The Gann Emblem

By David E. Bowden

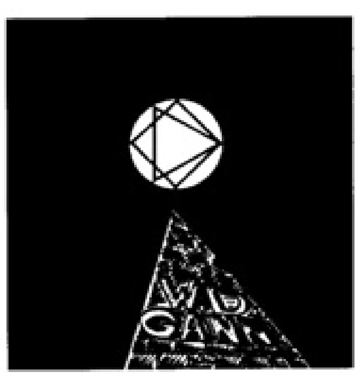
It has often been said that the best place to hide anything is right under the nose of the person who is looking for it. I have found this to be the case with most of the works of W.D. Gann. This simple, effective timing device is mostly not understood. Perhaps it is too simple because people love to complicate things.

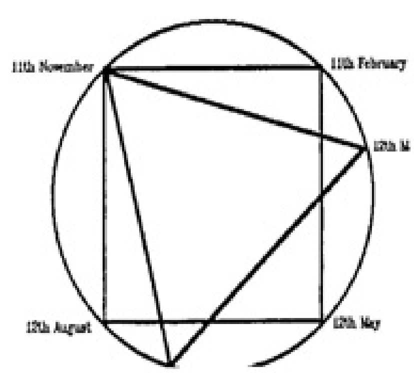
I bought my W.D. Gann Commodity Course for about $1,000 (in Australian currency) in November 1985. It has paid for itself a hundred times over in the past twelve months, so I will try to repay some of what it has done for me. I spent twelve months trying to make the course work for me and went up countless alleys. The emblem is, of course, a square and a triangle within a circle. I suppose many have figured that out, and for anyone who has studied the emblem for any period of time and not worked it out, I don't give you much of a chance in the futures industry. Now, what does all this mean and how do we use it?

First, Gann said in his writing , 'There are three important points that we can prove with mathematics or geometry: the circle, the square and the triangle. After I have made the square, I can draw a circle in it using the same diameter and with different squares produce the triangle and the square in the circle." It is not my intention to go into the construction of squares in this article, but to throw some light on the emblem.

The first thing we must realize is that any cycle is a circle. They are just spelled a different way. They go around and around and so keep reappearing. The circle we will deal with is the calendar year. To get things working, you need a calendar year in the form of a circle. I commonly use the astrological circle calendars as they are readily available. I should be on commission for the number I have bought and recommended to people.

Now, we have our calendar year going around the circle. The first thing to know is that the year should be divided into two sections between the autumn and spring equinox. Gann always did this. This is essential in Pyramid time. Let's look at the S&P Futures Contract. We place the point of the emblem on the date of last year's high, September 18, 1987. Remember, when looking for highs, go to the points of the square. The approximate dates are December 18, March 20 (autumn equinox) and June 19. The points of the triangle give





us January 18 and May 18.

How did we do? The first high from the crash occurred on December 24 (six days late). Then the next high was March 24 (four days late). The last high was June 23 (four days late).

The triangle gave us January 18 (last high before February low) and May 18 was nothing. The reason why September 18 gave us December 24 has to do with the degrees of the year. I usually mark highs in green and lows in red so they stand out.

Now for the lows. We place the point of the emblem on the low of November 11, 1987,and what do we get? The lows of February 10, May 12 and August 11. See how all this looks on your daily bar chart. The dates on the triangle of March 11 and July 12 gave us nothing, which prove the S&P Futures Contract is working stronger in squares than angles. That's good to know when you are working out price.

The degrees of the year are arrived at by dividing a year into 360 segments instead of 365.25 days. Now it is not as simple as a straight division of time but more a division of seasons resulting in four quarters of approximately 87, 92, 92 and 95 days, each representing 90 degrees. The year is divided into two sections by the autumn and spring equinox. I made up a circular calculator which gives me the whole year by degrees as Gann did in his circular charts. A simple way is to run the days in line across a chart of approximately 90 squares and one sees then graphically how the tops and bottoms conform. I call this a 90 degree chart and it is handy in my trading.

Many of the other writers for the Gann and Elliott Wave have done excellent work in relation to planetary influences, sun spots and solar eclipses. I believe these things have to be used in conjunction with "time." "Time is the most important factor in determining market movements because the future is a repetition of the past and each market movement is working out time in relation to some previous time cycle (page 64 in the W.D. Gann Commodity Course)."

A study of previous cycles and applications of Gann techniques enabled me to be aware of the exact day of the top of the bull market in 1987 and the dates of the November and February lows, six months in advance. My studies of the "Master Time Factor" indicate Gann could possibly have been right all the time. Perhaps he threw in a seven percent loss in trades to foil people following his every move. That's certainly the way he wrote.

The markets follow the timing of nature, so do the planets. Some markets make a high at a given date while others make a low. A study of their previous form is very important. "What has been will be again. There is nothing new under the sun. Look, they say, 'Here is something new!' But no, it has all happened before, long before we were born. No one remembers what has happened in the past, and no one in days to come what happens between now and then (Ecclesiastes 1:9-1 1)." This is why Gann put the Pyramid on the cover of The Tunnel Thru the Air, underneath the Emblem.

He went over the wheat contract and this is where he discovered his "Master Time Factor." It was through the wheat contract he could forecast wars, droughts and famine. The Bible is our guarantee. It also tells us we must obtain the old records. Put the Pyramid time and the Emblem together and you have a very powerful tool working for you in any market. But it's not for everyone. I suggest the keen student also study Ecclesiastes 3:1-15.

The advice on cycles is by no means a monopoly held by the Judaeo-Christian scriptures. The ancient Mayan Indians had a text which read "All moons, all years, all days, all winds reach their completion and pass away. So does all blood reach its place of quiet as it reaches its power and its throne. Measured was the time in which they could praise the splendor of the Trinity. Measured was the time in which they could know the suns benevolence. Measured was the time in which the grid of the stars would look down upon them; and through it, keeping watch over their safety, the Gods trapped within the stars would contemplate them.”

Many people ask about the share market. What is it going to do? I see our Australian share market making a top on October 2, 1989. For the American market I have nowhere enough data on the DOW to be exact, but since the 1987 top occurred approximately one month before ours, I would not care to hold stocks after September 3,1989. This is, of course, 60 years or 60 degrees from the 1929 top. An excellent “Gann” time.

I see much drama and panic for all markets around November 16, 1989, but perhaps a buying opportunity before Christmas, say Monday December 18. I hope this has been a help to some of you who have made a study of Gann. At a later date, I hope to write an article based on the book The Tunnel Thru the Air. I think this is the best book Gann wrote.

David E.Bowden is a former Gold Coast property developer. He saw the booms and subsequent downturns in that area. This led to an interest in the works of W.D. Gann. He trades on the Sydney Futures Exchange and advises a small group of clients in Australia and in the United States. He can he reached by mail at: Box 5258 Maroochydore South, Queensland, 4556 Australia.

Gann 's Annual Forecasts - Part II

By Chuck Carpino

Gann's 1919 forecast was sketchy and only one page long. Each year his forecast was expanded. By 1922 it totaled six pages and by 1929 it was up to ten. As his experience grew so did his confidence in sharing his views with his clients.

At the beginning of his annual forecasts, he summarized the year's major swings before discussing the minute moves within each month. These important swings represent the indications of his stock curve as calculated from his "Time Factor." Examples of predictions not based on his time factor are when he stated in his 1919 forecast, "Around the 20th to the

25th of January a very depressing influence is indicated for stocks." He further stated, "A depressing influence is indicated from September second to the eighth." I wanted to make this distinction so that Gann students would recognize that he combined various cyclic methods to make up his forecasts.

In 1919, the Dow opened at 80.00 and soared to 119.62 by November. Gann's general trend called for a bull year in stocks to last until the fall. This was an excellent forecast for the year and long term investors did nicely following his advice.

Early in the year Gann predicted, "An accumulation of stocks between January 20th and February 14th. Stocks bought during this period will show handsome profits on the advance in April and May." February eighth was the yearly low at 79.15 and the Dow rallied for several months without reactions to 105. That was a great forecast for the low and the ensuing trend.

Serious Gann students have probably wondered why he had such a wide range (25 days) for the low in this forecast. After all, most of his predicted highs or lows covered only three days to a week before the turn occurred. Why is this one covering 25 days? It is as simple as you might suspect. The reason the dates were so far apart was because the time factor he used was forming lows that stretched from late January to the middle of February and he knew the low point could have occurred anywhere in this time frame. The real beauty of his stock curve is when you get indications of a top or low within a very "tight range of a few days. The move will come out of the blue and quickly reverse the trend. His August forecast occurred in this manner. A more recent example would be a top indicated for November 10 to the 12 in 1986, and a low indicated for November 19 to the 21 in 1986. Unfortunately these types of indications don't occur every month and may only happen a few times a year.

For the month of June, Gann said, "From June 22nd to July 10th a depressing influence is shown and there is likely to be some marked depreciation in stocks." This was incorrect. The market's last top was on the ninth of June at 107.35, and a sharp decline occurred until June 16th at 99.56. From this price, the Dow recovered and made anew high on July l4, at 112.23. The curve I use, which has been matching his very closely (on the time factor predictions only), indicated tops on June 10 to June 12 and lows from July 10 to July 15. I too, had incorrect indications of a down market lasting until the middle of July. His July low had become a July high and this will automatically throw off the next trend projection. At this point, he probably would have advised in a monthly supplement that stocks would not be rising the latter part of July as he originally suggested.

Let's move on to August to see Gann's "tight fit" curve indications for this month. His forecast was, "Many stocks will reach the top of the boom between the 12th and the 15th, and have a quick decline until around August 23rd." The market rose from a low in early August to the 12 at 105.10 and then dropped to 98.46 on August 20 before reversing upward. That's a nice 6.6 percent drop right in the time period specified back in the fall of 1918.

Gann's fall forecast was bullish until around September 23. He advised selling here if stocks were strong into this time period. September was flat, so it's hard to say if he would have advised selling out here. He had October as being a down month, but it was very strong. The market peaked on November third at 119.62.

As I mentioned earlier, he was less willing to put in writing his indications of 1919. For some reason, he began to write longer forecasts in 1920. He completely left out the strong indication for a low in December of 1919 between the 18 and the 22. There was a mid-month low here at 103.55.

The curve was only one application of his time factor. Another application that I have used since November, 1986 is far more reliable. In fact, its reliability factor so far is about what Gann states in his marketing material -around 80 percent.

This technique provides only the cycle dates each month for a change in trend. Because it is difficult to consistently determine if the cycle will be a high or low, it is best to just consider the cycle dates as a change in trend. As long as the trend is into the expected date, one reverses one's position. These dates can be obtained a year in advance. I know because I have worked up real time cycle turns for each month for two years now.

When I mention this to people, there are usual signs of disbelief. To prove to you their accuracy, I'd like to share with you the predicted cycle dates in six letters I wrote to the leading Elliott theorist in the United States. All but the last letters were written anonymously for personal reasons. These letters span from May 1987 to February 1988 and were randomly written one to four weeks in advance. For the sake of brevity, I'll just give you the gist of the letters. The first letter in May of 1987 stated, 'The upsurge you have been calling for should occur on May 19 or 20, if not by May 21, it probably won't occur. A short term top one day either side of the May 30 weekend is indicated."

On August 13 1 wrote, "I show August 24th as a top with the best drop since the spring occurring until September 9th or 10th." On October 12 I said. "If the market is still dropping going into October 20 through the 23, it should reverse here. Within one day of October 30 there should be a top and November ninth or tenth will show a reversal date." November 19 was given as a trend change date as late as November 16 because I missed it originally. In fact, I missed many dates my first year doing this because I was not aware of all the

January 21 Low AR 1845 + 180 Degrees is 2025

August 23 Low at 1978 + 45 Degrees is 2023

There certainly was plenty of price resistance at 2025

Figure 1

proper cycles and how they worked. The fifth letter was written on November, 24 and is my favorite. It is here that I gave him, “Another turn will occur either side of December fifth and it probably will be a low. The market should move up until mid-month and cycles indicate selling at years end where we want to be long on December 31, 1987 for a sharp move up commencing on January 4, 1988.”

My final letter was written on February 17, 1988. In it I gave him an important date in 1989 as well as,” A sharp drop is indicated between March 22 and March 25.” On March second (weeks before the occurrence), I received a letter from J.B.P., an assistant, who thanked me and said he noted the dates on his calendar. I doubt that they have any idea of how accurate the timing was I had sent them. They turned out to be eleven out of eleven correct within one day of the actual turns. I could continue with examples from experiences I had this past spring with a Midwest money management firm, but I think you get the picture.

Having these dates does not assure success. One still has to be able to “pull the trigger” and then time his entry properly on the cycle date. Whatever short term signals one uses, it is here where they are most useful. For price timing on cycle dates, I like to use geometric, live and dead angles when I can find them and in that order. An example of what I call a dead angle would be from the year’s major highs or lows in price to add or subtract the degrees of the circle until a confluence occurs such as what happened on the November 16 low at 2026.67. The geometric one-half point per-day angle came in at 2025 from the August 23 low. The live angle was at 2025, being 45 degrees from the “live” position at 2070. Third in importance were the dead angles at 2025 (see figure I).

In this article I have tried to show that Gann used several cyclic techniques to work up his annual forecasts. The one I am most acquainted with is the time factor. There are at least four applications of it that I use and there are probably more, the rise to be halted by the cycle date of the 26. Two applications I have discussed include the Stock Curve for occasional monthly trends, high and low indications and the cycle dates for inter-month trend changes. The latter has proven to be around 80 percent accurate and can be provided a year in advance. They are almost always the exact high or low, rarely are they the acceleration point. In the last two years there have been over 30 per-year. In my opinion, they are the crux of all trading decisions. All other indicators are secondary, including price. As I am sure the reader recognizes that there are no guarantees in the market, I would like to offer some future time factor cycle dates which should reverse the existing direction of the averages, at least for the short term. I would expect some kind of a reversal to occur either side of the weekend of January 14 through the 15. January 26, the weekend of February fourth and fifth and February 23 and 24.

My trend road map for these projected turns is provided by the Stock Curve application of the time factor. Its indications are to expect the 14th and 15th to be some type of relative low, consolidation area from whatever tops are reached in early January. It is unknown if a base will be built for a week or if prices will begin to move up immediately. In 1988, bases tended to be built whereas in 1987, the cycle turns were almost always a spike low or high on the cycle dates. If the market moves up from this projected low. I would expect the rise to be halted by the cycle date of the 26th.

The curve also indicates relative lows between February fifth through the ninth, which further supports the 26th as a possible relative top. The theoretical date for the February low is February fourth or fifth, a weekend, so I am expecting the low to occur early should the market make some sort of top on the 26th. Regardless of whether the tops, bows, or trends invert or come out as forecasted, these dates are first and foremost, reversal dates of the existing trend at the time and that is the most appropriate way to use them in trading.

How to Make the Greatest Profit

ByJim Purucker and Pat Reda

On page 55 in W.D. Gann's book. How to Profit From Commodities, Gann states, You will always make the most profit by following the main trend and playing the long swing. You can never make much money jumping in and out of the market trying to scalp it. If you will put in time and study to determine the main trend, and then follow it the length of time that it should run and not get Out until you get a definite indication of change in trend, you will make big profits. It is much better to make three or four trades each year and make large profits than it is to try to make 100 to 200 trades a year and be wrong half the time, and finally wind up with a net loss. Yet there are times when it will pay to stay out of the market and wait for a definite indication and a real opportunity, which is sure to come if you wait.

After 14 years of research and reflection, I've come to realize the profound wisdom of W.D. Gann's statement, that in order to make the greatest profit one must trade with the long-term trend.

A major error is to focus on one or two favorite indicators, thus losing sight of the overall big picture.

In previous articles of the Gann & Elliott Wave, I have revealed some of the valuable trading tools and techniques to follow W.D. Gann's philosophy of how to make big profits.

In order to define the long-term trend, one must focus on, and look at the complete picture. To properly define the long-term trend, all of W.D. Gann's most valuable trading tools and techniques must be used and integrated into proper market analysis. This involves extensively following many indicators, as the weight of the evidence will determine when and how to enter a long term position trade and where to place stops for proper risk management.

A tremendous aid for following and analyzing Gann's most valuable trading tools and techniques on several different stock, option and futures markets comes through the use of computer technology. My long-term goal to computerize W.D. Gann's most valuable trading tools and techniques is complete.

Pat Reda, my long time associate, has provided the computer technology link for the past four years to finally achieve this goal. Pat has researched Gann and Elliott for the past seven years in the stock, options and futures markets, and is an electrical engineer with an extensive background in computer architecture and software design. He has designed software around the Gann Wheel and the Square of Nine chart in order to facilitate mathematical harmony of market movements in time and price.

Together we have developed an ultimate trading system which generates a disciplined set of rules to obtain major buy and sell signals with short-term risk parameters in any stock, options or futures market.

Past articles in the Gann & Elliott Wave magazine have provided the forum to release some of W.D. Gann's most valuable tools and techniques in order to assist others to help themselves and make themselves independent, successful traders.

In conclusion, I want to make you aware of Pythagoras Aphorism Number four, which states Assist a man in raising or lifting his burden; but do not assist him in laying it down. Once one learns the disciplines and sets of rules to follow W.D. Gann's most valuable trading tools and techniques, then and only then will it be your time to make the greatest profits by following the main trend and playing the long swing!

Reference to the chart of the S&P500 clearly points out some of the most valuable trading tools and techniques used by W.D. Gann.

For additional information on the Gann Wheel and the P/R Futures Hotline write: GANN WHELL GLOBAL ADVISORS OF AMERICA, Inc. Tempe, AZ 85283 or call Jim Pururcker at (602)820-7935.

Charting it Gann's Way

Phyllis Kahn

Frequently, new students of the Gann methods become mired incomplexities even when several of the most simple and powerful Gann concepts are so easy to understand and apply. For example, no market master before or after Gann has recognized the importance of treating each commodity contract month as a separate and complete entity. Gann's remarkable principle (an observation made over 50 years ago) that a mathematical relationship and a continuity in price extending over years of time exists in the same contract month is a tribute to Gann's genius that proves itself over and over again even in today's high-tech markets. The rule, requiring weekly and monthly charts of an individual contract month to be plotted in continuity from year to year applies to all futures markets. Since soybeans were one of Gann's favorite markets, we'll use it to illustrate how relevant the principle is (combined with other Gann methods) to market analysis that leads to low risk, profitable trading. There are several reasons why Gann insisted that this was the only way to chart commodities. Principle number one being the following:

To retain mathematical purity for price projections, Gann taught that significant highs were mathematically related to historic lows and/or historic highs.

If one uses weekly and monthly commercial charts utilizing "nearby futures" updating, lows and highs of price swings from different contracts, they will produce erroneous results for range calculations and price projections.

Mathematically, it's like mixing apples and bananas. "Nearby" charts can also show double or triple tops or bottoms that when compared to "same month" charts, they do not, in fact exist.

A powerful example of how important this occurrence is at the all time high in soybeans.

The current historic high in soybeans was made in June. 1973 in the July contract. In 1972, the July contract took out its own historic high from 1948 entering new uncharted price territory. A Gann analyst would take the old high, 433, multiply it by two, and then by three (three is important in Gann methods). When prices sailed through 866, it was clear they were headed for higher levels. Multiplying 433 x 3 = 1296; this calculation missed the 1290 high by only nine cents.

Logic and reason would tell you otherwise, yet 25 years later, the July 48 high helped identify the 1973 high. Of course, other Gann techniques must be used to confirm such calculations but it begins with information from a continuation of the same contract month.

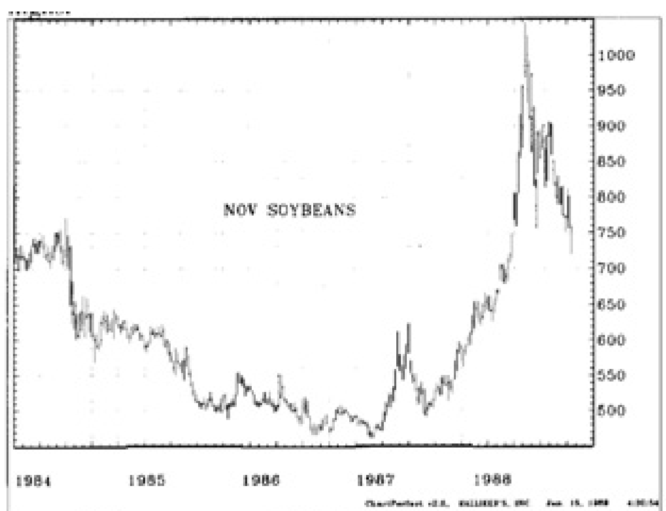
November soybeans have their own unique signature that differs widely from the July contract. The all time low of November beans was made in February, 1940 at 191 1/4. In 1974, 34 years later, this contract made new historic high at 956, an “exact” five-time multiple of 191 1/4.

In 1983, November beans made a new historic high at 968 but even then, nine years later, that five-time multiple still held its ground as resistance. Although November, 1983 soybeans made three attempts, there was not one close at or above 956 and the third high was the top of the market. Also coming into play at that top is Principle number two:

When two contracts (or more) of the same month but different years are trading simultaneously, all the angles, Midpoints, support and resistance apply equally to both contracts.

In August, 1983, while the powerful bull market was in progress, the November, 1984 contract began trading. It opened $2.50 below the November, 1983 contract. Plotting it on the weekly November chart showed that the distant contract was far below all the angles supporting the front month and bearish in a bull market. In August through early September, 1983, while the front month November, 1983 made a top at 968, the distant November, 1984, on the same chart, made a triple top at 721. Few traders, other than a Gann trader with a November continuation chart up to date, could have had the foreknowledge to anticipate and trade the top (other Gann methods were used for confirmation). Incredible as it may seem, history repeated itself five years later in 1988. When November, 1988 beans hit 1046 in June, 1988, the November, 1989 contract made high at 793, $2.53 below the 1988 contract!

While the November, 1989 contract was duplicating weakness seen at the 1983 high, another illustration of the value of keeping continuation charts was occurring simultaneously. Most Gann traders keep at least three separate soybean contract charts: November, May (Gann’s favorite contract) and July (it contains the historic high for all contracts). During the



Trading Planetary Cycles Profitably

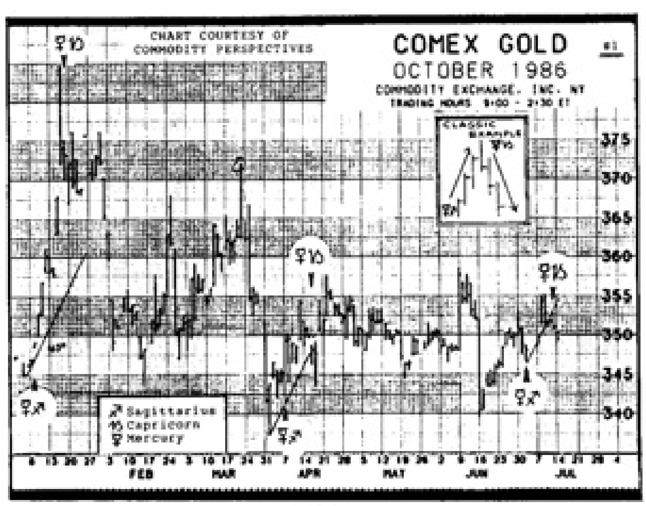
By Jeanne Long

The Natural cycles of commodity prices correlate beautifully with the natural cycles of the planets in our Solar System. Each commodity has its very own special cyclical rhythm, just as each planet has its own cycle. When combined they create a superb trading tool (this is a fact W.D. Gann knew well).

One of the cycles we have investigated rides in tandem with the fluctuation of gold prices, it is the passage (transit) of the planet Mercury through the area of the sky (zodiac) known as Sagittarius. Heliocentric Mercury makes one complete trip around the sun every 88 days, and is in the sign of Sagittarius for approximately 11 of those 88 days. Amazingly, this cyclical passage correlates with the increase in gold prices about 75 percent of the time. In the remaining 25 percent the reverse is true, as prices fall or enter congestion.

A classic example of the type of price action to expect is shown on graph I. This classic action calls for the price of gold to move up sharply while Mercury is in Sagittarius, then price falls rapidly as it travels into the next sign of Capricorn. Each sign has 30 degrees, and we find that prices tend to top out around the 26th degree of Sagittarius, which is the exact degree of the Galactic Center. The Galactic Center is sensitive to the transit of all planets and therefore is an important trading tool in itself.

Just how closely gold prices follow this classic example is dependent on other factors, such as whether any other prominent planetary cycles are also in effect. If this is the case, variables are created. The planetary cycles are cycles within cycles which all begin and end at different points. It is for this reason that the actual price patterns of gold while Mercury is



Graph I

in Sagittarius are never exactly the same. But there is more than enough similarity of pattern for use as a viable trading tool.

There are several ways to utilize this phenomenon for trading purposes. It can be combined with your favorite technical trading tools or used with my trading rules listed below.

1) Always BUY on the day before Mercury enters Sagittarius. Unless on that day a “key reversal down” or “two-day reversal down” pattern forms, in which case SELL (see graph II). Also if the close on the day in question is under a major trend line or if one of your favorite sell signals is given, do not buy (If you sell instead of buy, you must reverse all the STOP, rules given below). NOTE: Whenever key reversal or a two day reversal forms at the time of a planetary signal, it greatly increases the validity of these two technical signals.

2) For the next three days following an entry into a trade, place a STOP at 1.50 below the low of the day the trade was initiated.

3) After the third day, add a 45 degree trend line (Gann line) off the low, which would be the nearest previous low or isolated low (see graph I). Each day thereafter place a STOP at 50 cents under the 45 degree line.

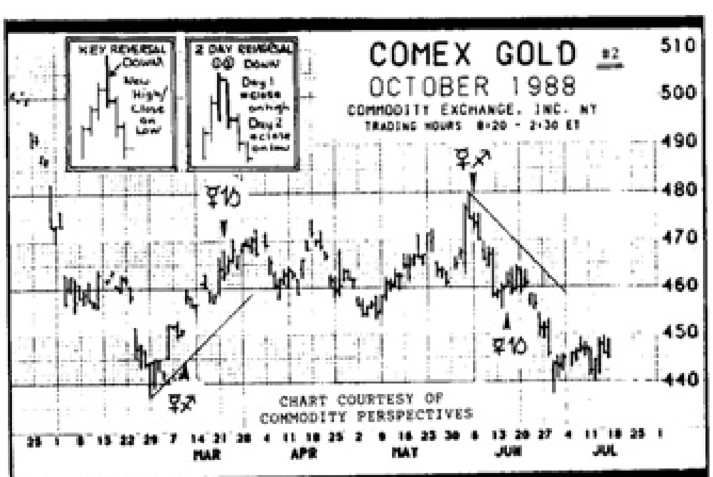
4) If you are stopped out in the first three days of the trade, immediately reverse your trade to SELL. Be sure also to reverse all the STOP rules to monitor this short position.

5) If a key reversal down pattern should form within the first three days, reverse and be short on the close of the key reversal bar. To qualify, this key reversal bar must be larger than the previous days bar or be at least five points in range.

6) If a two-day reversal down pattern forms within the first three days, reverse and be short on the close of the second day of the pattern.

7) WHERE TO EXIT THIS TRADE. Take trade off at the close on the day BEFORE Mercury leaves Sagittarius.

8) Optional. If the last day of Mercury in Sagittarius is, for example on January 18, the three days prior to the last day are January 15, 16 and 17. On each of these days place the STOP at 50 cents under the low of the previous day. If a key reversal down or a two-day reversal down



Graph II

form on the last three days, take the position off at the close of that day.

9) Trade in units of two contracts. Take the first contract off at a five point profit and leave the second contract on until stopped out or until rule number seven is initiated.

By following these rules and trading two contracts only from January 1986 to September 1988, the profits were $18,850.00. This was just four trades per-year of eight days or less in the market on each occasion. Combining this cycle with other planetary cycles and tools increases the profits tremendously, but also increases the exposure and risk. More methods of trading with the planetary cycles are clearly illustrated in my book Basic Astrotech, which is the result of many years of research.

Jeanne Long is the author of Basic Astrotech and the editor in chief of “A Traders Astrological Almanac 1989.” International lecturer, she is a professional full time trader in Florida. You may reach her at P.A.S. Inc. 2215 S. Federal Hwy. #22, Ft. Lauderdale, Fla. 33316.

Beyond Gann:Vibration Inversion Points

By Gregory and Helen Meadors and Neal Chabot, Ph.D.

Gann made millions in the markets by doing extensive historical research to determine how angles, numbers and astronomical cycles coincided with trend change dates. Much of this research was never revealed in Gann's courses, and many believe that he placed his advanced knowledge in coded form in his published works.

We do know with certainty that Gann believed the relationship between numbers and price cycles was the key to successful market trading. His research convinced him that in an unknown way these mathematical principles seem to cause the market to move toward given price targets within certain time periods. "If you wish to avert failure in speculation we must deal with causes. Everything in existence is based on exact proportion and perfect relationship. There is no chance in nature, because mathematical principles of the highest order lie at the foundations of all things, Faraday said, 'There is nothing in the universe but mathematical points of force."' 1

A few decades ago a scientist named John Nelson did years of research for RCA Corporation on the correlations between sunspots and the positions of the planets. He discovered that certain angular relationships between planets coincided with sun spot activity which would create magnetic storms on earth. By knowing in advance when these critical angular combinations would occur, it was possible to predict the disruption of terrestrial radio transmissions. Severe magnetic storms cause earth currents which affect undersea cables, telegraph lines and power transmission lines. Nelson published his findings in a book called Cosmic Patterns: Their Influence on Man and His Communications. His demonstration that these disturbances could be predicted based on planetary positions was revolutionary.

In the same way, our forecast of the exact August, 1987 top of the Dow Jones Averages six months in advance was thought to be without substance, until it was proven correct. The methodology of this prediction was discussed in our previous article, Gann and the Planets (August issue of the Gann & Elliott Wave).

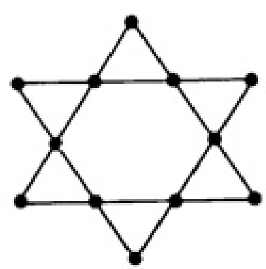


figure 1

The Seal of Solomon is comprised of two interlocking equilateral triangles with twelve points of intersection, and 18, 60 degree angles. Planets in multiple 60 degree angles (Solomon Inversion Point) often generate major changes in trend.

We referred to a Newsweek article of August 17, 1987 entitled “The Harmonic Convergence” which stated, “It’s the first time in 23,412 years that nine of our planets will be aligned in a configuration called a Grand Trine (several 120 degree angles between the planets) which allows for an unprecedented amount of energy to converge in one place and harmonize with itself, creating an energy greater than any experienced on earth to date.” We pointed out why the all-time high in the Dow Jones Averages happened to coincide with this widely promoted planetary phenomenon.

Some articles have recently appeared revealing that Gann used astrology to forecast prices. Although Gann used many astronomical correlations in his work, in many cases his interpretations of these cosmic patterns differed markedly from those of traditional astrology. He also gave to other astronomical data, such as planetary anniversary dates, a forecasting prominence which they never had before. For example, the 140 point drop (third largest in history) on January 8,1988 occurred when Saturn returned to the exact degree in the heavens where it had been on October 24, 1929, the infamous Black Thursday!

Rather than borrowing from traditional astrology, Gann developed new astroindicators that were consistent with his own system of numbers and geometric angles. Because he was an eclectic thinker, especially when it came to mathematics and the esoteric, Gann was able to synthesize market forecasting principles from many areas of ancient science. Another often overlooked source which inspired his forecasting abilities was the Bible. Gann considered himself a Christian and recommended to his advanced students of forecasting that they read the Bible three times

The body of knowledge sometimes referred to as “ancient wisdom” is based on the understanding of cosmic phenomena, geometry and the science of numbers. As a developed science, ancient wisdom does not proceed by trial and error experimentation, but relies on proven prior correlations between the eternal and temporal realms. The Elliott Wave, a relatively recent forecasting discovery, is partly based on the numerical progression of three, five, eight, 13, 21, 34, etc., ancient knowledge that was re-discovered by Fibonacci only centuries

Trades

1) Sold all long positions including IBM call options at the August 24, 1987 Harmonic Convergence top for 250 percent profit.

2) Sold short September S&P 100 Oex on August 27, 1987

3) Again sold short on Octomber 6, 1987 lunar exlipse! The October Crash has a similar pattern to the October 1929 crash, New moons and full moons often generte minor trend changes.

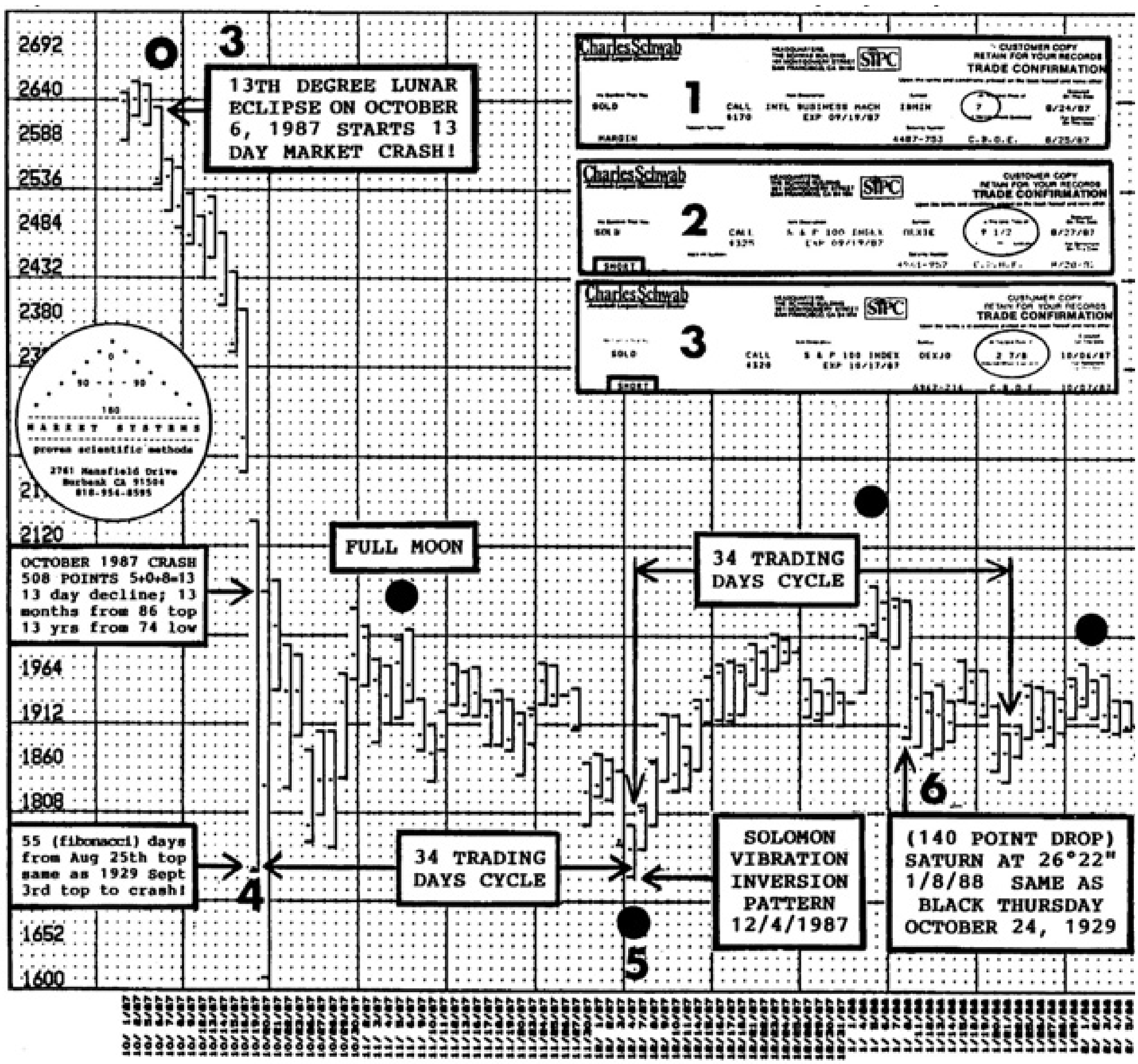
4) The October 1987 crash low, a Fiboancci number.

5) The 140 point one day grop occured on 1/8/19888 when Saturn returned to the exact degree in the heavens where it had been on infamous Black Thursday 10/24/1929.

ago. As we pointed out in the article, “Beyond Gann: Biblical Cycles (December issue of the Gann & Elliott Wave)”, the use of these forecasting tools is illustrated in the architecture of the Great Pyramid in Egypt.

Despite the plethora of predictive techniques, no particular system has even come close to being a reliable indicator in all markets at all times. The problem is to know when each method will work, for which markets, and for how long. It is obvious that the different forecasting techniques only work some of the time. This is especially true for astrology, which has achieved popularity during the Reagan era as the new Messiah” of forecasting systems. As we shall show, when certain planetary “aspects” are applied to the stock market, they can have quite different effects than what we would expect based upon the interpretation of traditional astrology. Gann discovered that planetary cycles are excellent indicators, but they must be placed in the correct interpretive context in order to have predictive value.

Out of our research has evolved a unified set of market principles or laws by which the various predictive techniques can be ordered and prioritized. This is a holistic meta-synthesis



of analytical methods, bringing different forecasting methods into relationship as part of one topological structure. This provides a “master key” to discern which forecasting techniques rule price patterns in particular time periods.

We call these market forecasting laws the “Genesis Principles” because we believe, with Gann and Plato, that they are the original “Forms” or “Patterns” by which the material realm is structured and ordered. In addition, the Genesis Principles express the vibratory nature of creation itself: “In the beginning God created the heaven and the earth. And the earth was without form, and void . . . And the spirit of God moved (vibration) upon the face of the waters (Genesis 1:1).”

Gann described the inner workings of his system as a “Law of Vibration” (see below), and many techniques and correlations that he discovered are included in the Genesis Principles. They are based on geometric and numerical structures which govern the creation and movement of visible phenomenon the case price structures.

Just as the DNA molecule contains the blueprint for cellular development in an organism, so we regard the Genesis Principles as the DNA code of market price movements. These principles reliably prescribe the patterns of price fluctuations. Using the Genesis principles we have forecast the major trend changes in the Dow Jones Averages during 1988 with 90 percent accuracy! In this article we will discuss how this was done through Vibration Inversion Points, that portion of the Genesis Principles that deals with trend changes.

Gann liked to describe the basis of his forecasting system as a “Law of Vibration” that he had discovered at work in the financial markets. As he says, “After exhaustive researches and investigations of the known sciences, I discovered that the Law of Vibration enabled me to accurately determine the exact points to which stocks or commodities should rise and fall within a given time.”

We have coined the term, “Vibration Inversion Points” (VIP) as another name for Faraday’s “mathematical points of force” which trigger trend changes. Vibration Inversion Points are places at which energy vector forces intersect. These points in a price chart are often critical loci for summary energy vectors that can reverse trends in the markets.

Our discovery of Vibration Inversion Points came after we asked ourselves the question, “Could the different price patterns of financial markets be unique mathematical fingerprints based upon an intrinsic geometric structure’?” It is possible that geometric forms, reflected from planetary positions, could provide the keys to price movement in the various markets. It is well known that many crystalline structures are patterned on geometric forms. A crystal of salt, sugar or water each have unique geometrical and mathematical structures.

We believe that each geometric form has corresponding mathematical values. Just as certain substances will only crystallize in the form of a particular geometric matrix, so numbers and geometric forms which govern a segment of a price chart are in an isologous family relationship. Geometric forms have morphological number equivalents that have been found to correspond to price targets and trend change dates. When a certain number or form is vibrationally active, the resulting chart pattern produced by the markets will display these number constants with high repetition. Our next article will describe how the number 13 was vibrationally active during the crash of October, 1987 and why this number is so important to the U.S. stock market. In the remainder of this article, we shall discuss the Vibration Inversion

Point that is built from a geometrical form with 60 degree angles. We call this the Solomon Vibration Point.

The most symmetrical geometric form that contains 60 degree angles is the equilateral triangle. This was discovered (or rediscovered) by Pythagoras, who expressed it as a geomathematical figure called the tetraktys. As a central symbol of the Pythagorean philosophy, the tetraktys demonstrated that all phenomena can be explained by numbers and geometric forms.

There are many examples in nature of the 60 degree structure, such as the 60 degree angle formed by water molecules when they crystallize (freeze). Based on our market research, when the planets form multiple 60-degree angles, a type of geometric crystallization occurs causing a restructuring of the vibrational energy at work in a particular market. The crystallization effect usually occurs at turning points in the markets, Faraday's "mathematical points of force (Vibration Inversion Points)."

When you take two equilateral triangles pointed in opposite directions and superimpose one upon the other, you will have constructed the Seal of Solomon, or Star of David, an extremely important geometric symbol in the history of ideas as well as market timing. Its two equilateral triangles intersect each other with perfect symmetry (see Fig. I).

Solomon's Seal has been given a number of interrelated psychological, mythological and cosmological interpretations. One of its primary meanings is to symbolize the intersection of the infinite with the finite: "As above (in the realm of eternal forms), so below (in the world of time and price)." Of all the personages in the Bible, it was Solomon who combined the qualities of wisdom and wealth. He was famous for his practical wisdom in ruling his kingdom, and the legend of his vast stores of gold is part of scripture: "Now the weight of gold that came to Solomon in one year was 666 talents of gold (2 Chronicles 9:13)."

Having provided some theoretical groundwork, let us give some examples of how the Solomon Vibration Point has worked in the stock market. On December 4, 1987, the Dow dropped down to test the lows that were established during the October crash. This was 34 trading days (a Fibonacci number) from the October crash low (see chart). However, the real reason why December fourth was a test of the major low and a major trend change had to do with Vibration Inversion Points. If you look up the positions of the planets in an ephemeris, Venus, Mars and Neptune were all aspected exactly 60 degrees from each other, forming the Solomon Vibration Point. They also were all in the sixth degree of signs (the Solomon 666). Traditional financial astrology states that planets forming the 60 degree angles (sextile) to each other have a positive influence on prices. This should have caused a rally until the aspects were exact. In this case this interpretation was obviously wrong.

What is important in the formation of the Solomon Vibration Point is the number of 60 degree angles. It is not simply another name for a sextile aspect. A single aspect between any two planets is nowhere near as important as the aggregate of the same aspect in the totality of planetary positions. This multiple identical aspectation creates a harmonic augmentation of the energy field. The nature of the effects which a Solomon Vibration Point will have on a market depend on the sensitive degrees of that market. When planets forming Vibration Inversion Points aspect those sensitive degrees their effect is more intensified.

In another example, the record-breaking drop of September 11, 1986 took lace when the angles between Mars/Jupiter and Venus/Neptune were exactly 60 degrees. We took advantage of this opportunity by establishing an option position which gave us 534 percent profit in one day! A similar pattern occurred on the January 8, 1986 record-breaking drop. Finally, look up the 60 degree aspects of the planets which formed the Solomon Inversion Point at the bear market low of August 9,1982! These major turning points confirm the importance of the Solomon Vibration Point. Those who traded the market based on the traditional astrological interpretation of the "harmonious" sextile aspects experienced great difficulty. As the prophet Isaiah warns, "Let now the astrologers, the stargazers, the monthly prognosticators, stand up, and save thee

McLaren Charts

By Larry Jacobs

KANSAS CITY,KS - While a large number of traders using technical analysis use daily charts to trade with, Bill McLaren uses a combination of daily, weekly and monthly charts. Mc Laren is the author of the best selling book Gann Made Easy. Trading for a living in his plush Overland Park office is his occupation, plus advising several funds on their investment timing.

McLaren's strategy is to look for the high probability setups that can safely be traded with minimal risk. He goes from monthly to weekly to daily charts, searching for important time and price changes. A stock or commodity might square out 45 months, 45 weeks and 45 days from a previous high or low. A blow off move is one of McLaren's favorites. These fast moves usually start at the breaking an important time angle. "If it doesn't move fast, your wrong on your trade and you should take your profit or small loss and get out,' said McLaren.

"Most traders get lost in their research trying to figure out how they can trade every move the market makes, which is laughable, because nobody can call every move the market makes," said McLaren. "The downfall of most traders is they get too involved in the daily charts and over trades."

McLaren occasionally checks his trading and if he finds he's in the market more than he's out, he won't be making money. If he is out of the market more than he's in, he'll have a clear mind and can be an opportunist to shoot at the plums. He recommends a trader work from the monthly to weekly to the daily charts and wait for the setups. McLaren updates over 150 charts daily. "Trading by Gann is hard work," says McLaren.

More Profits with Gann, Elliott and Fibonacci

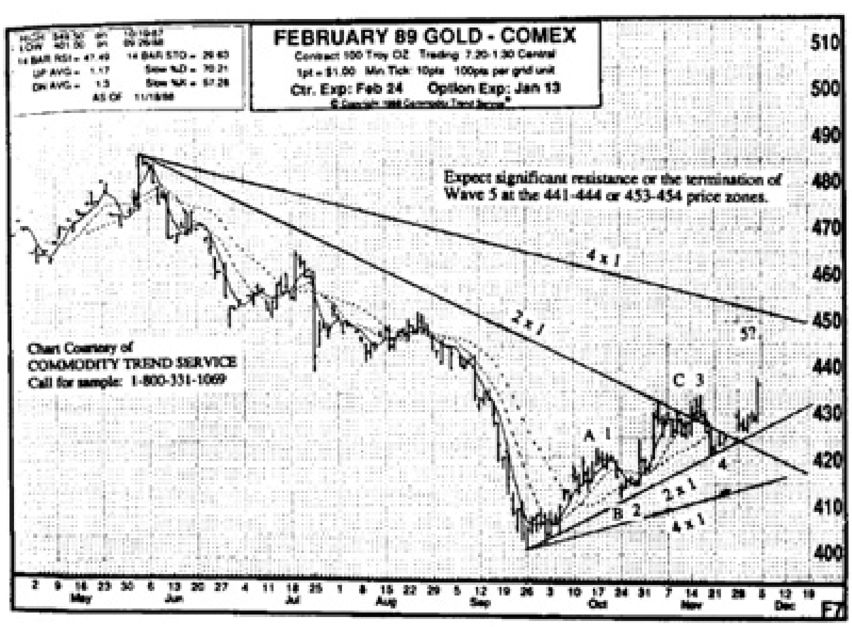
By Robert Miner

In the previous issue of the Gann and Elliott Wave. I described in detail the Gann, Elliott and Fibonacci methods I used for an actual trade in the gold market. The methodologies described resulted in a trade that was entered within just two trading days and $10 of the major intermediate term cycle high of June second. That article was completed in mid-August when the open short position described had so far resulted in over $50 profit ($5000 per contract). The article ended with the time and price objectives the market indicated for the termination of the move.

Let's briefly review what those time and price objectives were in mid-August and see how it came out. The price objectives for the termination of the short trade fell at the 418-423 zone, 396-397 zone and the 384. All were based on the December,1988 gold contract. The intra-day low for that cycle fell at 395.50 on September 26, just .50 below the projection! See the article in the previous issue of the Gann and Elliott Wave for how those price projections were calculated.

There were numerous time objectives that fell in the last three weeks of August. I stated in that article that the specific date of August 25 would likely be quite important and a date to watch for a change in trend. I next stated that I would look for the week of September 19 for a change in trend. The exact date anticipated, August 25 resulted in a swing high from when the market accelerated its move, down into the final low of the cycle. That major cycle low fell on September 26, just one trading day following the projected change in trend week of September 19.

Gann, Elliott and Fibonacci time, price and pattern analysis once again prepared me for significant time and price reversals in the market.



Let's continue our analysis of the gold market and make specific time and price forecasts for the future using Gann, Elliott and Fibonacci time, price and pattern analysis.

The gold price moved down strongly into late September just as anticipated. The intra-day low on September 26 was less than one dollar from my most important price objective at 396-397, a 61.8 percent retracement of the February,1985 to December,1987 rally. The market activity of the day that reached that price objective was a reversal day with a new low and a close higher than the previous day's close. The September 26 low was a reversal day at a very important price objective, just one trading day from the week of an expected important change in trend. Time, price and pattern had once again coincided to result in a significant change in trend.

The reversal day was not a strong enough indication to reverse to a long position from the short taken on June seventh. Because all the parameters for a major change in trend had been met, my reversal stop is placed very tight and I am looking very closely for confirmation that the trend has changed. The market consolidates in a sideways movement for six days following the September 26 low. On the seventh day, the market had a wide range outside day with a close above the high of the previous six day's trading range. Gann teaches that the seventh period often results in a change in trend. Study of past price history of gold will confirm that there is often a change in trend in the seventh day, week or month. Always be particularly alert at seven week intervals from swing highs and lows for a change.

Since time, price and pattern had all been satisfied to indicate a major change in trend, the outside breakout day up is confirmation enough at this point that the trend has changed. My short position is reversed to long on the close of this outside day on October fifth at 410 (now basis the February contract). Profit from the short position from the June seventh 476 through the reversal on the October fifth 405 (basis December contract) realized a $71 ($7100 per contract) gain from an $89 swing. The stop on the new long position is placed at 403, one dollar below the outside day's low.

The following day another confirmation of trend change occurs as gold gaps up. The stop is raised to 407.50, just 1.50 below the consolidation range high. Two days later the rally is further confirmed by another gap day up. The stop is raised to 409.50 or just one dollar below the first gap.

The price objective for this rally swing from the September low should be a ratio from either the June 3 high or the important August 25 swing high. Retracements in the gold market usually fall at one of the major Fibonacci ratios. The minimum retracement of minor and major swings is usually a 38 percent retracement of the previous minor or major cycle. A 38 percent retracement from the August 25 high falls at 420, and a 38 percent retracement from the June high falls at 434. A corrective cycle most often unfolds in a three-wave ABC pattern. If a five-wave pattern results, the reversal is more likely a major change in trend rather that just a correction to the prior cycle.

Price makes the first rally top at 422.50, just above the first objective of 420.

The strong down day of October 21 indicates that price is correcting the first swing. I am expecting at least an ABC rally which would result in at least two rally swings. The C-wave or second swing should exceed the high of the first swing or A-wave.

A 50 percent correction of the initial swing from the September 26 low at 401 to the October 17 high at 422 equals 411. A 62 percent correction falls at 409. And 409 falls just below the 2 x 1 Gann angle at this point in time. Price should not close below the 2 x I angle if a longer term rally is unfolding. The stop remains at 409.50, just below the 2 x 1 angle at a 62 percent retracement of the initial swing.

Price falls to within one dollar of the 2 x 1 Gann angle and reverses to continue its rally. Remember, my minimum expectations are for an Elliott ABC correction where the next swing or C-wave will exceed the first swing or A-wave high. Once price has closed above the A-wave high the stop is advanced. Due to the wide range and high close of the break above the A-wave high on November second, the stop is moved to just below the low of November second at 419.50. I now have a fair profit of $9 or $900 per contract. Not bad, but I am looking for a longer term and more profitable move. My objective is to remain in the market to take advantage of a more significant move if it develops.

Once price moves above the A-wave high, I can calculate the price objective of the next swing. The next minimum price objective is at 434, the 38 percent retracement of the June through September down cycle followed by 444, a 50 percent retracement of that cycle. The 434 objective coincides with 433, a price where wave C would equal wave

A. Price reaches the final high for the C-wave at exactly 434! This important ratio level also coincided with the 2 x 1 Gann resistance angle from the June high. On the December contract, the price did not close above the 2 x 1 angle for the C-wave high. The 433-434 level was determined as a significant resistance level by three different methods. This is very strong evidence that at least a short term reversal would unfold from that level.

If the longer term bear trend has not reversed from the September 26 low, the price high at 434 is likely the termination of the correction from that low. The market had unfolded in a three-wave ABC pattern into a significant price resistance level at that point. If that high was indeed the completion of a correction, the market should reassert its bearish trend and price should now continue down to new lows below the B-wave low followed by the September low. We must now set our parameters of what market activity will confirm or deny our expectations. I will hold the long position with the stop at 419.50 and let the market indicate what is in store.

If the bear cycle from the December 1987 high has reversed to a longer term bull market, the rally from the September low should unfold in a five-wave Elliott impulse pattern. That implies there would be at least one more swing to new highs above the November 16 high at 434. The correction from the wave-C high at 434 should not exceed the lower of a 62 percent retracement of the C-wave (420) and the 2 x I Gann support angle if we are to expect higher prices. The stop remains at 419.50 which falls below the 2 x I angle. Price corrects exactly to the 2 x I Gann angle and reverses back up. At this point the stop should be raised daily to $2.00 below the 2 x 1 angle which increases my profit daily.

On December second, the price activity results in another wide range day that breads above the wave-C high and closes at the top of the range. The market has confirmed a fifth wave is unfolding. The stop is moved to 426.50, 1.50 below the last short term swing low. I now have a 16.50 ($1650 per contract) profit locked in and expect even higher prices and more profit as the fifth wave unfolds. As a new high is confirmed, the waves can be relabeled 1,2,3 and 4 verses my original label of A,B and C.

This article is written and submitted the weekend following the Friday, December second breakout. If you read my article from the last issue of the Gann & Elliott Wave, you will know that I am not afraid to make specific time and price forecasts, I do this with every issue of my newsletter, The Precious Metals Timing Report. Unlike many authors of articles, I have proven these Gann, Elliott and Fibonacci methods are very reliable and am willing to put them to the test publicly with specific forecasts. The time and price low in September within less than one dollar and one trading day. That forecast was written and submitted to the magazine over one month before the low unfolded. Let’s take a look at what the Gann, Elliott and Fibonacci methods indicate for the time and price objectives for wave five.

Price objectives for wave five: 441-444 or 453-454. 441 - wave five = 62 percent of wave one - three. 443 - wave five = wave one or wave three. 444 -wave five = 50 percent retracement of June - September down cycle. 454 = August 25 swing high. 454 - 62 percent retracement of June - September cycle. The 4 x 1 Gann resistance angle falls in the area of 450 - 455 for the next three weeks. Wave five is likely to terminate at or very near one of these two price zones. A failure to reach at least 440 indicates a false breakout similar to the June false breakout and would not be a strong confirmation of a longer term trend change in September. A termination at 450 or higher is very bullish and is further confirmation of a longer term trend change to a bull market from the September low.

Once the five wave advance is completed, price objectives for the correction can be determined. Time objectives for trend change are December 5 - 6. The December 5 - 6 period is a 62 percent time ratio extension of the June high to September low. Wave one and wave three both lasted three weeks. If wave three lasts three weeks, it would terminate the week beginning December fifth. Following the December 5 - 6 period, I will then look to December 21-23 for indications of a change in trend. There is likely to be a significant change in trend or acceleration in the market from either or both of these two time periods.

My intermediate and longer term time ratio analysis indicate there is a high probability of a significant change the week of December fifth and/or the week of December 19 the last 10 days of January or the week of February 12. I will be particular alert the week of February 12 for longer term trend reversal indications.

You will note that nowhere in this analysis or trade, did I state what the market was going to do. I simply set the parameters the market would meet to indicate its next course of activity. The market itself confirmed or denied the outlook. Once a trader is able to avoid specific expectations for where the market ‘must” go and let the market be your guide to its own future activity, very significant profits are available.

Gann, Elliott and Fibonacci time, price and pattern analysis has once again resulted in substantial profits at very low risk and exposure. I describe this type of time, price and pattern analysis in each issue of my newsletter. Keep in mind that these Gann, Elliott and Fibonacci methods apply to all active markets.

I’ll update this trade in the next issue to see how it came out.

Robert Miner is the editor and publisher of The Precious Metals Timing Report. P.O. Box 35696, Tucson, Ariz. 85740.

The Astro-Harmonic Nature of Retrograde Motion

Larry Pesavento

A few short years ago, most stock and commodity traders would have laughed at the thought of a relationship between planetary movements and price action. The advent of mini-computers and sophisticated astrological software has changed all that! Now a trader has access to huge data banks of price and time parameters to analyze various astro-harmonic cycles. The following is one such example.

The planet mercury makes its revolution around the sun in approximately 88 days. This fast moving planet - only our moon moves faster than Mercury is usually visible in the sky each night.

Figure I shows the relationship of the earth to the rest of the planets. This indicates that some of the planets take longer to revolve around the sun (they have larger orbits). When a faster moving planet approaches a slower moving planet, the slower planet appears to be moving backward or as astronomers refer to as retrograde motion.' It would be similar to looking through your rear-view mirror as you pass a car on the freeway. The faster you are going, the slower the car you passed appears to be moving.

All planets except the sun and moon have retrograde motion when using geocentric (earth centered) astrology.

There is no retrograde motion when using heliocentric (sun centered) astrology. Johann Kepler, the father of modern astronomy, used the geocentric approach because he felt that the earth was “a” center of influence and not “the” center of influence. Sir Isaac Newton was also a geocentric astrologer. If it was good enough for these giants of intellectual thought, it is certainly good enough for most financial astrologers. Both geocentric and heliocentric astrology can be used to predict market behavior. It would be like going to a baseball game

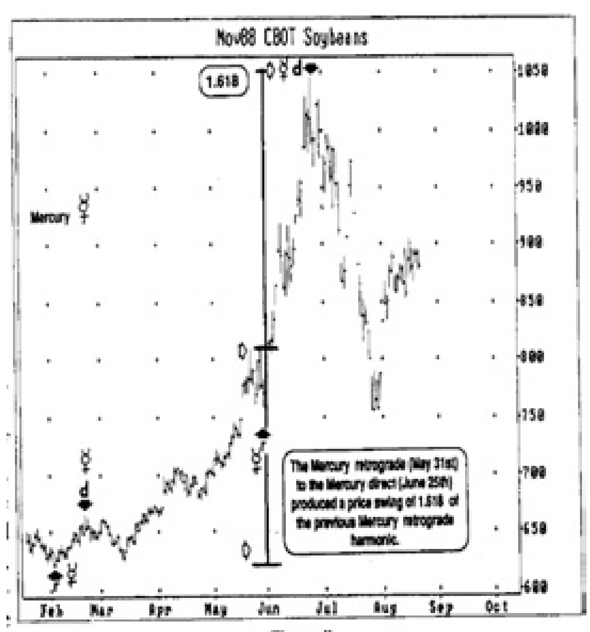


Figure II

and sitting on either the home team side or the visitor side. The game is the same, only the perspective is different.

After ten years of concentrated study in astrology. I have found that certain planetary harmonics such as the retrograde motion of certain planets, appear to have a profound influence on economic thought (i.e., price action).

A close examination of figure II for November, 1988 soybeans is a case in point. As Mercury moves from direct to retrograde motion, prices begin to vibrate in harmonic time with this planetary phenomenon. Elliott wave theorists may have more than a perfunctory interest in these time frames. Most often they are a Fibonacci relationship of one Mercury retrograde-direct harmonic to another. Mercury is retrograde approximately 24 days and is stationary about a day before and a day after. The trend changes are usually quite abrupt and offer substantial trading opportunities.

As a financial astrologer, I do not advocate using Mercury in retrograde or direct motion as a timing tool or an entry method by itself. It is considerably more complex! The planetary aspects of conjunction (OD, sextile (60~), square (90~), trine (120~), and opposition I 80~) most assuredly affect price action. A cycles (harmonic) trader has a huge edge when he uses planetary mathematics to help time his trades.

Space does not permit me to discuss the Jupiter-Uranus cycle which is associated with the 40-month economic cycle. Dewey and Daiken in Cycles - the Science of Prediction relates this study of using the Jupiter-Uranus planetary aspects (angles). Think about these facts:

1) Uranus went into direct motion on August 9, 1982 - the start of the biggest bull market in stock market history.

2) Jupiter went retrograde on August 19 - one week from the all-time stock market high.

Larry Pesavento is the president of Astro Cycles, 111 Cuyama,Shell Beach, Calif. 92449,

OUR SOLAR SYSTEM

Relative Size of the Planets and Their Orbits

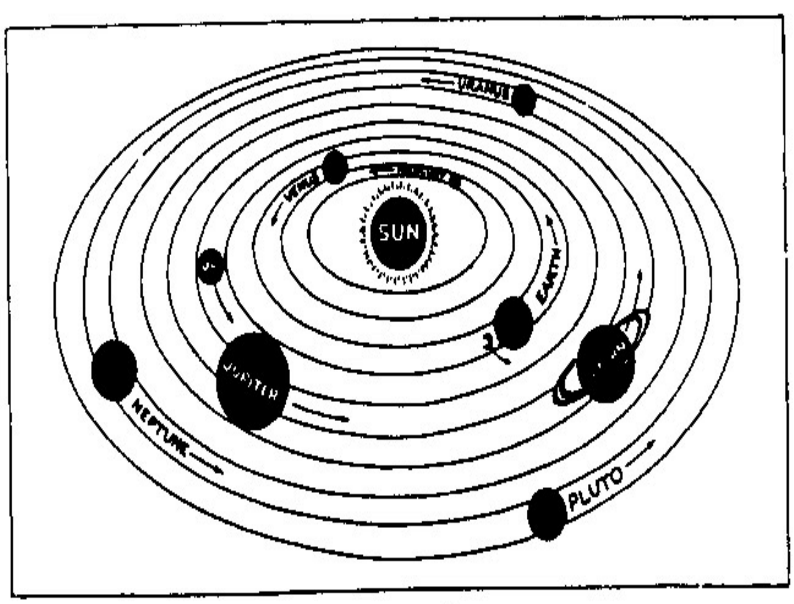


Figure I

An Interview with AJ. Frost -Elliott Wave Octogenerian

Mark Leibovit

Between 1983 and 1987 1 had the fortune of writing a monthly column for The Market Technicians Association Newsletter entitled, “Personal & Professional News.” The column focused on interviewing notable technical analysts and strategists in our industry, many of which could be described as being legends in their own time. In fact, I probably have enough material to publish a small book.

One of the many things I learned writing the column is that you don’t have to be famous to be right. Most famous analysts got where they are because they regularly appeared on financial television programs, spent huge sums of money running ads or hiring expensive public relations firms. I guess I fall somewhere in the middle of this group. There are other technicians, however, who don’t seek publicity and don’t promote themselves who have, in my opinion, more important things to say than they are given credit. One such individual is A.J. Frost.

A.J. Frost is now 81 years old and lives in Victoria, British Columbia. In my phone conversation with Frost in mid-November, he confirmed what I heard rumored for months and provided, I feel, one of the greatest revelations since (or probably before) the crash. What is this great insight?

Frost is co-author of the highly acclaimed technical book, the Elliott Wave Principle, described as the “Bible of wave analysis” and is co-authored by Robert Prechter, Jr. This book correctly foretold the bull market of the 1980’s and is now being billed as having also correctly foretold the bear market of the 1980’s. But, alas, there is more to the story than this.

When this book was written back in the late 1970’s, both Prechter and Frost agreed the Dow would reach the 2700 level, but sometime later they parted company when Prechter revised his forecast to over 3880, then 3686.

Frost never agreed on this higher projection that was given such overwhelming publicity by Wall Street and the financial press. As Prechter later admitted, the number took on a life of its own, probably well beyond his own intentions.

Well, the crash came and went and Prechter went into seclusion, except to his subscribers. Why? His new forecast was to Dow 400 (that’s right, 400!), having interpreted Elliott Wave theory to have completed that important and significant Fifth Wave, the wave to end all waves, so to speak.

Well, Frost is doing fine, except for a short hospital visit this week, and speaks loudly and clearly from his vantage point up in Canada, away from all the hot air on Wall Street. Frost disagrees with Prechter and says that Prechter will, in time, need to change his short-term bearish view, though Frost eventually agrees we’re going to have problems. According to Frost, “There’s no better investment than the stock market.”

Frost was once partners with the famous Hamilton Bolton, nicknamed Hammy. Frost is very strong on simple things. For example, he looks at three pre-conditions for a market top in addition to Elliott. The first is the debt/loan ratio which measures spending to short-term debt in the U.S. as a whole, excluding New York where the transactions are so big. Frost believes we’re coming into a secular top and that the only thing that seems to be holding the U.S. economy up is a declining dollar which has encouraged exports and discouraged imports. The other pre-conditions are a negative interest curve (higher short term rates over long term rates) which seems to be now unfolding and a rising Dow in relation to deteriorating breath.

According to Frost, what happened on October 19, 1987 normally wouldn't have happened until about December 6 and if it hadn't been such a sudden and unexpected plunge, "I don't think it would have meant anything," said Frost. "Back in 1986 the fourth wave close was at 1738.75, and during the crash the lowest close was 1738.41 which came within one percent of one percent of the previous fourth wave of one lesser degree and as far as I'm concerned it confirmed my Elliott wave count," Frost said more specifically.

"Bob Prechter had a different reading and he thought it destroyed his count...it may have destroyed his count, but it didn't destroy mine," said Frost.

Frost is, as you can see, still very much in the Bullish camp. He now expects to see a five-wave structure up climaxing over Dow 3000, and perhaps fairly quickly (next spring or summer). If it gets there "I feel we're then coming into a period of decline right into 1992-1994, experiencing a whole series of Black Mondays, Tuesdays, Wednesdays, Thursdays, and Fridays. . . I think it's going to be just pitiful," said Frost. This period of 1992-1994 may be reminiscent of 193 1-1932. In essence, Frost is looking for a period of euphoria followed by a period of panic. Frost is also looking for a weak bond market next year as we continue to experience a negative interest rate curve.

There's an underlying tendency for the stock market to move in increments of its square root and to turn on the square of even numbers (based on Hamilton Bolton's theory, and never published). The Dow number of 3250 is close to a square (57) and may, therefore be the ultimate high. Frost likes this theory because Elliott analysis incorporates some square root aspects.

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