c).

Having a plan, and carefully implementing that plan, helps to discipline a trader. Discipline is vital for successful trading.

a. Being intelligent allows a trader to grasp complex concepts quickly. Many intelligent traders fail, however, because they have difficulty in developing a simple trading system, and lack the discipline to implement it faithfully.

b. Experience is important, as actual trading allows one to put theory into practice under full market conditions. Not all experienced traders make money, however - often because of a lack of discipline.

d. Creativity is not a prerequisite for successful trading.

3. As part of your comprehensive personal trading plan, I recommended that you keep detailed, accurate trading records. This is very important, as these records:

a. Ensure that you know, at any one time, your trading balance

b. Help you to isolate losing trades in order that the reasons for the losses can be determined

c. Allow you to monitor your improvement (or otherwise) over time

d. All of the above

The correct answer is (d).

(a),(b),(c) Detailed, accurate trading records should ensure that you know your trading balance; help you to isolate losing trades; and allow you to monitor your improvement (or otherwise) over time. As (a), (b) and (c) are all correct, (d) is the best answer.

4. In addition to basic trading records, I suggest that you record your overall profit/loss ratio, and that you record your percentage of profitable trades. These ratios give you an excellent ongoing indication of:

a. Your success, in both "dollar" and "profitable trades" terms

b. The proportion of your capital being used for trading

c. The main reasons for your trading losses

d. All of the above

The correct answer is (a).

b. Both ratios are independent of the amount of capital that you are using for trading.

c. Both ratios will give you an indication of how well you are trading, and help you to isolate losing trades, but they will not give you, directly, the main reasons for your trading losses.

d. As (b) and (c) are incorrect, (d) must also be incorrect.

5. As part of your plan, I asked you to make a list of the sacrifices that you will need to make in order to become a successful trader. The reason for such a list is to:

   a. Ensure that you understand the commitment and work required to succeed as a trader

   b. Force you to realize that learning to become a trader is invariably at the expense of other demands on your time and money

   c. Give you an initial list of sacrifices (a base line) for comparison purposes later

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) By listing the sacrifices that you will need to make in order to become a successful trader, it will force you to consider precisely what is required for success, and the fact that other competing demands on your time and money may need to be sacrificed. It will also give you an initial list which can be reviewed as you progress, in order to see how realistic (or otherwise) it was.

   As (a), (b) and (c) are all correct, (d) must be the best answer.

6. You were also asked to give some initial consideration to how much trading capital you have access to, and from where you intend to obtain it. The purpose of this exercise is to:

   a. Encourage you to document how much trading capital you can obtain, and its source, before you study the money-management lesson

   b. Allow you to convert your paper-trading account to a real-money trading account immediately

   c. Ensure that you have as much money as possible in your broker's account to allow you to commence trading when you know the trading rules

   d. Ensure that you have access to additional borrowed money in order to maximize your trading profits in the shortest possible time

   The correct answer is (a).

   I asked you to give initial consideration to, and to document, how much trading capital you can obtain, and from where, in order to get you to give some initial thought to money management. When you study money management in Lesson Ten, you will be able to assess how realistic your initial thoughts were.

   b. No! You are not in a position to trade yet - indeed, you have not yet studied the theory of ABCD trading, which will detail a proven trading system for your use.

   c. Again, no! Simply knowing a set of trading rules is no basis on which to commence trading. Furthermore, it will not be our aim for you to trade with large amounts of capital when you first commence trading.

   d. Never! Using borrowed money for trading places you under additional pressure. It is foolish to believe that more capital, particularly borrowed capital can, of itself, increase your trading profits. Indeed, it is more likely to have the opposite result if you lack experience.

7. You were asked to give consideration to the time frames that you wish to trade in. (Half-hourly? daily? weekly?...)

   Which of the following is NOT true?

   a. The data requirements are different for different time frames

   b. Longer time frames require more trading capital

   c. The shorter the time frame, the greater the cost of the data

   d. Your preparation for trading will need to be fine-tuned to accommodate the time frame chosen

   The correct answer is (b).

   Longer time frames do NOT necessarily require greater capital.

   a. Data requirements are different for different time frames. Monthly data alone, for example, is of little value to a day trader.

   c. If you intend to engage in intraday trading, you may choose to use live data. This can be relatively expensive. (Many traders use live data when they have no real need for it!)

   d. Although the basic *Smarter Starter Pack* rules and principles can be applied to trading in any time frame, some fine tuning is required.

8. In the *Smarter Starter Pack* manual, I have attempted to make it clear that trading must be treated as a business if you are to succeed. Many lose heavily in the markets because they believe that:

   a. The markets are an excellent source of quick profits

   b. The preparation required for trading is considerably less than that for starting any other business

   c. Large losses "cannot happen to me"

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Many people are greedy and irrational when it comes to their expectations of trading. They view the markets through rose-colored glasses, looking for quick, easy profits, and of course, assuming that large losses are made by "other people".

9. The reading list contains two books written by W.D. Gann. Gann's books were chosen because:

   a. He is one of the most popular authors alive today

   b. There are more trading books written by Gann than by any other author

   c. The *Smarter Starter Pack* is based on the works of W.D. Gann

   d. All of the above

   The correct answer is (c).

   The *Smarter Starter Pack* is based on the works of W.D. Gann.

   a. Gann died in 1955.

   b. Although Gann did write a considerable number of books on trading, there are other authors, past and present, who have written more books.

d. As (a) and (b) are both incorrect, (d) must also be incorrect.

10. One of the most important concepts to grasp is "optimization".

    Optimization is the process whereby:

    a. Losing trades are eliminated over time

    b. Entry, stop-loss and exit parameters are adjusted to determine the most profitable combination appropriate for you

    c. All trades are analyzed to determine if all rules have been followed

    d. Traders who have negative attitudes to trading develop a positive outlook

    The correct answer is (b).

    Optimization is, in effect, a process whereby you attempt to find the most profitable combination of parameters that you are comfortable with.

    a. Do not kid yourself - your aim is to reduce the number and size of losing trades, but you must accept the occasional loss as an integral part of trading.

    c. It is wise to analyze all trades to ensure that all rules have been followed, but this is more of a compliance check than an attempt to optimize key parameters.

    d. If you answered (d), you are confusing "optimization" with "optimist".

11. Optimization can be applied to:

    a. Microsoft

    b. Dow Jones

    c. The Aussie Dollar

    d. All stocks and commodities

    The correct answer is (d):

    (a),(b),(c) Optimization can be applied to Microsoft, DJIA, the Aussie Dollar and indeed to all stocks and commodities.

Answers - ABC Seasonal Trading

1. The *Smarter Starter Pack* program is based on the principle that a good trading plan should be:

    a. Comprehensive - containing as many proven trading rules as possible

    b. Flexible - to allow one to keep adding rules to a workable plan

    c. Simple - so that it can be applied with a minimum of effort to a range of markets

    d. All of the above

    The correct answer is (c).

    A good trading plan is one that can be applied with ease, to a range of markets.

a. If a trading plan were to incorporate too many rules, it would be unworkable. It is likely that such a plan would have rules that were contradictory and/or redundant. Furthermore, such a plan would be impossible to apply quickly and consistently.

b. If a plan is working well, it should not need additional rules. By adding rules, the plan will lose the simplicity which contributed to its success in the first place.

d. As (a) and (b) are both incorrect, (d) must also be incorrect.

2. ABCD trading is based on the probability that, in a significant number of trades:

   a. Range AB will be approximately equal to range CD

   b. Range BC will be approximately equal to range CD

   c. Point C will be above Point B

   d. Most trades will conclude at 50 percent of CD

   The correct answer is (a).

   ABCD trading correctly assumes that, over a large number of trades, in the majority of cases, range AB will be approximately equal to range CD.

   (b),(c),(d) Alternatives (b), (c) and (d) are all incorrect.

3. If range CD = 1.625 of range AB, the market is:

   a. A contracting market

   b. A neutral market

   c. An expanding market

   d. A Fibonacci sequence market

   The correct answer is (c).

   When CD is 1.625 of range AB, the market is an expanding market. This is a bullish sign.

   (a),(b),(d) Alternatives (a), (b) and (d) are all incorrect.

4. Rule 3 refers to double and triple tops/bottoms. These market formations warrant a special rule because they:

   a. Occur 50 percent of the time

   b. Are particularly reliable formations

   c. Are the exception to Rule 2

   d. All of the above

   The correct answer is (b).

   Double and triple tops and bottoms are particularly reliable formations. Indeed, on page 36 of the *Smarter Starter Pack* manual I make the important point that "after a double top or bottom a market can be expected to complete 200 percent of the previous range". Remember this point - it has been very profitable for the astute traders who are aware of it!

a. Double and triple tops and bottoms are not common occurrences - they certainly do not appear 50 percent of the time.

c. Rule 3 is not an exception to Rule 2 - indeed, it could be argued that it is incorporated in Rule 2.

d. As (a) and (c) are incorrect, (d) must also be incorrect.

5. Gann used eighths, quarters, halves and thirds as the basis of his calculations for determining resistance points. At these percentages of either a price or a range:

   a. Volume will decrease substantially

   b. Small traders liquidate their positions

   c. Significant buying and selling orders are placed

   d. Floor traders run the market up or down to the next Fibonacci number

   The correct answer is (c).

   At these resistance points, significant buying and selling orders are placed, and the probability of a change of trend increases.

   a. If anything, volume is likely to increase at, or around, resistance points.

   b. There is no evidence to suggest that small traders liquidate their positions at resistance points - indeed, few small traders would be aware of their existence.

   d. Gann's resistance points are different from Fibonacci numbers. There is no reason why floor traders would want to run a market up from a Gann resistance point to the next Fibonacci number.

6. A trailing stop loss has the advantage that it:

   a. Is not easily triggered around resistance levels

   b. Is safer for traders with large positions

   c. Automatically closes a position at a predetermined price

   d. All of the above

   The correct answer is (a).

   A trailing stop loss is not placed immediately above or below resistance levels, and as a consequence is not triggered by market "plays" around these levels.

   b. A trailing stop loss is not necessarily safer than other forms of stop-loss orders for traders with large positions. What is important for such traders is that they feed their shares/contracts onto the market gently.

   c. A trailing stop loss does not involve a predetermined stop-loss price. Rather, the trailing stop-loss price rises if you are long, relative to the market price, and falls, if you are short, relative to the market price. If you are long, a trailing stop loss should never be moved down. If you are short, a trailing stop loss should never be moved up.

   d. As (b) and (c) are both incorrect, (d) must also be incorrect.

7. An "ambush" is best described as:

   a. A double or triple top which has been confirmed

   b. The daily (minor) trend and the weekly (major) trend being in sympathy

   c. The breaking of Point C, after a market has failed at the 50-percent pressure point

   d. Having one's stop triggered by cunning floor traders running a market a couple of points beyond a Fibonacci number

   The correct answer is (c).

   An ambush occurs when a market has failed to take out Point B, and then breaks Point C. The breaking of Point C would trigger your stop-loss order under the rules of ABCD trading.

   a. Double tops and bottoms are unrelated to ambushes.

   b. Ambushes occur regardless of whether the minor or major trends are in sympathy, or not.

   d. The reactions of floor traders around Fibonacci numbers is unrelated to ambushes.

8. In the *Smarter Starter Pack* manual I suggest that your enemy is "...acting on an outside influence". By this I mean that you should NOT ignore your trading rules in order to act on advice received from:

   a. Friends and relatives

   b. Reputable market newsletters

   c. Brokers

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) If your trading system is working, you must stick to it and ignore all well-meaning advice from friends, relatives, newsletters and, yes, even your broker.

   As (a), (b) and (c) are all correct, the best answer is (d).

9. A trading loss should NOT be viewed as a negative experience if:

   a. You have followed your trading rules

   b. It was based on your broker's advice, and was therefore not your fault

   c. You are prepared to trade with double the number of contracts for at least your next trade

   d. All of the above

   The correct answer is (a).

   Trading losses are an integral part of trading. If you believe that you can trade without losses indefinitely, then you are deluding yourself. A good trading system will minimize your losses, in terms of both the number of losses you have, and the size of each loss. If you accept this important point, then you should have the maturity to accept that trading losses are not a negative experience if you have faithfully followed your trading rules.

b. If you trade on your broker's advice, then you are not following your trading rules! If you (I believe foolishly) follow other people's advice and make a loss, at least take responsibility for your own actions by accepting that the loss was your own fault, not your broker's fault.

c. This is the Martingale system. It has the potential to lose you a large amount of money in a very short period of time.

As (b) and (c) are both incorrect, (d) must also be incorrect.

10. Regardless of the market traded, the IDEAL entry point is:

   a. As close as possible to Point D

   b. As close as possible to Point C

   c. At the 25-percent threshold

   d. At the 33-percent threshold

   The correct answer is (b).

   The closer to Point C entry is made, the higher the potential profit.

   a. Point D can be an excellent exit point, never an entry point.

   (c),(d) Although entry by the 25-percent threshold is good, and entry by the 33-percent threshold is acceptable, the ideal entry point is as close as possible to Point C.

11. By determining the proportion of trades which reach the 75-percent pressure point, one can gain an indication of:

   a. The strength of the market

   b. Which entry/stop-loss/exit parameters to use in trading

   c. Whether or not a market is an expanding or contracting market

   d. All of the above

   The correct answer is (d):

   (a),(b),(c) By determining the proportion of trades which reach the 75-percent pressure point, one can gain an indication of the strength of the market, which entry/stop-loss/exit parameters to use in trading and whether or not a market is an expanding or a contracting market. As (a), (b) and (c) are all correct, (d) must be the best answer.

Answers - Advanced Swing Charting

1. A daily bar chart paints a more comprehensive picture than a daily line chart. The additional information includes the day's:

   a. Trading range

   b. Closing price

   c. Market "temperature"

   d. All of the above

   The correct answer is (a).

   The bar on a daily bar chart joins the daily high and daily low prices. This is the day's trading range.

   a. A daily bar chart need not highlight the closing price.

   b. The market "temperature" is independent of a daily line or bar chart.

   c. As (b) and (c) are incorrect, (d) must also be incorrect.

2. A swing chart:

   a. Covers a shorter time period than a bar chart of the same data

   b. Plots "price" on the vertical axis and "time" on the horizontal axis

   c. Highlights "price" swings while ignoring "time"

   d. None of the above

   The correct answer is (c).

   A swing chart plots price, highlighting price swings. Unlike most other types of charts, the horizontal axis does not indicate time.

   a. Swing charts cover the same time period as a bar chart of the same data, although the swing chart will require less charting paper to do so.

   b. Swing charts plot price on the vertical axis, but they do not plot time on the horizontal axis.

   d. As (c) is the correct answer, answer (d), "None of the above", must be incorrect.

3. A three-day swing chart, when compared with a one-day swing chart, generally:

   a. Has fewer swings

   b. Has "stronger" tops and bottoms

   c. Is less sensitive to trend changes

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) A three-day swing chart requires a three-day reaction/rally before a swing is plotted on the chart, whereas a one-day swing chart can swing on a daily basis. A three-day swing chart therefore has fewer swings, has "stronger" tops and bottoms, and is less sensitive to trend changes.

d. As (a), (b) and (c) are all correct, the best answer is (d).

4. A three-day swing chart:

   a. Requires at least three days of higher or lower closing prices before a swing is plotted

   b. Requires a three-day reaction/rally before a swing is plotted

   c. Has the horizontal axis plotted in three-day units of time

   d. Has a swing every three days

   The correct answer is (b).

   As indicated in the suggested answer to Question 3, a three-day swing chart requires a three-day price reaction/rally before a swing is plotted on the chart.

   a. This answer is incorrect, as three days of higher or lower closing prices does not, of itself, indicate a swing.

   c. The horizontal axis is not plotted in any units of time.

   d. No - if you answered (d), you had better re-read the entire section on swing charts.

5. A nine-point swing chart:

   a. Requires at least nine points of higher or lower closing prices before a swing is plotted

   b. Requires a nine-point reaction/rally before a swing is plotted

   c. Has a vertical axis plotted in nine-point units of price

   d. Has a swing every nine points

   The correct answer is (b).

   In the case of this type of swing chart, it is a set number of points, not days, which determines when the swings will take place.

   a. Higher or lower closing prices in the direction of the trend does not lead to a swing.

   c. The vertical axis is plotted in units of price, but not in nine-point units of price.

   d. A nine-point swing chart does not have a swing every nine points.

6. A weekly swing chart:

   a. Requires a seven-day reaction/rally before a swing is plotted

   b. Is less sensitive to trend changes than a three-day swing chart

   c. Was Gann's major trend indicator

   d. All of the above

   The correct answer is (c).

   Gann used a daily swing chart as his minor trend indicator, and a weekly swing chart as his major trend indicator.

a. A seven-day swing chart would require a seven-day reaction/rally before a swing is plotted. This is not the same as a weekly swing chart, which uses the weekly highest price and the weekly lowest price as its data, and is then plotted in the same manner as a daily swing chart.

b. A weekly swing chart is often more sensitive to trend changes than a three-day swing chart.

d. As (a) and (b) are both incorrect, (d) must also be incorrect.

7. Gann achieved considerable success using a nine-point swing chart to monitor swings in the Dow Jones Industrial Average. A nine-point swing chart would be of little value in monitoring the Dow today because:

   a. The Dow's average swing is considerably greater than nine points

   b. Inflation has eroded the value of a point

   c. The Dow is trading at much higher levels

   d. All of the above

   The correct answer is (a).

   When determining the number of points to use for swings of a swing chart of this type, you determine the average swing range using a large sample of recent data for that market. If one were to carry out this exercise on the Dow today, the required value would be substantially more than nine points!

   b. Inflation has eroded the value of a point, but this has no bearing on the question.

   c. It is true that the Dow is trading at higher levels today, however it is the size of the average swing that is important, not the price at which a stock or commodity is trading, which determines the value to be used.

   d. As (b) and (c) are both incorrect, (d) must also be incorrect.

8. Jesse Livermore, one of the greatest traders of all time, once said "*...it is not hard to be right on the market, but people who can both be right and sit tight are uncommon*". In essence, Livermore was saying that:

   a. It is easy for anyone to make money trading

   b. Few traders have the patience to remain seated long enough to study the markets adequately

   c. Staying with a profitable trade is not easy

   d. Traders who are wrong in their judgment often are the most successful traders

   The correct answer is (c).

   Livermore was alluding to the fact that selecting and implementing a profitable trade is not a difficult thing to do - what can be difficult is resisting the strong temptation to close a trade that is making a small or medium profit. In other words, it is easy to miss a large part of a very good trade because the urge to bank a fair or reasonable profit can be an all-too-powerful urge.

   a. If it were easy to consistently make large amounts of money trading, then there would be few people working in other occupations!

b. If you answered (b), then you interpreted the term “sit tight” a little too literally.

d. If you answered (d), I recommend that you go back to page one and start again!

9. Swing charts serve several useful purposes. They:

   a. Clearly define tops and bottoms

   b. Indicate when it is wise NOT to trade

   c. Form the basis of many proven trading systems

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Swing charts clearly define tops and bottoms; they are excellent trend indicators, and as a result indicate when NOT to trade; and they form the basis of many profitable trading systems. As (a), (b) and (c) are all correct, (d) is the best answer.

10. The Thermometer is an early-warning device for a change in trend. It takes the “temperature” of the market - in other words, it indicates:

   a. If a market is too hot or too cold to trade

   b. If a market is overbought or oversold

   c. Exact buying and selling points

   d. Whether volume is too high or too low

   The correct answer is (b).

   The Thermometer indicates when there has been too rapid a rise or fall in the market in a relatively short period of time.

   a. The correct terminology is “overbought” and “oversold”.

   c. The Thermometer is not designed to signal market entry and exit points.

   d. The temperature of a market is independent of the market’s volume.

Answers - Extended ABC Trading Techniques

1. The bar on a weekly bar chart has a high, low, open and close like a daily bar, this represents:

   a. Open of Monday, high of Wednesday, low of Wednesday and close of Friday

   b. Open Wednesday last week, close of Wednesday current week, high of Monday and low of Friday

   c. Open of Monday, high any time during week, low anytime during week, and close of Friday

   d. None of the above

   The correct answer is (c).

The weekly chart is worked out by using the open of Monday, the high is taken from the highest price traded between Monday and Friday, the low is from the lowest price traded between Monday and Friday and the close for the week is at the close on Friday.

2. The entry stop for a weekly long ABC trade is based upon:

   a. The day the Point C low occurs

   b. High of the week +1 point/cent

   c. Close of the week +1 point/cent

   d. Always Friday high + 1 point/cent

   The correct answer is (c).

   As the entry price will be 1 point/cent above the high for the week. We want to be looking for this entry anytime from the following Monday onwards.

3. Under what possible circumstances might we move our stops to entry plus commission?

   a. Trade reaches 50%

   b. Profit is equal to initial risk

   c. 75% reached after a 33% entry

   d. Both a + b

   The correct answer is (d) (both a + b).

   Should the trade reach the 50% milestone we would move our stops accordingly, or alternatively, once the trade profit has equaled the initial risk move stops to cover your entry plus commission.

4. A trailing swing stop is best utilized in a:

   a. Currency trade

   b. Strongly trending market

   c. Sideways moving market

   d. Long call trade

   The correct answer is (b).

   The trailing stop loss is best used in a strongly trending market because we will only be stopped out when there is a definite change in trend.

5. Entry stop for an ABC long trade on a 3 day swing occurs when:

   a. 1 point/cent above high of 1st day

   b. 1 point/cent above high of 2nd consecutive day up bar

   c. 1 point/cent above high of 3rd consecutive day up bar

   d. 1 point/cent above high Point C

   The correct answer is (b).

   Because we would want the 3rd day to confirm the Point C and swing our chart up and have us entering the trade as early as possible on confirmation of trend.

Answers - Advanced ABC Filters

1. If the B to C range on any particular trade is greater than the previous swing in the same direction, we can say it is a:

   a. Strong Trade

   b. Weak Trade

   c. Neutral Trade

   d. Impossible to say

   The correct answer is (b).

   > Weak Trade. The range from B to C can be called our price 'reaction', reacting to our price action (A to B range). If this 'reaction' is greater than previous reactions we will see a weakening of the prevailing trend.

2. Decreasing Volume in the B to C range is a sign of:

   a. A stronger A to B range

   b. Weaker A to B range

   c. Lack of interest in the stock market

   d. Stock has gone ex-dividend

   The correct answer is (a).

   > A stronger A to B range. If volume is decreasing between B to C in relationship to A to B, we can say that there are more market participants who are willing to trade the trend, rather than the reaction to the trend.

3. Time Filters are especially useful when trading with which type of instrument:

   a. Futures

   b. Options

   c. Indices

   d. a & b only

   The correct answer is (d), a & b only.

   > Time filters are useful in dealing with instruments that have expiry dates.

4. An Overbalance in Price is indicative of which of the following:

   a. A possible change in trend

   b. A bull market

   c. A bear market

   d. None of the above

   The correct answer is (a).

   > A possible change in trend. An overbalance in price shows an extreme reaction to price movements and can be the key indicator in changing trends.

Answers - Advanced ABC Entries

1. To benefit most when trading outside continuation days it is best to consider the market:

   a. At the close

   b. At the open

   c. At Midday

   d. Weekly

   The correct answer is (c).

   The data needs to be checked at midday so we can enter the market on our 'new' swing before waiting until the market close.

2. We may chose to ignore an outside day swing on some occasions, these can be when:

   a. The market continues in trend after an outside day

   b. The market reverses trend after an outside day

   c. After any inside day

   d. An outside day creates an extra swing that places your entry stop outside the standard limits.

   The correct answer is (d).

   The trend can be up or down regardless, but we would only ignore the swing if it prevented our entry within the 33% criteria.

3. When Trading, first higher swing bottoms a trader should always:

   a. Focus on ranges.

   b. Enter within 33%

   c. Place stops below swing bottoms

   d. All of the above

   The correct answer is (d).

   All of the above. Focus on ranges to look at contracting or expanding ranges. 33% provides sufficient risk to reward and there needs to be a full focus on the market because of the anticipatory nature of this trade.

4. A trader would go "long the Opener's" if:

   a. The market opens higher than the previous close

   b. The market is trading higher than its open after 15-20 minutes

   c. The market is higher in the afternoon

   d. Only on low volume

   The correct answer is (b).

   If the market is comfortably above the open, we can say it is long the openers and can expect continued higher prices. Good volume is also an important confirmation signal.

5. A trader would go "Short the Closer's" if:

   a. Ten minutes before the close, the market is trading in the bottom 25% of its daily range

   b. Ten minutes before the close, the market is trading in the bottom 33% of its daily range

   c. After analyzing the day's close

   d. None of the above

   The correct answer is (a).

   We look for a 25% limit on the daily range to short the closers. This needs to be found 10 minutes before the close so we can actually trade!!

Answers - Price Forecasting

1. Gann drew much of his inspiration from the Bible. In his only "novel", *Tunnel Thru the Air* (p.76), he quotes *Ecclesiastes 1:9*:

"The thing that hath been, it is that which shall be; and that which is done, is that which shall be done: and there is no new thing under the sun."

Ecclesiastes 1:9

   This particularly important quotation from Gann supports the:

   a. Flea Circus Principle

   b. Big Brother Complex

   c. Theory that market action is prewritten

   d. All of the above

   The correct answer is (c).

   Gann believed, as I believe, that the future is a function of the past; or in other words, that market action is prewritten.

   a. The Flea Circus Principle explains highly repetitive market action, but does not explain, for example, why some vastly different cycles repeat.

   b. The Big Brother Complex is basically a conspiracy theory. If the theory had total validity, the people manipulating the markets would never lose. This is clearly not the case.

   d. As (a) and (b) are incorrect, (d) must also be incorrect.

2. The Flea Circus Principle is a useful market analogy in explaining:

   a. Why overhead resistance is found at a particular level

   b. Why markets often retrace 50 percent of a move

   c. Why double tops and bottoms often lead to a 200-percent retracement

   d. All of the above

The correct answer is (a).

Markets that move up and down in a narrow trading range resemble fleas jumping up to a constant height.

b. This alternative would suggest that the fleas only returned half-way back to the floor after jumping.

c. This alternative would suggest that the fleas ended up a distance below the floor equal to the height jumped.

d. As (b) and (c) are both incorrect, (d) must also be incorrect.

3. The Big Brother Complex is a conspiracy theory which suggests that:

a. All future market action is revealed in the Bible

b. Market action is prewritten, to the extent that previous cycles repeat

c. The world's most powerful financiers agree on market price action in advance

d. The big brothers of flea circus owners control the market

The correct answer is (c).

The big Brother Complex suggests that the world's most powerful financiers arrange market action in advance.

a. The Bible clearly states that "*...the thing that hath been, it is that which shall be...*", as quoted previously. The Bible does not, however, reveal specific market action. Even if it did, it would not be consistent with the Big Brother Complex.

b. I believe that market action **IS** prewritten to the extent that market action repeats. This is not consistent with the Big Brother Complex.

d. You must be joking - you didn't really answer (d), did you?

4. In suggesting that there is symmetry in the markets, I am saying that:

a. Present market action often reflects previous market action

b. Range AB will equal range CD

c. Range BC will equal one-half of range AB

d. All of the above

The correct answer is (a).

If there is symmetry in the markets, it suggests that the market is not a random set of prices, and that there is a certain amount of repetition of market action.

(b),(c) It is incorrect to use the word "will" in this context.

d. As (b) and (c) are incorrect, (d) must also be incorrect.

5. Evidence supporting the fact that markets have symmetry is the fact that:

a. Range AB often equals range CD

b. Range BC often equals one-half of range AB

c. Double tops and bottoms often retrace 200 percent of range BC

d. All of the above

The correct answer is (d):

(a),(b),(c) All of these statements are true. As (a), (b) and (c) are all correct, (d) must be the best answer.

6. In this lesson I shared with you a letter from a client, Max Clarke.

   Max's letter provides an excellent example of:

   a. My 200-percent rule for double tops and bottoms
   b. Prices meeting strong resistance around Gann resistance points
   c. The fact that a range in one direction often equals the previous range in the same direction
   d. All of the above

   The correct answer is (d):

   (a),(b),(c) Max's letter provides an excellent example of each of these principles. As (a), (b) and (c) are all correct, (d) must be the best answer.

7. I also included a second letter from Max Clarke. In the second letter Max outlines how he traded a double top in the Standard and Poor's 500 futures contract - a share price index contract not unlike the Australian SPI. Max's target was 390.77 points. The market actually turned at 390.00 points. His error margin was 0.20 of one percent! Max calculated his target using the principle that there was a high probability that:

   a. Range AB = range CD
   b. After the double top, the market would fall by 200 percent of range BC
   c. Range AB = 2 X range BC
   d. All of the above

   The correct answer is (b).

   Max chose an excellent example to illustrate that after a double top, the market often falls by 200 percent of range BC.

   a. Under the rules of ABCD trading, we presume that range AB will equal range CD. This was not the principle that Max applied, however.

   c. Again, under the rules of ABCD trading, we assume that range AB will equal twice range BC. This was not the principle that Max applied.

   d. Although range CD can equal twice range AB, this occurrence is very rare.

Answers - Advanced Money Management

1. Paper trading:

   a. Is more profitable than gold trading
   b. Is of value to a complete trader
   c. Allows you to trade using borrowed money
   d. All of the above

The correct answer is (b).

Many traders believe that paper trading is for beginners only. This is certainly not the case - super traders use paper trading to test new trading rules, for example.

a. If you chose alternative (a), please re-read the money management section again several times.

c. Paper trading does not involve the use of any money.

d. As alternatives (a) and (c) are incorrect, alternative (d) must also be incorrect.

2. If you have never traded before, and wish to trade stocks, an appropriate amount of capital to commence trading with is:

   a. $ 5,000

   b. $10,000

   c. $20,000

   d. $30,000

   The correct answer is (a).

   (b),(c),(d) I recommend that you commence trading stocks with $5,000.

3. A broker is best used:

   a. As a good source of market "gossip"

   b. To stop you from placing a bad trade

   c. To buy and sell stocks/options/commodities as instructed by you

   d. All of the above

   The correct answer is (c).

   (a),(b),(c) The best use of a broker is to execute your orders quickly and accurately. You should not be taking notice of market gossip. Similarly, if you follow the rules of ABC trading, your rules will help stop you from placing a bad trade - if you follow the rules and stop listening to others!
   As alternatives (a) and (b) are incorrect, alternative (d) must also be incorrect.

4. Stop-loss orders are designed to:

   a. Eliminate losses

   b. Limit losses

   c. Prevent losses exceeding 40 percent of capital

   d. Prevent large profits from being made

   The correct answer is (b).

   A stop-loss order is designed to get you out of a trade before a trading loss exceeds a predetermined amount.

   a. Stop-loss orders cannot eliminate losses; they can only limit them.

   c. In any one trade, your stop-loss order should never allow you to lose more than 10 percent of your capital.

d. Trailing stop-loss orders do not prevent large profits from being made; indeed, they facilitate it.

5. If 40 percent of one's capital is lost, the percentage profit required on the balance, to return the balance to one's initial capital is:

   a. 25.0 percent

   b. 66.7 percent

   c. 100 percent

   d. 400 percent

   The correct answer is (b).

   (a),(c),(d) After losing 40 percent of one's capital, 66.7 percent is required on the balance to return the balance to 100 percent of the original amount.

6. The best way to increase one's trading capital is to:

   a. Borrow money

   b. Use savings

   c. Sell assets

   d. Make profits

   The correct answer is alternative (d).

   (a),(b),(c) Clearly, the best way to increase one's trading capital is to make profits. The use of savings, and even the sale of assets, are permissible if you need additional capital, provided that the amounts used are consistent with the money-management rules. It is NOT permissible to use borrowed money.

7. The *Smarter Starter Pack* manual suggests that you go to the 'sin bin' (stop trading for one month) when trading losses exceed 40 percent, because this allows:

   a. For a 'cooling off' period

   b. For 'withdrawal symptoms' to be experienced

   c. Losing trades to be analyzed to determine the cause of the losses

   d. All of the above.

   The correct answer is (d).

   (a),(b),(c) If you lose 40 percent of your trading capital, something is obviously going very wrong with your trading. If you stop trading for one month, you are giving yourself a "cooling off" period. In this time you will begin to miss trading (or experience withdrawal symptoms). Most importantly, such an enforced break from trading allows you to devote your undivided attention to an analysis of your losing trades to determine the cause of the losses, and thus be able to plan how to overcome them in future.

   As alternatives (a), (b) and (c) are correct, alternative (d) is the best answer.

8. The best point to take profits when following the *Smarter Starter Pack* rules (50%; 75%; 100%; or using a trailing stop loss) is determined by taking into account:

   a. The trader's temperament

   b. The most profitable point based on past data

   c. How experienced the trader is

   d. All of the above

   The correct answer is alternative (d).

   (a),(b),(c) The *Smarter Starter Pack* rules allow you to determine at which point you will take profits. In order to make this decision, you should first determine what would have been the most profitable basis for exiting trades for that market (50%; 75%; 100%; trailing stop loss), using a large sample of recent market data. Most traders would use the most profitable of the four as the basis for exiting future trades.

   Before finalizing this decision, however, you should take into account how experienced you are as a trader, and your temperament. If you are inexperienced and are more comfortable with only a few losses and many small profits, as opposed to larger profits and larger losses, you may prefer to exit at the 50-percent or the 75-percent level. More experienced traders, who feel equally comfortable exiting under any of the four exit rules, would use the exit rule which was found to be the most profitable.

9. If a Share Price Index (SPI) trading account increases in value from $30,000 to $45,000 after, say, seven months of trading, it is permissible to add to the trading account up to:

   a. $ 5,000

   b. $ 7,500

   c. $10,000

   d. $30,000

   The correct answer is alternative (b).

   (a),(c),(d) If the trading account increases from $30,000 to $45,000, you have made a profit of $15,000. You are permitted to add up to 50 percent of this to your trading capital, so you can increase your trading capital by $7,500. You would now be trading from a bank of $52,500.

10. Windfall profits should be:

   a. Added to existing trading capital

   b. Traded immediately to increase them further

   c. Banked

   d. Donated to charity

   The correct answer is (c).

   Windfall profits, that is unusually large profits made in a short period of time, should be banked, and NOT become part of your trading capital.

   (a),(b) Adding windfall profits to your trading capital will increase the scale of your trading too much, too soon. Also, the highly favorable trend that you were trading is probably nearing its end! Big profits that are traded immediately, often disappear immediately!

d. The decision to donate money to charity must be an individual one. It has been my choice, as it was W.D. Gann's choice, to do so.

Answers - Super Traders

Answers to Options Exercise

	Power (a)	Unexp. (b)	Overtr. (c)	Trend(d)	Bull(e)
Crawford		X	X	X	
Jordan				X	X
Livermore	X			X	
Price		X	X		
Scales	X			X	X
Sully	X	X			

Notes

a. Driven by a quest for power

b. Failing to expect the unexpected

c. Risking too great a proportion of capital at anyone time

d. Trying to "force" the market to follow the trend that you want it to follow, rather than accepting without question, that the market is always right. Trading on hope or fear.

e. Being either a chronic bull or a chronic bear. That is, believing that the market can go one way - either up, or down.

Gann's "Rules" Include

- Do not overtrade
- Use stop-loss orders
- Trade on facts
- Eliminate hope and fear
- Change when the trend changes
- Have definite plans and rules; learn them; follow them
- Learn how to determine the trend
- Buy at the right time
- Know when to take profits
- Put in time to study; realize that you will NEVER know all that there is to know

- Have patience to wait for opportunities to buy and sell at the right time
- Expect that the unexpected can and will happen

Answers to Questions

1. The *Smarter Starter Pack* manual reference for this lesson is headed **The Complete Trader**, yet it is essentially an article about W.D. Gann's trading successes. The heading was chosen because:

   a. Gann's trading results were spectacular

   b. Gann had discovered the "Law of Vibration", which led to his trading successes

   c. All aspects of Gann's trading were thoroughly researched, practiced and integrated

   d. Gann had successfully completed the trading trial reported in The Ticker and Investment Digest article

   The correct answer is (c).

   Gann was an excellent example of a "complete trader", as all aspects of his trading (his record-keeping, charting, trading rules, money management, post-trade analysis and so on) were thoroughly researched, practiced, integrated and to a large extent, perfected.

   a. It is true that Gann's trading results were spectacular, however spectacular results do not necessarily make one a complete trader.

   b. Gann's "Law of Vibration" played a major role in his success, however the discovery of the Law cannot, in itself, make one a complete trader.

   d. Successful completion of a trading trial does not mean that one is necessarily a complete trader.

2. As a broker, Gann was able to study the causes of success and failure in speculators. He concluded that more than 90 percent of traders lose, because they lacked the necessary:

   a. Will to study

   b. Knowledge

   c. Trading system

   d. Control of their emotions

   The correct answer is (b).

   Sufficient knowledge is the key prerequisite for success.

   a. The will to study is highly desirable, but the will to study, on its own, does not guarantee that knowledge will be gained.

   c. The world's best trading system is not sufficient to guarantee success in trading. A trading system that is effective today in a particular market may not necessarily be as effective in several years' time in the same or other markets. A comprehensive knowledge of trading can prepare one for such circumstances.

   d. Psychological factors can have a profound effect on trading success, and hence control of one's emotions is very important. Nevertheless, such control is of little value without knowledge.

3. While preparing for what was to become a spectacular trading career, Gann:

   a. Studied the sciences, and related scientific principles to market action

   b. Applied his theories to historical data from a range of markets

   c. Examined the trades of a range of successful traders of his day

   d. All of the above

   The correct answer is (d).

   (a),(b),(c) Gann was meticulous in his preparation for trading. He studied the sciences extensively, and related scientific principles to market action. He also analyzed the trades of successful traders in order to seek the key(s) to their success. Having developed his theories, he then tested them by applying them to historical data from a range of markets.

   d. As (a), (b) and (c) are all correct, (d) must be the best answer.

4. Gann likened his "Law of Vibration" of markets, to the principles upon which the following invention was based:

   a. The telephone

   b. The motor car

   c. The typewriter

   d. All of the above

   The correct answer is (a).

   The telephone works on the principle of sound waves vibrating along a wire. Gann argued that individual stocks and commodities had their own characteristic vibration rates.

   (b),(c) Neither the motor car, nor the typewriter, rely on the Law of Vibration in order to function. As (b) and (c) are incorrect, (d) must also be incorrect.

5. Gann traded stock and commodity markets between 1902 and 1955. During this time he is reputed to have made many millions of dollars. Indeed, it is widely reported that he made:

   a. $10 million

   b. $20 million

   c. $50 million

   d. $100 million

   The correct answer is (c).

   It is widely believed that during his lifetime, W.D. Gann made $50 million from trading markets.

6. Gann was more than a chartist. Indeed, he was able to:

   a. Calculate moving averages, stochastic oscillators and relative strength indices

   b. Calculate the exact date and price of major market turning points

   c. Apply supernatural powers to the markets

d. All of the above

The correct answer is (b).

Gann used mathematical calculations to determine the exact date and price of major market turns.

a. Gann may have used moving averages, however indicators such as stochastic oscillators and relative strength indices were unheard of during Gann's lifetime.

c. Gann's success was due to hard work, intensive study and the disciplined application of his discoveries to trading. There was nothing supernatural about Gann or his methods.

d. As (a) and (c) are incorrect, (d) must also be incorrect.

7. When I first started to write Section Thirteen, I planned to title it **A Super Trader** and focus solely on the achievements of W.D. Gann. Later, I decided to broaden its coverage, calling it **Super Traders**, and include details of the successes of other traders. I made this decision because:

   a. Gann's success as a trader was grossly over-rated

   b. Gann died in 1955. He would not have been successful in today's markets

   c. I wanted to make the point that super trader status was not reserved only for W.D. Gann

   d. With the advent of computers, Gann's theories became obsolete

   The correct answer is (c).

   a. It would be difficult to over-rate the trading achievements of W.D. Gann!

   b. Gann's techniques are applied very successfully in today's markets. There is every reason to believe that Gann would have been at least as successful in today's markets.

   d. Gann's theories are every bit as applicable in the computer age as they were in Gann's day. One can only imagine what other discoveries Gann would have made with the aid of a powerful computer.

8. In *45 Years in Wall Street*, Gann noted that a common cause of failure in traders who had previously made spectacular trading profits, is their desire for power.

   Gann rated this passion for power as a negative trait because it usually causes a trader to:

   a. Lose confidence

   b. Lose the ability to act quickly

   c. Ignore the fact that the unexpected can happen

   d. Become arrogant and rude to other people

   The correct answer is (c).

   The passion for power tends to be an obsession. People driven by this passion tend to think in a narrow, linear fashion, thus not accepting that the unexpected can, and almost certainly will, happen.

(a),(b) People desiring power often have too much confidence! Such people can usually make quick decisions, and hence can act quickly.

d. No doubt some people who crave power are arrogant and rude. Others, however, are extremely polite and cooperative - if it helps them to achieve their ultimate aim.

9. Jesse Livermore was one of the most colorful and successful traders of all time - yet he inevitably lost each fortune he made.

According to Gann, Livermore failed because he:

a. Lacked the discipline to study and to practice what he studied

b. Tried to make the market go his way, rather than to follow the natural trend

c. Was an eternal bear, never being willing to trade the bull side of the market

d. All of the above

The correct answer is (b).

Livermore, at times, had simply breathtaking trading results. Each time he made a fortune, however, he inevitably reached a point where he became determined that he was right and that the market would do as he predicted. He lost several fortunes by not following the natural trend.

a. Livermore studied a great deal. He was, however, obsessed with making money, and not obsessed enough with studying and disciplining himself to keep money.

c. Because Livermore made substantial sums of money trading the short side of the market, he gained a reputation for being an “eternal bear”. In reality, he also made a great deal of money trading the long side of the market.

d. As (a) and (b) are both incorrect, (d) must also be incorrect.

10. Gann’s advice with respect to “abnormal markets” is to:

a. Study other abnormal markets and note how they reacted

b. Trade the trend for as long as possible, because large profits can be made

c. Overtrade them in order to make massive profits

d. Borrow money in order to increase the size of your profits

The correct answer is (a).

Abnormal markets, by definition, do not occur often. Gann recommended that the best way to prepare oneself during an abnormal market is to study other abnormal markets in order to understand how they behaved.

b. Abnormal markets should be treated with care, and traded conservatively.

c. Never overtrade any market - it is a proven recipe for failure!

d. Borrowing money is not permitted under our money-management rules.

11. Bernstein, in listing his eight qualities that differentiate winners from losers, lists "isolation" as one of the qualities. This is because he believes that:

a. Living with a spouse and children results in too many distractions and pressures on one's trading time

b. History has shown that only eccentric traders can become true super traders

c. Living a long distance from the stock or commodities exchange reduces the number of traders and brokers who will visit you

d. Constantly listening to market news items, opinions and tips, clouds thinking and perverts judgment

The correct answer is (d).

If you have a trading program that has proven its worth, such as the *Smarter Starter Pack* program, you must follow it to the letter if you are to succeed. If you are prepared to ignore a signal from a proven trading system in order to trade a tip, it is a sure sign that you have lost your trading discipline. You are heading for an advanced state of confusion.

a. This life on Earth is not a practice run - this is the real thing. If you have to live like a monk to succeed at trading, few would want to trade.

b. Some true super traders are eccentric - as are some politicians, some doctors, some lawyers, some ...

c. Where you live has little bearing on trading success. The important point is that when you are studying trading or preparing for trading, you should be somewhere where you can concentrate and not be distracted.

12. Bernstein also lists a "*well-rounded personal life*" - socially, interpersonally, physically and professionally, as being an important quality of a winner. He considers this to be important because people with well-rounded personal lives:

a. Are fit, and can therefore handle the physical side of floor trading

b. Do not allow their relationship with the market to let their personal lives suffer

c. Can cope better with an extended run of trading losses

d. None of the above

The correct answer is (b).

The bottom line here is that if you have a social, interpersonal, physical or professional problem, it is likely to affect other aspects of your life - in particular, your trading. This can make it a very expensive and soul-destroying problem.

a. Floor trading does not require the athletic ability of a marathon runner, although being physically fit is important for all traders.

c. Psychologically, this may be true. Under the rules of the *Smarter Starter Pack* program, however, you should not have an extended run of losses. If you lose 40 percent of your capital, you are required to stop trading and spend some time in the "sin bin".

d. As (a) and (c) are both incorrect, (d) must also be incorrect.

TRADING PLAN

Trade No. ____________

1. Daily Chart:

	Date	Price	Ref Range
Point A			
Point B			
Point C			*
Entry Stop			* Estimated Point C
Exit Stop			
Profit (Loss)			

Exit Trigger
1 ☐ Point C ± 1 Point
2 ☐ Entry Price after 50% touched
3 ☐ Progressive stop triggered
4 ☐ 100% reached = Point D

Minor Pressure PointsRoad Map

Enter by 25%	
Confirmation 33.3%	
Danger Zone 50%	
Takes out old tops or bottom 66.6%	
Safe Exit 75%	
Liquidate 100%	
Gann Expansion 133.33%	
Major Milestone 150%	

2. Weekly Chart:

	Date	Price	Ref Range
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Point B			
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2. Entry Plan:

Date	Price	Reasons	Quantity	Stops	Average Price	% Risked

4. Liquidation Plan:

Date	Price	Reasons	Quantity	Remaining Quantity	Final Objective

5. Summary / Follow Up Orders:

Actual $ Gained	Actual $ Lost

Performance on Follow Up

Good ☐ Fair ☐ Poor ☐

6. Mistakes Committed:

Entry ____________________

Liquidation ____________________

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