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Issue 03, April 2010 | www.traders-mag.com | www.tradersonline-mag.com

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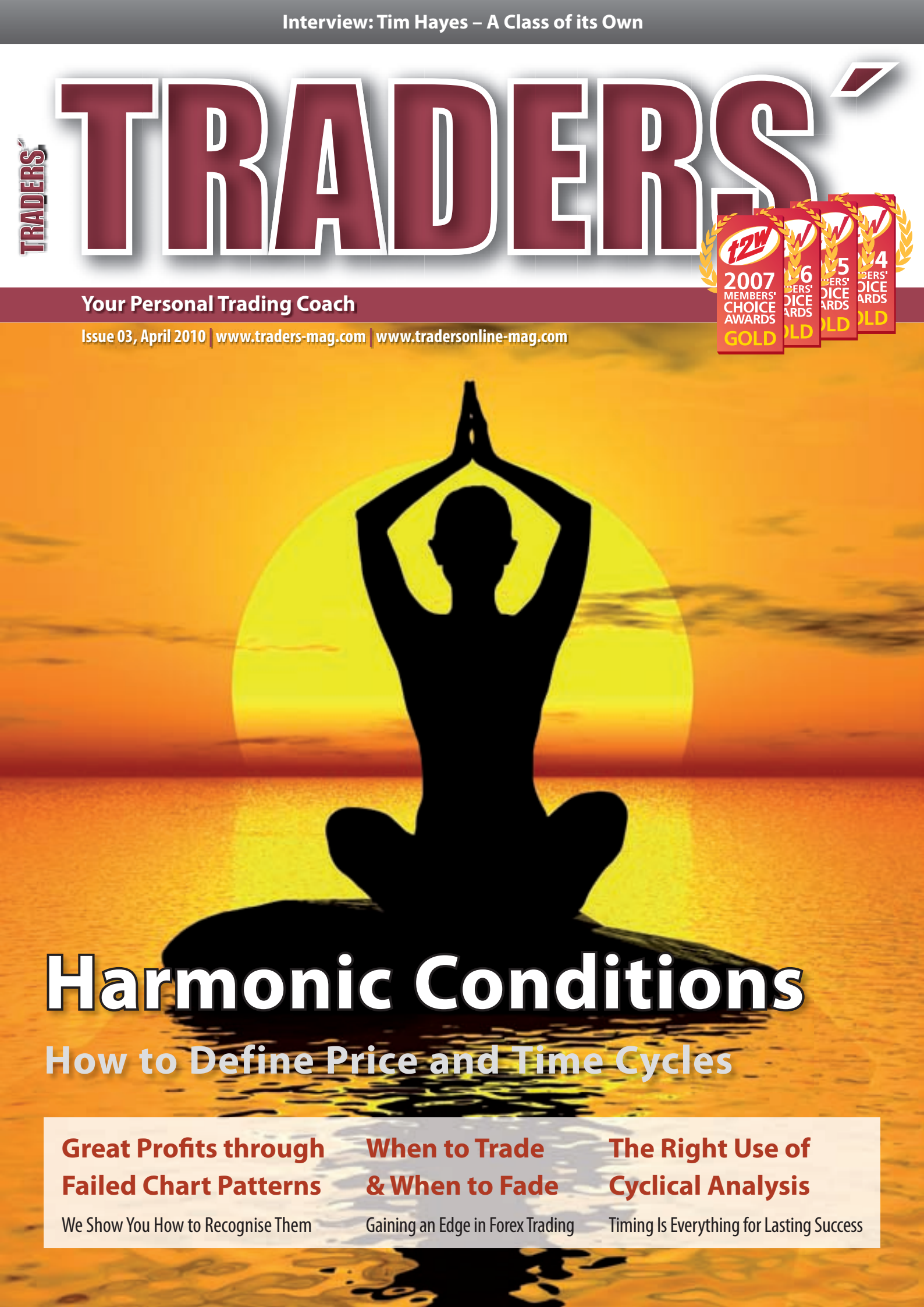

Harmonic Conditions

How to Define Price and Time Cycles

Great Profits through Failed Chart Patterns
We Show You How to Recognise Them

When to Trade & When to Fade
Gaining an Edge in Forex Trading

The Right Use of Cyclical Analysis
Timing Is Everything for Lasting Success

Harmonising Price with Time

Harmonising price with time is one of the issues serious traders grapple with at one point in their careers. And how could this possibly be otherwise? After all, if you wish to predict the future you have to consider the past. And if you look back on the history of trading, you will automatically end up coming across some of the heroes who have written this history. Jesse Livermore is one of them, so is Ralph Nelson Elliott and, last but not least, William D. Gann. Among all the greats of the trade he certainly stands out as the enigma. Square of Nine, Gann Lines and Gann Angles, the law of vibration of the sphere of activity, i.e. the rate of internal vibration all of which you will come across once you begin to study the trading hero. Gann's forecasts are credited with 90% success rates and his trading results are said to have amounted to 50 million dollars. Considering that he lived from1878 to 1955, it is easy to imagine what an incredible fortune this would be today. Whenever I think of Gann myself, I can't help remembering the harmony of price and time since that, too, is part of his concept. According to Gann's original idea, this in principle is nothing but the notion that during a time unit a price changes by a price unit. This results in incredible forecasts which, for example, prognosticates a change in the dollar by ten points in ten days. Whether you believe it or not, such forecasts turn out to be correct too often for them to be dismissed as flukes.

> The harmony of price and time results in incredible forecasts

Livermore, Elliott, Gann and the like devoted their entire lives to these phenomena. They wrote books and everybody knows their names. And yet the secrets underlying their theories have not been fully explored and they are often met with disbelief. But surely there must be some truth to all this or would their reputation have survived all these decades otherwise?

Indeed, even today research-minded traders are busy studying these methods of analysis. And as luck would have it, in this issue of TRADERS' Suri Duddella has done us the favour of writing a cover story that once again elaborates the connection between price and time. The accuracy of the forecasts he has cited as examples meets the standard set by Gann.

And the best part of it is that Suri Duddella doesn't make any secret of it. On the contrary, he shares his insights with the trading community. Have a good read.

Good Trading

Lothar Albert

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Moreover, we are looking forward to your feedback. This is the only way to improve our magazine constantly. Please write to feedback@tradersonline-mag.com.

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The prediction of price and time movements is an essential part of technical analysis and a very helpful tool for traders to calculate trends, reversals, and expected targets. The price and time projections can be executed by the means of pattern analysis of simple patterns like triangles, rectangles, or head and shoulder formations. Every pattern possesses a main swing and a time cycle that can be projected into the future by the Fibonacci time series. On this way, you can generate exact targets. Suri Duddella introduces the concept of pattern based time projections including analysis and practical examples.

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50 Timing Is Everything
In the opinion of Stan Ehrlich, cyclical analysis is the only technical tool which can help you predict when a market may bottom out or top out. Because cycles are natural phenomena which occur in all types of markets worldwide, and in all time frames, it can be a very useful tool in any market. Stan Ehrlich shows how you can time your trading with this method with an example in the Gold and Silver Sector Index.

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Basics

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The Use of Technical Indicators – Chart Analysis the Scientific Way.

MASTHEAD

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Publisher | Lothar Albert

Subscription Service |
www.traders-mag.com; www.tradersonline-mag.com
abo@traders-mag.com
Tel. 0931 45226-15, Fax 0931 45226-13

Address of Editorial and Advertising Department |
Barbarastraße 31, 97074 Wuerzburg

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Articles | Thomas Bopp, Suri Duddella, Stan Ehrlich, Faik Giese, Christian Lukas, Nick McDonald, Lee Sandford, Steve Ward, Greg Weitzman
Pictures| www.photocase.de, www.fotolia.de

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ISSN | 1612-9415

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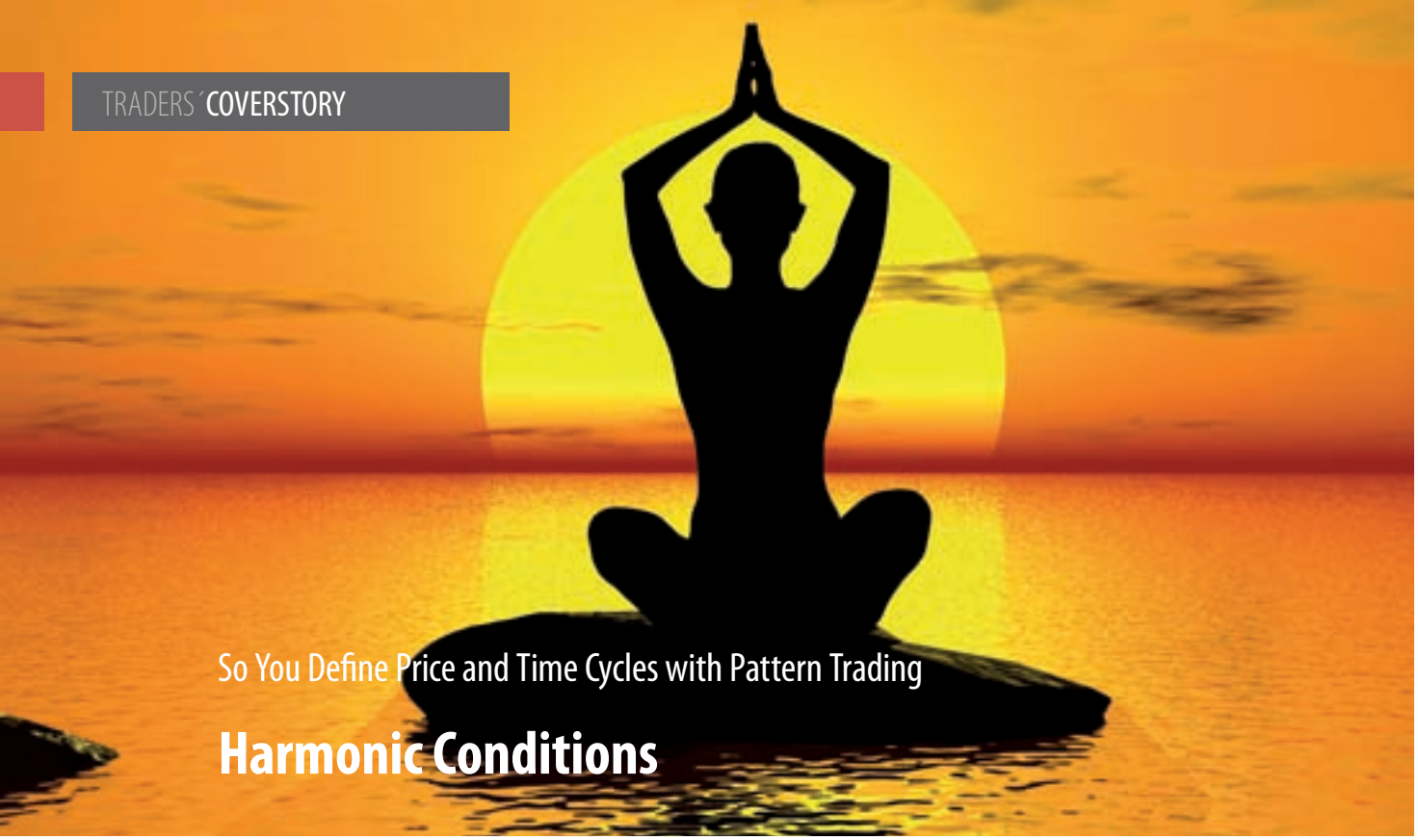

So You Define Price and Time Cycles with Pattern Trading

Harmonic Conditions

Prediction of price and time movements is an essential part of Technical Analysis. Traders and Analysts study price movements to predict key price, trends, reversals and expected targets. All price movements are part of simple pattern called „cause and effect". Technical Analysis provides great tools for identifying price trends, patterns and key turning points. Price patterns offer an exceptional way of forecasting price and targets. All patterns consist of „trends", „price relationships" and „turning points" and the study of these concepts are the corner stone of „Pattern Analysis." In this article I would like to present how these patterns measure price and time targets. Traders have a great promise of excellent profit when Pattern, Price and Time concepts coincide. Knowledge of a reliable pattern and time involved to reach a target adds to the higher probability of a successful trade. Unfortunately, most traders focus only on changes in prices and pay little attention to time. In the following article, I will demonstrate how pattern analysis identifies both price and time targets.

The Mathematics of Price and Time Movements

Market price fluctuations and adjustment processes are defined using mathematics. The price and time movements are mathematically related to each other. The progress of price changes are observed by multiples or ratios of prior swings. One of the popular schools of thought in technical analysis is to use Fibonacci number sequences and Fibonacci ratios for price and time swings. In this article I am going to focus on the Fibonacci ratios approach to address the topic. There are other methods but I will leave that for the reader to explore.

Patterns and price/time movements adhere to Fibonacci ratio relationships in markets. Fibonacci ratio analysis works well with any markets and on any time-frame charts. The basic idea of using these ratios is to identify key turning points, retracements and extensions along with swing highs and swing lows.

F1) Rectangle Price and Time Projections

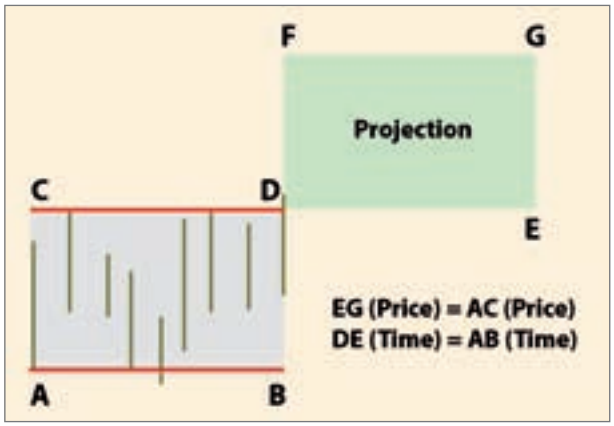

Figure 1 exhibits computing price and time projections of the rectangle in terms of its range and time. The following rectangle pattern's range (100% of AC) is projected to EG for its price expectation in rectangle's AB width time (100%) to DE. Multiples of AC range (200%, 300%, 400%) is also used as rectangle pattern targets.

source: own graphic

Fibonacci Sequence and Ratios

Mathematics of Fibonacci sequence can be found extensively in the financial markets appearing in the form market structures and the progress of change in price and time. The Fibonacci sequence (also known as recursive sequence) is the sum of two numbers that immediately precede it. For example: 1+1=2, 3+2=5, 5+3=8... The importance of this sequence is when divided by the number before it, it results in 1.618 (The Golden Ratio). Fibonacci ratios are derived from the Fibonacci sequence. 0.618 and 1.618 are the primary ratios and the remaining numbers are derivatives of the Fibonacci sequence. Most traders use 0.382, 0.5, 0.618, 0.786, 1, 1.272 and 1.618 as the Fibonacci ratios to compute price and time targets.

F2) Triangle Price and Time Projections

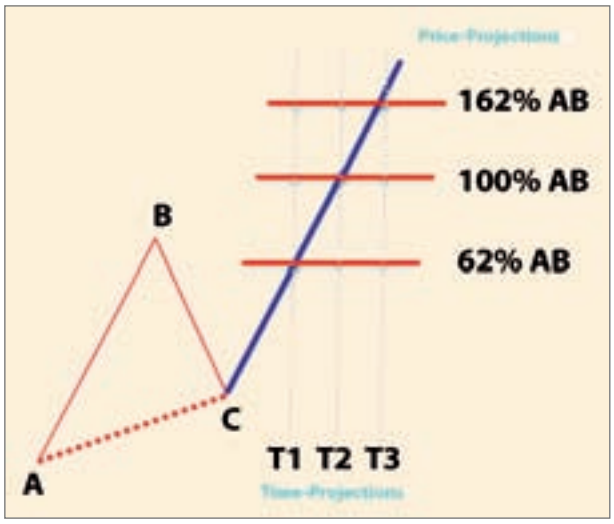

Figure 2 shows an ABC triangle pattern with its price and time projections. The major swing (AB) is multiplied by Fibonacci ratios to project 62% of AB, 100% of AB and 162% of AB for price objectives. The cycle length (AB or AC) is used to project T1 (0.62 of AB), T2 (1.0 of AB) or T3 (1.62 of AB) time targets.

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F3) Head and Shoulders Price and Time Targets

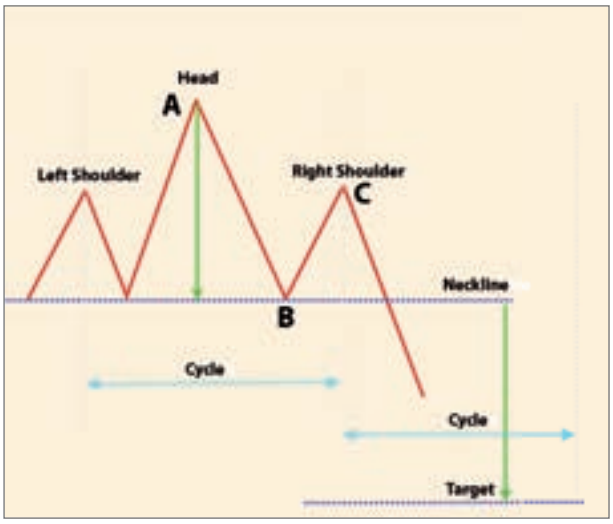

Figure 3 shows a Head and Shoulders pattern with its price and time objectives. Also notice the embedded ABC pattern inside Head-and-Shoulders pattern. The pattern's swing height is subtracted from the neckline and placed as the first target. The cycle length (AC) from 'Left Shoulder to 'Right Shoulder' is used as time-target.

source: own graphic

Fibonacci Price Projections

Fibonacci price projections are of primarily two types: retracements and extensions. If a price is trading within prior swing range, then it is a retracement and if a price is trading outside of its swing range, then it is an extension. These price levels are used for support and resistance to identify key trade setups. Fibonacci retracements from 0 to 1.0 are: 0.382, 0.50, and 0.618 of the prior swing size. Fibonacci extensions above 1.0 are: 1.27, 1.618… of the prior swing size. Price projections are computed using swing high and swing lows. Fibonacci drawing tools (retracement and extensions) in most software packages are used to select swing highs and swing lows to plot the retracement and extension levels.

Fibonacci Time Projections

Fibonacci time zones are used in the Fibonacci time

F4) Double Bottom Price/Time Targets

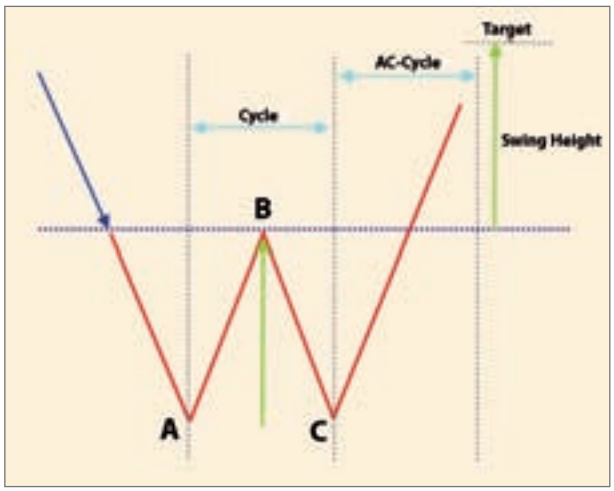

Figure 4 shows a Double Bottom pattern with its price and time projections. The major swing high (AB Length) is computed as the height of the Double Bottom pattern. Notice the Double Bottom pattern also has the 'ABC' pattern embedded. The cycle length for the pattern is AC. Price targets are computed by adding major swing length (AB) to the breakout level ('B').

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F5) Fibonacci Time Clusters

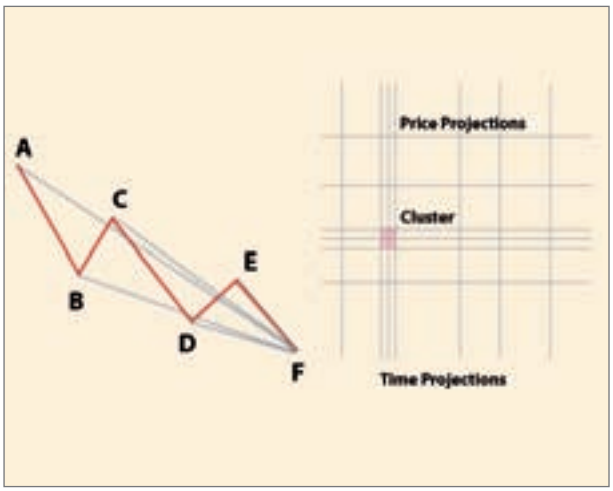

Figure 5 shows price and time cluster formation. Price makes lower-low swings (in red) and forms A, B, C, D, E, F swing highs and swing lows. Fibonacci retracements are drawn from pivots A, C, E (swing highs) to F and from B and D to F (swing lows). The Fibonacci price retracements and extensions along with time extensions form in a tight cluster. This cluster area acts a magnet for both price and time projection.

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F6) Inverse Head and Shoulder Pattern

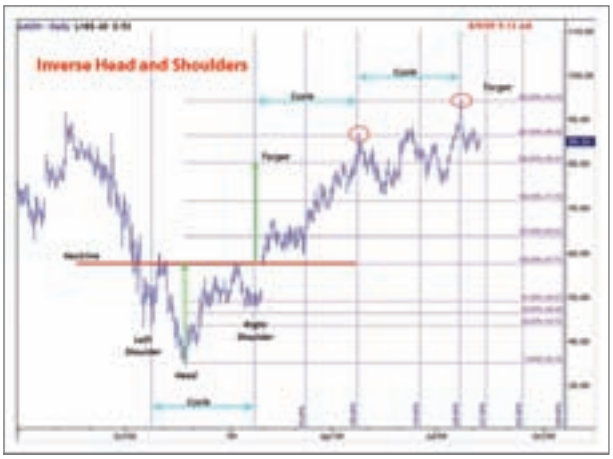

Figure 6 shows an Inverse Head and Shoulder pattern in Amazon Inc. (AMZN)'s daily chart. The pattern was formed from the beginning of October 2008 to late January 2009. Left and right shoulders were formed around $45-$50 levels while the head level was formed at $35.10. The neckline connected the tops of the head and shoulders around $57.71 level. The pattern height was $22.5. Cycle length was measured from the center of left-shoulder to the center of right-shoulder. In late January 2009, AMZN closed above the neckline to trigger a long setup at $60. The first target was expected at $80 (about 100% of pattern height). Also, second target was expected 100% of cycle distance around April 23, 2009. AMZN continued to reach next cycle length and 162% of pattern height in July 2009.

source: www.tradestation.com

F7) ABC Pattern

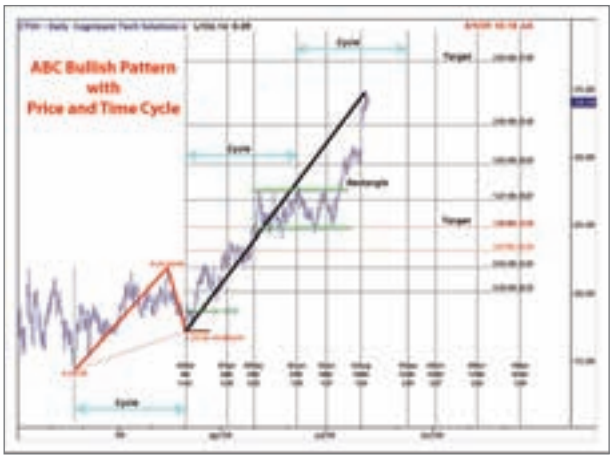

Figure 7 shows an example of ABC bullish pattern with price and time targets in Cognizant Technologies (CTSH) daily chart. CTSH developed an ABC bullish pattern from November 2008 to March 2009 from the swing low (A) of $14.38 to a swing high (B) of $21.95. In March 2009, when prices retraced from B to 'C", about 62% at $17.26, it formed a potential ABC bullish pattern. A long trade was triggered when prices closed above $18.72 (a 2-bar high) at an entry of $19.25. The ABC pattern height is $7.50 and cycle length (AC) is 56 days. The target price from 'C' is 100% of AB length to $24.88 and time-target was June 08, 2009 (at 100% of cycle length). Second target is 200% to 262% of AB length at $37. The cycle target was at 200% to 262% of cycle length to September 10, 2009. The chart also shows an embedded rectangle pattern formation.

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F8) Price and Time Clusters

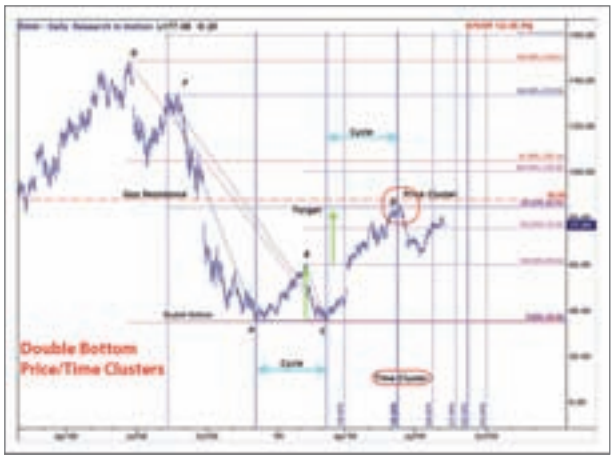

Figure 8 shows Research in Motion's (RIMM) double bottom pattern price and time cluster formation. From October 2008 to April 2009, RIMM formed a Double Bottom and signaled a potential rally. Double Bottom pattern's height was about $25 and cycle length was about 64 days (AC cycle). Also notice the embedded ABC bullish pattern. On April 6th, RIMM closed above swing high (B) around $63 and signaled a long setup. Targets are computed using 100% of height above 'B' to $85.81. The Fibonacci retracement price ratios are computed from prior swing high (G, F) to low of 'C'. This coupled with 100% AB target price and gap resistance formed a price cluster from $83 to $86.

source: www.tradestation.com

projections. Fibonacci time zones are generated by choosing a base interval described by the time between two market bottoms or tops. In patterns, Fibonacci time zones can be taken between two key pivot points which define a pattern. The base interval is multiplied by the Fibonacci ratios such as 0.38, 0.62, 1, 1.27 or 1.618 in order to determine future time-zones. These zones define key market events and traders can expect a key reversal of current prices or turns. Fibonacci time projections are used as guidelines and tend to work better in longer-term charts.

Patterns Concept of Price and Time Projections

Market prices always exhibit trend, consolidation and re-trend behavior. They rarely reverse their trends and transitional phases to turn from a previous trend on a single bar. During this transitional phase, they experience trading ranges and price fluctuations. This ranging action defines identifiable price patterns. These consolidation phases occasionally favor prevailing trends prior to their formation and continue their direction. These are called 'Continuation' patterns and a few examples of these patterns are: Symmetric Triangle, Flags and Cup and Handle. Some phases result in reversing the prior trend and continue in reversal conditions. These are called 'reversal' patterns and few examples of reversal patterns are: Head and Shoulders, Double Bottoms and Broadening Patterns etc.

Concept of Major Swing and Swing Cycle

Most patterns are asymmetric in their shape formations since swing lengths and swing times are not similar. Each pattern's shape/size/depth is also dependant on its time-frame. Every pattern has a dominant swing which may be used as the primary swing to compute price and time targets depending on its shape. Each patterns swing's width (on x-axis) is considered a swing cycle.

In the case of a symmetric pattern such as 'rectangle' the major swing is its 'height' and this 'height' is used to calculate the price projections on the y-axis. Its 'width' on the x-axis is used to calculate time projections.

Rectangle Price and Time Projections

A rectangle pattern is bounded by two horizontal trendlines and the upper and lower boundaries of the pattern were each touched on at least three occasions by the prices. The range between the upper and lower trendline is its range (major swing) and transitional distance (time) between the first and last intersections (of major swing) with trendlines represents its 'width' (Figure 1).

Triangle Price and Time Projections

ABC triangle patterns represent a 'trend', a 'retracement' and continuation of its prior trend. When ABC triangle patterns are completed (at C), price and time projections are computed using major swing (AB) and swing cycle (AB or AC). The swing length (AB) is projected from 'C' using Fibonacci ratio (0.618, 1, 1.618) for price objectives. The swing cycle (AB or AC) used to project the time objectives (T1, T2, T3) by multiplying the cycle length (AB or AC) with Fibonacci ratios (Figure 2).

Head and Shoulders Price and Time Targets

Head and Shoulders patterns form when prices make new highs and fail to continue to make new highs. The head is formed by a new high and shoulders highs form near similar levels. The bases of left and right shoulders are connected by a 'neckline' near similar levels. When prices trade below the neckline, a 'sell' signal is generated. The depth from the high of the head to the neckline is considered as 'swing size' where as the distance between high of 'left shoulder' to high of 'right shoulder' is considered as the Head-and-Shoulders pattern 'cycle length'. Traditional targets in Head and Shoulder patterns are set at '100% of swing size' and multiples of Fibonacci ratios (1.62, 2.62) below the neckline. The cycle length is used to compute time-targets using similar Fibonacci ratios (Figure 3).

Double Bottoms and Double Tops Price/Time Targets

Double Bottoms and Double Top patterns are common

Suri Duddella

The trained engineer and computer scientist began his trading career twelve years ago. In addition to technical analysis, he takes a special interest in market psychology. His trading approach is based on pattern trading in stocks and futures. Duddella regularly publishes his research and operates his own website.
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reversal patterns. A Double Bottom occurs when prices fail to continue a lower trend and creat two troughs near similar levels. A Double Top pattern occurs when prices fail to move higher and make two peaks near same level. These patterns provide significant low-risk trade setups. The two highs or lows in each of these patterns are at similar levels. Double Bottoms and Tops have an ABC pattern embedded in them and ABC trading rules can be used to trade them (Figure 4).

Pattern based Price and Time Clusters

Price Clusters

A Price cluster acts as support and resistance and could be used as price targets. Price clusters act as magnets for key reversals. The definition of a price-cluster is when three or more price objectives form within a tight range. These price objectives can be three or more extensions or three or more projections from previous swing highs and swing lows. Price clusters acts as strong areas of reversals. When prices test these cluster areas and reverses this will usually result in a strong extended move.

Fibonacci Time Clusters

Fibonacci time clusters are very effective when the confluence of two or more time projections converge in a very tight time-range. In my experience, time clusters appear to be more reliable in 30 minute or higher time-frame charts and daily charts as opposed to short-term based minute or tick charts. When using time based clusters I look for clusters forming within one to three bars (Figure 5).

Pattern based Price and Time Examples

Figures 6, 7, and 8 show examples of pattern based price and time targets in an Inverse Head and Shoulder pattern in the daily chart of Amazon Inc. (Figure 6), and an ABC bullish pattern in the daily chart of Cognizant Technologies (Figure 7), and a Double Bottom pattern with price and time clusters in the daily chart of Research in Motion (Figure 8).

Time Clusters

In Figure 8, the key swing highs are G, F and B. Key swing lows are A and C. The Double Bottom cycle is computed using 'A' and 'C' to be 64 days. The 100% cycle length is projected from 'C' to obtain the potential target date June 09, 2009. Also, key Fibonacci ratio Cycle projections from G to C and F to C formed a key time cluster from June 09th to June 12th.

Conclusion

Price and time analysis should be an important part of the trading method of every trader. The price and time cycle projections coupled with pattern analysis offer many advantages and give the trader confidence in his trading. Every pattern possesses a main swing and a time cycle that can be projected in the future with the help of the Fibonacci series to generate exact targets. ■