

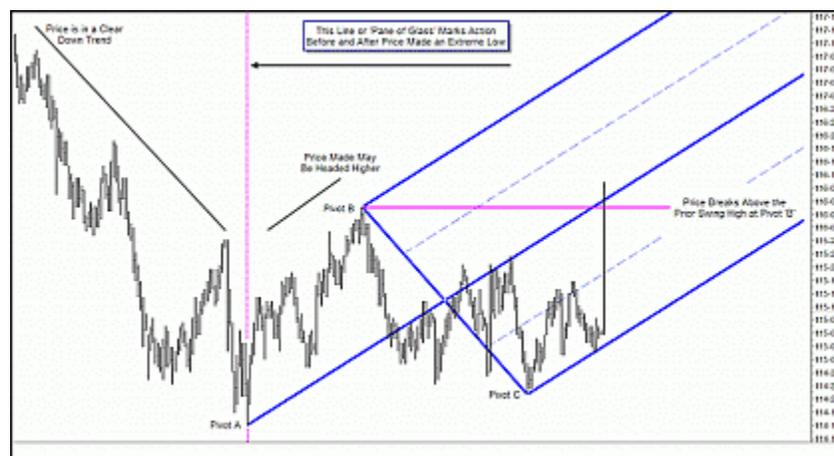
## How to Develop Your GPS for Chart ReX[b]

Wouldn't it be nice if you knew where price would be four bars from now? Sound crazy? Sound impossible? Maybe it is. But consider this: Wouldn't it be great if you knew where all the police cars and cameras were that were monitoring speeding, so you could drive down the road at your own pace and then slow down when you got near the speed traps? Does that sound crazy too? Have you heard about radar detectors, laser radar detectors, and even GPS real-time systems that mark out the current speed detection traps near you? Some people have all of this and more on their smart phones already!

Wouldn't it be great if you knew when the person you were playing poker against was bluffing, or holding a poor hand but trying to bet up the price of staying in the game, just hoping you'll fold? Did you know that most people who play poker have personality traits that make them do something physical when they are nervous, holding that bad hand, trying to drive the price of the pot higher? Some talented poker players can easily spot the "tics" or "tells" of their opponents after playing a few hands against them.

What if you could see the tics or tells of a trending market as it is stretched ever higher, while there are fewer and fewer new buyers? This market will eventually turn—wouldn't it be great if you could spot a sign that the market was running low on directional energy and likely to turn soon?

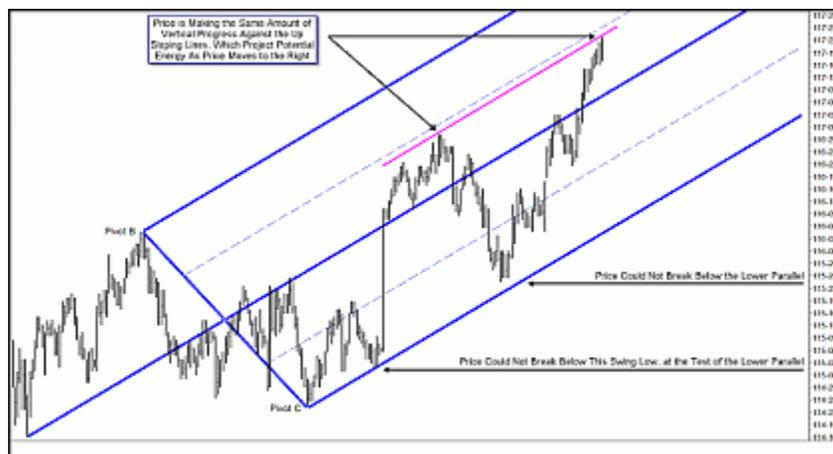
I'm not talking about squiggly computer-generated lines that lag price by ten or 20 bars! By definition, they may confirm changes in behavior, but they won't give you changes in behavior in advance. I'm talking about real signs the market offers, to those who look for the signs, that will give you a tell that the current trending market may be running out of directional energy. Does it sound crazy? Does it sound like one of those "Get Rich" ads you read in the trading magazines that (hopefully) make you chuckle? Let's see if I can make a believer out of you!



Here's a chart of the CBOT 30-year bond futures. You can clearly see price was in a nice downtrend and then began to consolidate. After some time, price climbs out of the consolidation, making a series of higher lows and higher highs. And then price shoots higher, breaking above major swing highs to the left in one bar—a clear sign that there has been a change in behavior.

Wouldn't you like to have been able to read the signs that this change in behavior was coming? Price gave you the signs you needed. It left tells that its downtrend was ending and a likely change in behavior was on the way. Looking at the chart now, can you identify those signs? Can you see the tells the market left?

Let's go on and see what the market offers us. We're looking at market structure and signs that there may be changes in behavior coming.

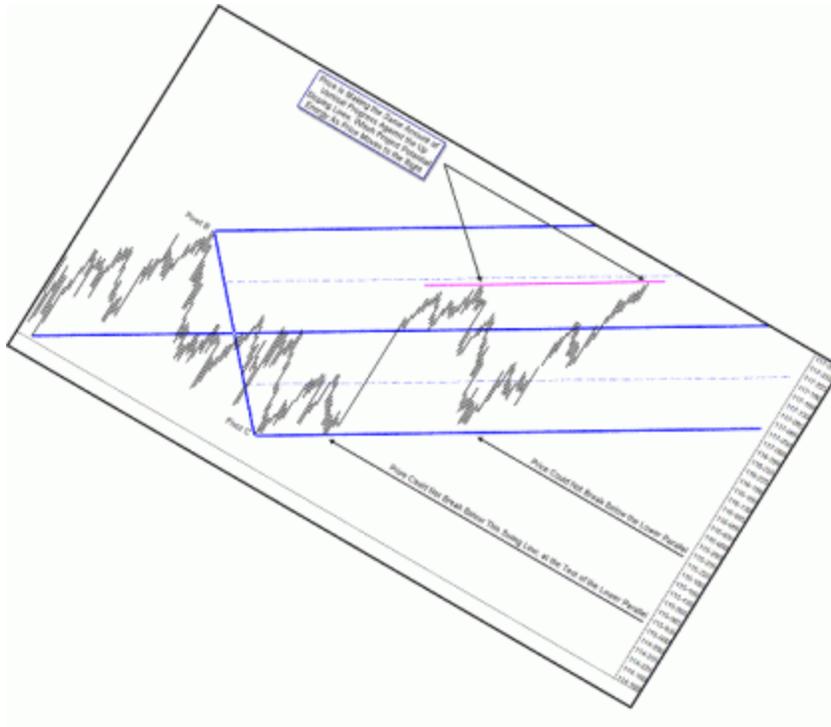


Price continues higher, breaking above the up-sloping Median Line before pulling back, but note that it does not test or break the lower parallel, nor does it break below the prior major swing low.

Then price heads back higher in a stair-step fashion. You'll note I added a pink line that has the same slope as the Median Line and connected it to the first major swing high, and this line catches the current high to the tick.

Median Lines and their parallels mathematically project the path of least resistance for price—and this means it is the most probable path of price, since all things in motion seek the path of least resistance.

You can see that price is currently making higher highs, but if you measure its progress against the sloped lines, its path of least resistance, it is just re-testing its prior high. I'll bet I've just totally confused many of you! When I show these charts in live seminars or live Webcasts, I tell people to turn their head to the right and look at how far price has moved upward against the sloped lines. But I believe most people don't turn their heads, and truthfully, most people listen to me talk about price making progress against the sloped lines, but really don't understand what I am talking about. So let me quote an old saying: "A picture is worth a thousand words!" Here goes!

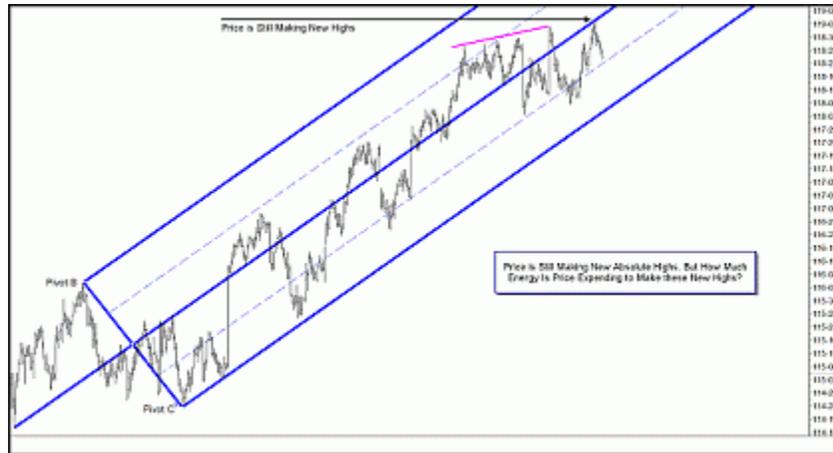


By rotating the chart so your eyes align the sloped Median Line with the natural horizontal plane, you can now see that as measured against the probable path of price, the Median Line and its parallels, price is not making new highs, but instead re-testing its prior highs.

There are no signs that this market is turning yet, no tells that this market may soon exhibit a change in behavior. But when you looked at the prior chart, price was clearly making new higher highs. When you look at the same chart aligned with the path of least resistance, price is merely re-testing prior highs.

Don't worry if you still don't understand what I mean. I believe humans are visual in nature, and I have plenty of pictures! Let's see where price goes now.

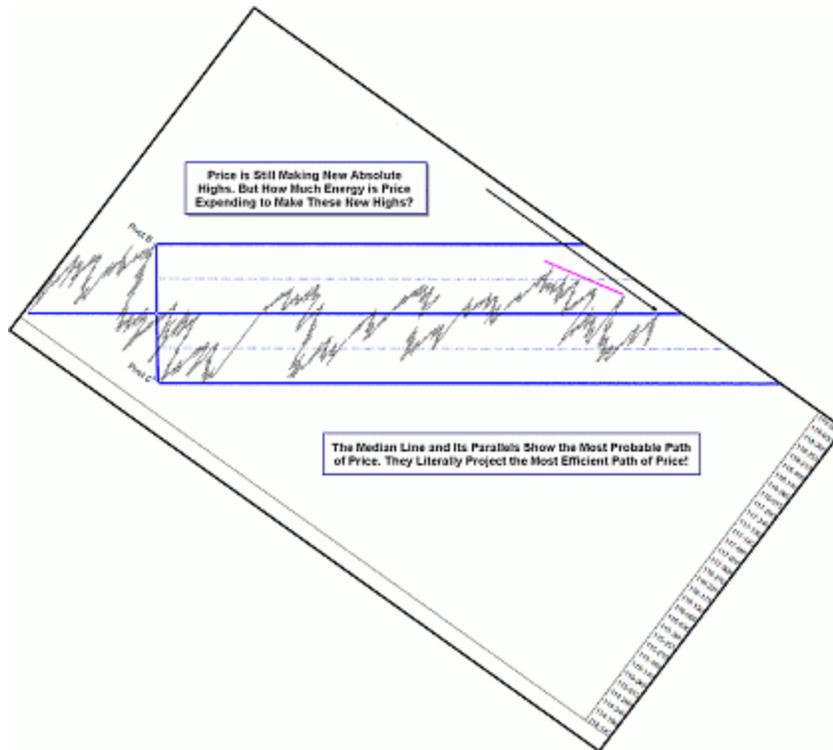
Looking at this chart, you can see that price made a series of higher highs and then pulled back before making a new, higher high. Price never tested or broke the lower parallel line and it really never broke below any major swing lows. Price worked its way higher to new highs. And “worked” is the key word!



How much energy is price expending to make each of these new highs? Like the gas tank in a car, price only carries a certain amount of potential, or directional, energy, and when that is used up, it must either pause and refill its tank or else a change in direction (behavior) occurs. As I said, the key word here is “work:” How efficient is price using its stored directional energy? When price becomes less and less efficient, it runs out of directional energy that much quicker.

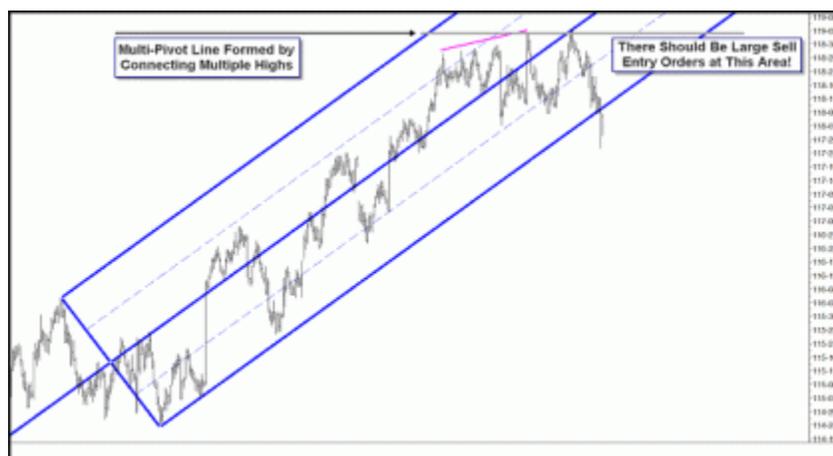
Suppose you are driving your car at 55 miles per hour, burning the gas in your tank at 35 miles per gallon, and then decide to pass a series of cars. You push down harder on the gas pedal and your engine revs up and your car speeds up to 80 miles per hour as you scoot past the cars to the right of you while your engine is now burning gas at 8 miles to the gallon! Your car's efficiency has just declined dramatically, and even though you are now further along the highway and ahead of the cars that were ahead of you, if you continue burning gas at this less-efficient rate, you will run out of the gas in your car's tank much more quickly and have travelled a much shorter distance than if you had continued to use the gas in your car's tank at 35 miles per gallon.

We are visual in nature, so let's see what that looks like on the same chart we just looked at.



Price continues to make higher highs—in fact, it made a new high—but it is becoming less and less efficient. When I turn the chart so the path of least resistance, or the Median Line, is aligned with the horizontal plane, your eye should tell you that price is not making new highs. In fact, using this efficiency chart, price is actually now making lower highs! As price becomes less and less efficient, it is more and more likely to either pause to restore its expended potential or directional energy or else a change in behavior will occur.

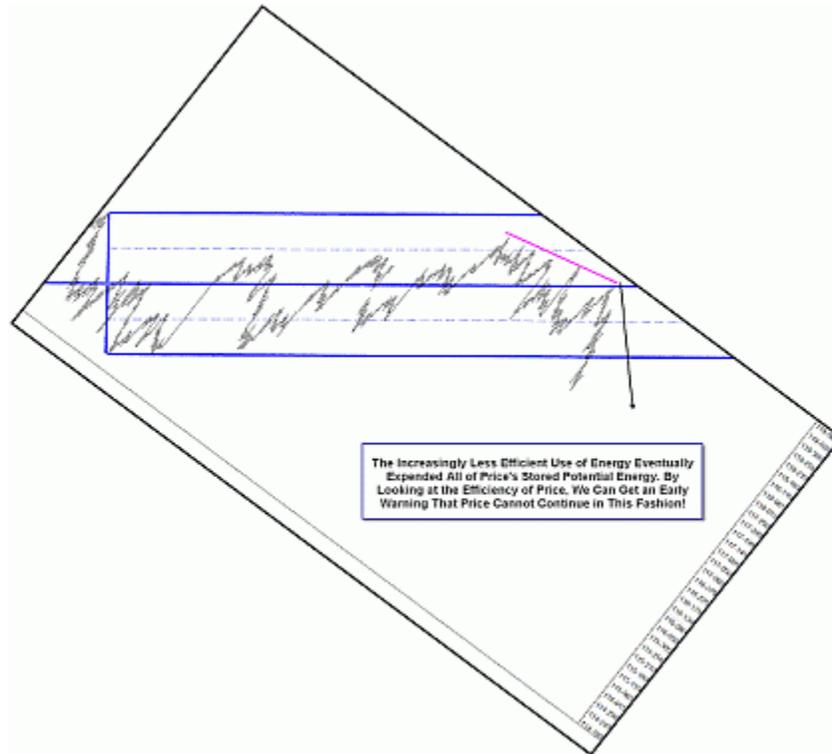
If I hadn't turned these images, most of you would not have seen the “tell” that price is giving you. It's there for you to read, as clear a sign that when a particular poker player rubs their chin when they up their bet, they are bluffing! Price will show you where it is likely to go if you slow down and look for the signs.



By now, if you hadn't been looking at the tilted charts, it's obvious price has undergone a change in behavior.

But if you were relying on a squiggly, computer-generated line to show you signs of the coming change in behavior, it wouldn't have caught it. And most of you who just look at standard charts wouldn't have gotten excited about getting short until price broke below a major swing low or the lower parallel line...but price was long gone by then!

Once again, let's begin by looking at the below efficiency chart. By looking at the "tells" that price leaves behind, you can be ready before the change in behavior occurs. You would be surprised how much this simple visual trick can improve your trading!



In the MarketGeometry.com mid-day mini mentoring sessions, I had been telling members to turn their head to the right for months as I talked about price "losing efficiency" just before a change in behavior occurs. And though I swore to myself I was going to keep this visual trick to myself until my new advanced seminar debuted in late-April, several weeks ago, in a moment of weakness, I just popped up a tilted chart, a chart clearly showing price losing its efficiency, and the chat session stopped dead in its tracks! All the members had heard me, over and over, talking about it. But when I showed a tilted chart, the light went on.

I also saw a distinct change in the profitability of some of the traders I mentor. One of them is now on a nice winning streak and she attributes the improvement in her trading to beginning to pay detailed attention to the efficiency of price. Her new mantra is, "Trade less, pay attention more, make more." It was clear that I had been seeing price losing its efficiency and using it as a visual clue for years. I had been talking about it and trying to explain it to the traders I teach for years, but it took a simple visual tool to clearly explain the idea.

Once members and the traders I taught saw the tilted efficiency charts, the idea was clear. After I debuted the tilted efficiency chart, whenever I begin analyzing a chart bar by bar in the mid-day mini mentoring sessions,

once price begins to lose its efficiency, people catch it and call it out before I can even mention it. It's a very powerful concept that can help you catch many major turns.

Now that I showed how powerful a tell the lack of efficiency can be, did you go back to the first chart I showed you and look carefully for the signs price left right in front of you that it was either going to consolidate and re-store its energy or exhibit a change in behavior?

Ok, I'll scroll back in price and time and see if we can spot some of the signs price left for us.



Price went through several phases in this downtrend. It headed lower quickly, reaching its most efficient point as it tested the lower pink reaction line. But when it was unable to hold below the reaction line, it quickly climbed higher and tested the upper parallel, or the action line. Once again, price failed to break out of the action/reaction line set. Price gapped lower and then spent a great deal of time restoring its energy, trading in a consolidation pattern, or energy coil.

It stayed in this trading range so long that it drifted out of the action/reaction line set to the right, but note that price was unable to make it above a line with the same slope, equal in distance and projected forward in space and time. Price headed lower again, but once again, it began to lose efficiency.

Did you see any of these signs? Did you tilt your head?



And now you can see we are right where we started this charting exercise. Price lost efficiency, trading in a

consolidation phase, and then a change in behavior occurred when price was able to trade well above pivot B, a major swing high.

Tilt your head, tilt your screen, but by all means, pay attention to the signs, or “tells,” that price is giving you! There is so much information contained in simple price charts if you just take the time to look for them.

I wish you all good trading,

Timothy Morge

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