The Seven Percent Solution

By Alan Friedman

Each and every trading day the price action of a stock, commodity, option, or anything that is traded can be placed into one of four different categories. We will examine all four of these categories, but there is one specific price pattern that many times comes before big moves in stocks.

A Rally Day occurs when the stock makes a higher high than the previous day while the low is the same or higher than the low of the previous day.

Example:

Day	H	L	C
One	25	24 1/2	25
Two	25 1/2	24 5/8	24 5/8

Even though the close on day two is lower than the close on day one, day two features a higher high and a higher low making day two a Rally which is considered bullish price action. A Rally Day occurs when a stock makes the same or lower high when compared to the previous day with a lower low than the low of the previous day.

Example:

Day H L C

One	25	24 1/2	24 1/2
Two	247/8	24 1/4	247/8

Even though the close on day two was higher than the close on day one, day two features a lower high and a lower low making day 2 a Rally which is bearish.

An Inside Day occurs when a stock has the same or lower high than the previous day and the same of higher low than the low of the previous day.

Example:

Day H L C

One	25	24 1/2	
Two	247/8	24 1/2	24 1/2

Day two is an Inside Day which is considered neutral.

The most important of these four categories is the Qutside Day. This day occurs when a stock makes a higher high

a lower low when compared to the high and low of the previous day.

Example:

Day	H	L	C
One	25	24 1/2	
Two	26	24	26

Day two is an Outside Day which is an important signal. Not only does it signal an increase in volatility, it also signals that a big move is coming. Let’s look at some examples:

HEWLETT PACKARD (HWP)

Date	H	L	C		
2/11/92	62 7/8	61 7/8	62		
2/12/92	64 3/4	61 1/4	64 1/8	Outside	
2/13/92	65	64	64 5/8	Rally	
2/14/92	64 7/8	63 5/8	63 5/8	Reaction	
2/18/92	65 3/4	63 7/8	64 3/8	Rally	
2/19/92	73 5/8	68 7/8	73 1/2		Rally
2/20/92	78	72 3/8	76 5/8	Rally	

In this example, you can see that the Outside Day on 2/12 came just before a nearly 14 point move in Hewlett Packard! But using Outside Days on their own will not make you money. In fact, the problem with using such a signal in the past has been the inability to quantify whether the Outside Day was signaling a buy or sell. However, my proprietary methodology allows me to determine not only which direction the move will be, but also where to take profits and when to add to your position. My daily fax service, The Seven Percent Solution, uses this method to make recommendations for stock and option traders. Let's look at an example of a trade you will find in my service:

FEDERAL EXPRESS (FDX)

Date H	L	C	Day Type			
10/2/92	36	35 5/8	35 5/8	Reaction		
10/5/92	341/2	34 1/2	36 5/8	Outside		
10/6/92	37 1/2	36	371/8	Rally		
10/7/92	37 1/4	37	371/4	Inside		
10/8/92	38 1/2		37 3/4		38'	Rally
10/9/92	38 1/4	37 5/8	38 1/2	Reaction		
10/12/92		381/2	373/4	381/2	Rally	
10/13/92	401/8	38 1/2		40	Rally	

By 10/21, the stock was 43 and by 12/16, FDX was over 56! At no time did the stock trade even 1/8 below the low of 34 1/2, made on the Outside Day on 10/5.

Outside Days even signal major down moves. For example, on 11/10/92, IBM made an Outside Day with a high of 68 and a low of 657/8. My subscribers shorted IBM and bought puts on Big Blue and by 12/2 1, the stock was as low 48 3/4.

Traders have two different ways to trade using The Seven Percent Solution. Stock traders will concentrate in one or two positions at time using a margin account and a deep discount broker. Our target on any one trade is 10% (20% in a margin account.) We use a 6% stop (12% in a margin account) in addition to a time stop. If a trade does not hit our target within eight weeks after our entry, we exit the position. Our goal is to net 7% monthly. Why 7%? Because 7% compounded monthly will double your

Day Type money over 12 months. Hence the name of my service, The Seven Percent Solution.

The other way to use my recommendations is with options. I have found the best way to trade options with this method is to divide your capital into four equal units and invest one unit in each trade. Our goal is 20% monthly which, when compounded over 12 months, will give you an incredible 791% annual return. Is this possible? One of my subscribers had an amazing streak of 14 consecutive winning trades using my service.

Why do Outside Days work as a technical signal? My theory is that there are insiders or "smart money" if you prefer, that know when a big move will take place in a stock. To shake out the public, these insiders (quite possibly the specialists) help create a lower low to shake out weak "longs" or higher highs to squeeze the shorts. Whatever the reason for the occurrence of Outside Days, they are accurate in signaling that a major move is on the way. The Seven Percent Solution can help you profit from this signal.

Alan Friedman is Editor of The Seven Percent Solution. He has been interviewed on The Financial News Network. Alan can be reached at (305) 654-0015 or (305) 464-6307-Beeper.

Trading is Psychological Brain Surgery

By Bill Williams, Ph.D., C.T.A

Once upon a time people got together, swapped things and traded. The trading of goods wasn't something they analyzed or fussed and fretted over, it was just something they did along with planting seeds in the spring, harvesting them in the fall and then trading with their neighbors for wild game, tools or other necessities. If they had a trading problem they sought advice from their grandparents, great uncles, older brothers and other people who were successful traders. In the past these were the experts and until not so long ago they gave practical advice based on real life experiences.

Then came the sophistication of modem life. From the ashes of World War II there arose an entirely different class of traders. Trading experts, the ones with degrees and nameplates on their doors and great mahogany desks. It wasn't long before rhetoric replaced reality as the primary shaper of our trading practices. Nonsense replaced common sense. Our interest became centered around moving averages, stochastic, RSI, point and figure, point and line, oscillators, DM1, ADX, CCI, volatility, bullish consensus, momentums roc, MACD, plus numerous others. Then came the newsletter and books such as how I made 40 million last year trading one contract of the Eurodollars. Not surprisingly American traders became confused, batted, and out of control. The vast majority of them joined the ranks of the chronic losers.

Over the last 15 years, we have taken the practical and common-sensical job of trading, dressed it in fancy language and turned it into something very abstract and therefore, difficult. What the experts haven't romanticized, sentimentalized and idealized, they have scrutinized and analyzed to such an extent that we no longer are able to see the forest for all the obsessing we do over the trees. The process of trading, or speculation as it is now called, has been transformed into a pseudo-intellectual science, something at which traders think they must strain their brains in order to profit. Trading, however, is anything but an intellectual endeavor. In fact, the more you Brain Strain the more likely you are to find yourself with a losing P & S statement. I am currently writing an article examining why the smarter and more intelligent you are the more difficult it is for you to make a profit trading.

Good trading does not emanate primarily from the head. It comes from the gut and the heart. It is not a matter of long hard thought but a matter of how intuitively sensitive you are to your needs and the needs of the market and the matter of how firmly grounded you are in the oil of common sense. Traders who think too much tend to say things like "trading is the hardest thing I've ever done." I know many traders who used to feel that way. When they stopped thinking so much about it and stopped obsessing over all the little details, stopped worrying about whether one decision was going to ruin their trading for life and started paying at least as much attention to their own internal operations as to the needs of the market - that's when trading became a relatively easy way to earn a good living. Because I have traded for 34 years and have held commodity trading workshops in 12 different countries on 5 continents I am sometimes labeled as an expert. Well that's true. I am an expert at trading my own account. I have become an expert at trading through trial and error which is the only way anyone ever becomes an expert trader. I am not an expert as a result of having obtained a degree in engineering and a graduate degree in psychology. In fact my formal schooling did more to hinder my ability to trade than to help it. Graduate school filled my head with a lot of abstractions and theory about human behavior but it did nothing toward advancing my common sense. It caused me to think a lot about the right way to trade but the harder I thought the more I lost touch with my intuitive knowledge. Trading is not so fundamentally difficult but the experts make it sound difficult and we make the mistake of believing them. After all, they have batches of degrees, don't they? In fact their rhetoric often conceals more than it reveals. If you strip away all that fancy intellectual language you will discover some basic timeless truths that serve to make trading quite simple. The problem with these truths is that they are neither romantic nor sentimental. They are realistic, pragmatic, hard headed. I happen to think that it is about time that we return to a commonsensical vision of trading and that is what The Profitunity Trading Approach is about. Successful trading comes from the gut and the heart. It is about trimming the fat off the roast and understanding that the way your brain works makes you a winner met or a loser. The old "know yourself first and then know the market" has stood the test of time. We only misplace our "common (trading) sense" when we try to make a science and technology out of dealing with our own emotions. When I first started trading full time, I spent over six thousand dollars in the first month on newsletters. That six thousand dollars cost me many times that amount because I listened to what I read in the newsletters from these so called experts. Then I did a little research and found that the vast majority of these experts who wrote the newsletters didn't trade. I was paying them good money to risk my own hard earned dollars while they were unwilling to rely on their own analysis. (Oh yes, I am well aware of the "I would lose my objectivity if I had my own money in there" argument.) Your first concern should be to get in touch with your capacity to be a winning trader. Trading does not have to be difficult and it cam be very rewarding. In short, you should learn to depend upon yourself in trading. After all you're am expert too. You may not know it but you are, just like me. So have fun, it is time to "enjoy being a trader" instead of worrying about "becoming a trader."

Dr. Williams began trading in 1959 and has actively traded ever since. Trained both as an engineer and a psychologist, he is a registered Commodity Trading Advisor. His primary occupation is trading his own funds. In addition he does consulting with individuals, banks, and corporate traders. If you would like more information about Dr Williams and the Profitunity Trading Group's approach to trading he will send you material about applying the Science of Chaos to trading and will include a "demo" disk illustrating his approach. Profitunity Trading Group, 6100 Brandy Run Rd. S. Mobile, AL 36608-3338. (205) 341-0292, Fax (205) 341-0277.

Gann angles & squares

By Dave Green

W. D. Gann traded for over 50 years and reportedly made $50,000,000.00 trading from the early 1900's through the early 1950's. In his Trading Course published in the early 1950's, he said Geometric Angles were "the basis to his forecasting method". Gann used many diverse complex and exotic techniques but angles and squaring seem to have been his primary methods. Therefore, this article concentrates mostly on the angles and squaring methods.

Most important & reliable concepts involving angles. ..Markets will usually go up or down, on average, at a percentage inclination or declination paralleling one of the geometric angles. Second most significant area, is the market will frequently find support or meet resistance when the price hits an angle going in the opposite direction.

General concepts and observations. ..A market that is declining will frequently receive support and possibly rally as descending price hits an angle drawn up from an important swing low due to the angle squaring and gravitational fulfillment taking place. If in fact, it is a bull market, the price will likely ascend to the next steepest angle above the advancing support angle as a result of gravitational attraction.

In a bear market, the price may only receive minor support from the below up sloping bull angle and not rally to the next greatest steeper bullish angle, instead it is more likely, due to gravitational attractions, to move to the least steep declining angle drawn down from a prior important swing high or crash through the underlying bull angle support without a rally taking place.

A market that is advancing will frequently receive resistance and possibly decline as advancing price hits an angle drawn down from an important swing high due to the angle squaring and gravitational fulfillment taking place. If in fact, it is a bear market, the price will likely descend to the next steepest angle below the declining support angle as a result

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of gravitational attraction.

In a bull market, the price may only receive minor resistance from the down sloping bear angle and not decline to the next greatest steeper bear angle, instead it is more likely, due to gravitational attractions, to move to the least steep advancing angle drawn up from a prior important low or smash through underlying bear angle without a decline occurring.

Points to originate the angles from.. .Gann talks at length about “swing highs and swing lows” and he refers to the geometric angles as “moving trend lines”. That is exactly what they are. The angles are the only way possible to draw a valid trend line with only one reference point (swing high/low) available or in use.

Correctly drawn angles on a square chart and drawn from important swing highs/lows will frequently be a strong area of support or resistance when the price intercepts angles. A swing high can be defined as a high or high point with lower highs in front and behind the high point. Conversely, a swing low is a low or low point with higher lows in front of or behind the low point. One way to tell if angle support/resistance failed is price closing at 2% to 3% (of the current price) above or below an angle for two or more consecutive days, indicates a strong possibility that the current angle gravitational attraction is weak compared to price momentum and the next nearest angles gravity attraction. This is a warning of a price direction reversal.

Angles drawn from different points.. .Quite often, when angles radiating from separate swing high or lows meet, that marks a market turning point or change of trend. Sometimes, if not the exact day, within a few days of the crossing point. Also, price gets drawn to cross points, and angle crossing points sometimes will mark cycle high/low.

We will now analyze 3 charts. We will look at the charts like we were actually analyzing the markets from a realtime perspective for hands-on learning. It is important that you properly align the dates on the bottom of each chart to identify the day or time periods involved. The charts are courtesy of Omega Research.

March Tbonds chart.. .The TBond chart displays both a bull 45 degree angle and a bull lower angle, both coming up from the major low in August. Note how the market received strong support, and then moved up, after touching the 45 Angle in September and again in October. Note how the market received strong support, and then moved up, after touching the other angles in November, December and January.

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Another valuable tool is the observation that once the market hits a support angle for the third or fourth time (4th time in particular), it will frequently penetrate the support angle and transform from a bull market to a bear market or vice versa. The sudden angle penetration that just occurred in February was the fourth attempt to penetrate the angle and indicates the start of a bear market. Also, the 45 angle was hit 3 times prior to the significant November decline.

May Wheat chart This Wheat chart shows the Gann concept of buying and selling against both double and triple tops, expecting resistance at the double/triple top Zero Degree or near zero angle, and expecting support at the double/triple bottom Zero Degree or near zero angle.

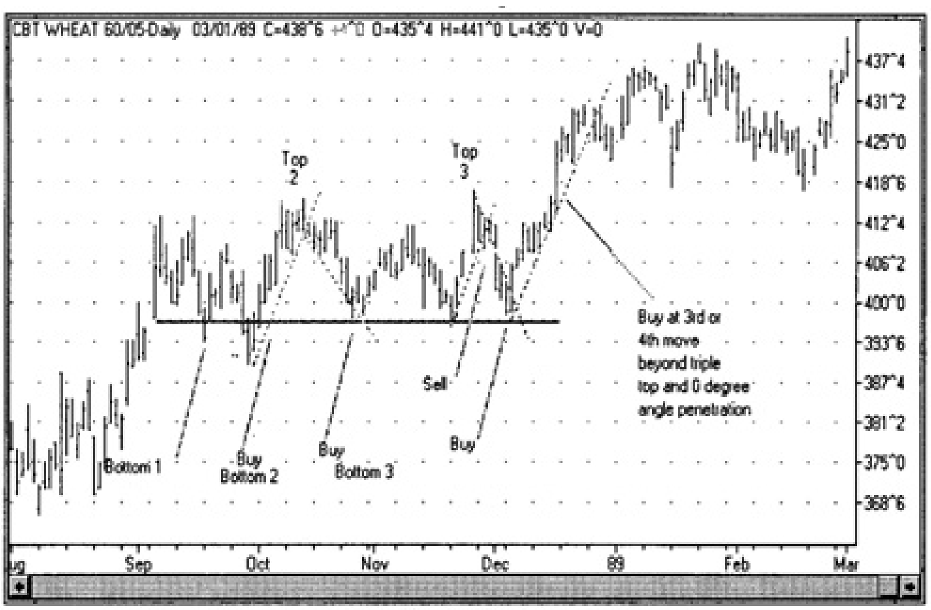
The chart also reflects a longer term buy signal once a fourth attempt at the triple top is penetrated. Remember, at the third or fourth attempt to penetrate horizontal resistance, a penetration and strong continuation move, after the penetration, is a fairly common occurrence. Also, the chart uses short term angle penetrations to confirm five of the miscellaneous buy/sell signals. Reason for picking this particular flat looking chart was that it shows these techniques can also work in a sideways market or congested time period. Large moves or good trends are not mandatory to work with these techniques.

March sugar chart.. ..The Sugar chart presents some interesting but complex and sophisticated little known aspects to the angles, plus a never before revealed surprise technique involving measurements of the angle lengths.

From the major high of 1439 recorded on July 14th the market moved down to its major low at 869 on September 26th. As you may recall, since Sugar moves in 1 point increments, the square of 1 is important. Since the chart has a grid value of 5 we will multiply the squares by a factor of 5.

The multi-even square of 1 is 10, square of 10 is 100, and 5 times the chart grid value equals 500. Thus we can look for time running out about 500 points below the major high. As previously outlined, since the July high was a volatile period, we draw the bear angle from mid-point of the range, radiating from near the 14 cent level. That is also a preferred price to draw from, as it is a whole even number. We observe that the reverse square of 500 is 50. Therefore, 50 days from the high is a possible turning point, especially true due to the price itself being close to a 500 point drop from its high. (1439 - 500 = 939).

September 22 high was 948 and 931 low. Median price for this 50th day was in fact 939!



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This day exactly squared out the range from the high based on the multitudes and derivatives of the square of 1 combined with the graph scaling! As a further confirmation of a trend change prediction we can look at the bear angle. On September 26, the price squared out but the price completed a 2 day pattern High Low Close (definition, as previously outlined) and closed weak near its low.

That indicated the bear angle was still strong enough to influence the price down in spite of time running out. Also, the price should square again by hitting the angle after time was squared. These items indicated the market could still move a little lower. On the day of the major low the price closed down and right at the bear angle. That confirmed a squaring of the angle taking place after the time ran out. Now that the angle had again been squared we can look for buy indications. Finally, in early October the price moved sideways to up, sufficiently far from the bear angle, to confirm a break away.

That is especially noticeable if viewed by a perpendicular measurement from the angle slope. We can draw a new bull 45 Angle from the September low and note the market followed the general trend of the 45 Angle up from September to December. On December 12th we should start looking for a top because of a new subject you are now going to learn about, which is Bull and Bear Angles crossing from different directions.

The bear upper angle from the July high crosses over the bull angle on the exact day of the highest closing price. Also, the next day, December 12th, the price itself ran out of time and closed weak after completing both a high-low-close pattern and a reversal down day during this 2 day cross-over period. Also, the short term bull upper angle drawn up from the minor swing low of November also crosses over both major angles on the same date.

Lastly, I would like to tell you about a unique and unusual technique I have developed for measuring the angles to predict trend changes. As far as I can tell Gann or others were not or are not familiar with this technique, so it is unique!

Measure the Sugar bear lower angle from the July high day mid-point angle starting point, to the September low.

Then measure the bear upper angle from the same high and project the same distance to the angle. Where the measurement intersects the bull 45 angle from the major low marks the turning point! The exact turning point as far as time is concerned and fairly close to the actual price turning point! I have also observed this technique to work when applied to certain angles in miscellaneous markets.

Thus we have many different confirmations that a change of trend is imminent. In fact, we have so many powerful indications of a change of trend occurring about December 12th, that going short here would be about as close to a guaranteed successful trade as is possible! Finally, on December 15th a breakaway day occurred involving a significant percent drop under the bull 45 angle and now confirming the market was following the bear upper Green angle from July high. That indicates the end of the bull move and start of a new bear move.

This article is based on selected condensed excerpts from our comprehensive Gann Techniques Trading Course, available for a special price of $75.00 to Traders World readers. In addition, a free Info Package on our #1 rated computerized Swing Catcher System is available: Trend Index Co - RRJO - Eau Claire WI 54701-9077. (715) 833-1234.

How to Qualify for Trader Status

By Ted Tesser, CPA

In the last two articles, we explored the differences and advantages in classifying yourself as a “trader” versus and “investor” on your 1993 tax return (see Trader’s World Summer and Fall Issues, 1993.) In this article, we will explore some of the criteria which have been deemed essential for one to qualify for this distinction.

First of all, there is no IRS Code section which clearly identifies this election. The Code defines an Investor as “a person who buys and sells securities for his own account” (IRC 263A.) On the other hand, the IRS Code also defines a professional Dealer or Market Maker as one who holds “securities for sale to customers in the ordinary course of business (Reg. section 1.471.) The Code does not specifically define what a Trader is.

The definition of Trader has evolved through various court decisions over the years which create and define this hybrid category. Basically, a Trader is an investor who trades with such a high level of activity, that the investing becomes a business to him. And, although he does it for his own account, he is still afforded some of the benefits of the professional.

Over the past few years, many cases have been decided in favor of the trader status, and several of these in particular stand out as landmark decisions. As early as 1935, the Supreme Court decided on the Trader designation in Snyder vs. the Commissioner. The Court stated that “a taxpayer can be involved in the business of trading securities.”

In 1967, in the case of Reinarch vs. the Commissioner, an option writer did not even have to prove that he was running a trading business, because the nature of option writing lent itself to the basic definition of Trader. In 1978, in the case of Marlowe King vs. the Commissioner the same was decided for a future’s trader - even though some of his transactions were long term!

More recently, in 1991 two cases were decided in favor of trader status, and each was significant. In Nubar vs. the Commissioner, it was held that the extensive trading of stocks and commodities constituted engaging in a trade and business. In the most significant of decisions, Ropfogel vs. the U.S. District Court-Kansas, the criteria were specifically identified which qualify a person for this coveted status.

These factors were determined to be the following:

1) The average holding period of the security (or other trading instrument.)
2) Whether long or short-term profits were expected.
3) The extent of financial leverage that was employed.
4) Taxpayer’s intent to collect dividends and interest.
5) The expectation to derive profit from frequent trading.
6) The presence of the Schedule C on the tax return.
7) The existence of an office.

To summarize, to be classified as a trader, an investor should file a Schedule C, engage in very frequent trading, and profit from short-term transactions. If the trader is engaged in futures or options activities, they will, however, allow longer term transactions.

Interest and dividends should not be a significant part of income, and the trader should not be buying investments for reasons of fundamental under valuation in the market. He should be doing so to capture short-term swings in market movement. For this reason, technical rather than fundamental analysis gives more support to the Trader status.

Frequency of trading is an issue, and daily trading is best, although not required. Also, trading should involve substantial amounts of time tracking and analyzing investments, but a full-time profession is not necessary for trader status.

In short, not everyone will qualify for Trader status, but many people do. It is better to cover as many bases as possible in qualifying, and well worth the effort to do so.

Ted Tesser is a Certified Public Accountant in New York City and an active Futures Trader He is the author of “The Serious Investor’s Tax Survival Guide,” and currently has produced a video entitled “Qualifying for Trader Status-How To Do It.” It is available for $49.95, and he is offering our subscribers a $10 discount, with a full money back guarantee. He will also provide a free booklet on Trader Status to interested readers, and he can be reached at (212) 683-2930.

The Second Dimension

By Joe Rondinone

The "Second Dimension" is a formula of adding the correct width! area! space to the price movement, of any duration and in proportion to the price fluctuation for all price periods. This is another new and important discovery now added to the angle symmetrics trading method. Because the plotted chart price will not only be vertical line on y our chart with each price posted equally spaced. The plotted price will now be plotted according to the "Second Dimension" principle to include width! area! space. This plotted price will now form a rectangle formation of price with a width! area! space in proportion to its price activity.

When this width! area! space is added to the price movement, the price and time factor became tradeable. The formula for the application of the "Second Dimension" ration is all included in the new and expanded angle symmetrics trading manual.

The key is the squaring of price with time. This is a new discovery of a W.D. Gann student of long ago. Mr. Gann left us in 1955. The squaring of price was a prime challenge. Like Tom Edison, who after 999 failures he did not call them failures -on the 1000 try was successful.

As I once read, had Tom Edison (who was an eighth grade drop out) gone to college, We probably would b e reading by larger candles. Pre-set

ideas and principles are like being stuck in a tunnel. You just follow the crowd. Likewise, schools teach in one pattern, with their guidelines, therefore we all think along the same lines.

What we in the commodity trading profession are interested in knowing. . .When do we buy and where do we sell? What are the signals and how so we get them? If squaring price with time, how is this brought about? How can we square price with time to get valid buy and sell signals? Why do trend lines work only at times? W hat scale do we use for charting? When a large chart is reduced from a $0.01 per block to $0.02 per block, why does the 45 degree not apply? When do you use the 1x2, 1x4, 1x8 angles? Is there a method that will adhere to one projected angle? Is there a charting scale for all commodities?

The answer to all the questions are here, just ask!

A corn poser of music must discover new melodies, new ideas, new rhythms, and the combination of many notes with different sound vibrations to produce one song.. .1 being a student of Gann, I too was not setting on any principle carved in stone. In my studiesof math, algebra, geometry, mechanical drawing, music composing, playing, music arranging and writing harmony, plus performing professionally, I did learn that there is system and order in all things.

To make commodity trading profitable, there had to be a missing principle. The question was, how can a valid buy and sell signal be produced? What is there now that is lacking? The price alone was not producing trade-able signals. All the trading rules alone were not either.

After many years of experimenting with volume, open interest, all the RSI's Inc. there still was a conflict; I read all the Gann books, I took all the his courses, all his methods that he personally sent me, I spent time with is partner, Ed Lambert, his son, John L , and believe me when I say, "They were not with holding anything from me." There was absolutely no evidence of them holding back.

In 1963, I quit trading. I became an "Edison." I worked on many principles that were not used, "How could a valid buy or sell signal be generated that warrants putting your money on safely?” I studied the Benner Pig Iron principle and applied them to the commodities. They worked well if you added price tot he ten cycles in a moving angle. It worked well with pork bellies one year. The next year the cycle was in reverse, and before it became evident, there was a big loss. This was price at a moving angle (plotted).

This brings my recall of the early years when 1 was a member of The Foundation for the Study of Cycles. In the 1950’s Mr. Dewey was the director at the time. Many cycles went perfect for two years, and finally you had it. You go with the third year only to find the cycle pattern changed once you were committed.

To me, Gann’s price and time principle always surfaced. Finally this problem is solved. This is the birth of the “Second Dimension.” (Adding width! area! space to the p rice structure.) Then came the how much width?. How can we predict the breakout? One principle is certain: a gallon jug will only hold one gallon, no more. It makes no difference how smart you are. That law cannot change. Can we use a $0.20 move to be 20 blocks wide? or Make $0.20 move 10 blocks wide when plotted on the chart? After tries, (good, bad, indifferent) the exact principle for charting the price with the correct space! width! area was produced. This is now known as the angle symmetrics trading method. It works on all commodities, because with my experiments, a charting scale has been developed (composed) that keeps all price structures in exact proportions to the 45 degree true trend line. There are eight symmetrics trading principles to learn and follow. These will produce valid signals within active markets.

No matter what price plotting method you are now using, Elliott Wave or just line p lotting, once the prices square the 45 degree line. The trend will take place.

1. With this angle symmetrics trading method, you will learn to square price with time.
2. You will learn how to build the price and time triangles.
3. With the time triangle you will learn to stay with your position until the price breaks out of the triangle.
4. You will learn how to square price with time for 45 minutes, 60 minutes, daily and weekly periods.
5. You will learn to draw the true trend line, this comes when all the price movements are equalized according to the Symmetrics Principle.
6. You will learn how to plot all size moves to the 45 degree angle. Also you will learn how oats, corn, beans, bonds, cotton, Japanese Yen, Franc, silver, and gold are all plotted using the Ixi (45 degree) angle bythe Symmetrics plotting principle. (Most important for price plotting scale.)
7. These are all new principles, there are complete in themselves for trading. Some of these principles could also be added to your present trading methods.

NEXT: I want to bring to your attention that for a modest p rice of $1920.00, I am offering youth is angle symmetrics trading method, which is fully described in these pages. I so not send out glossy literature. What I do send out is proven commodity trading concepts: As many testimonials state, I thinkit is first class material that I only send first class mail. I had my 73rd birthday in October, 1993 and feel I should share some knowledge. If I knew 38 years ago what I know now, WOW! what a future I could have.

I was asked to speak at the TRADER’S WORLD conference in November. I spoke at 8 A M on Sunday morning. Idid not expect anyone would be there that early. Guess what?!? Everyone was there, full house. After speaking, I was mobbed for more information.

Trading a Mechanical System

By Fred Ruscher

Developing a system that makes a little money is more difficult. Developing a system that makes a lot of money is tantamount to finding the Holy Grail. The first step in the development of a mechanical system is choosing a technical indicator that you like and fully understand. Then, you use that indicator to determine your entry point. It may be an order to buy or sell at an or better price. It may be an order to buy or sell on a stop.

The second step, now that you are long or short a market, is to develop your stop placement on the position which you have just taken. This is probably the most crucial step of all. If your stop is too close the trade will not have a chance as the floor brokers will just pick off your trade and say thank you very much for your contribution to their well being. If your stop is too far away then your reward to risk ratio will not be high enough and you will have to be right more often than you are wrong. We all know how difficult that is, as we still have to make a profit after a commissions and bad fills.

The third step is developing a target. Most systems miss this step completely. Target you say, what target? This trade is going straight to the moon and never looking back. Fat chance. Targets should be identified by using Elliot Wave techniques, gap forecasts, fibonaaci retracements or any other method you can find. The chart (Fig.1) on bean oil will serve as an example. Stochastic gave us a buy signal with the crossover on November 3rd. We can buy at 2370. Initial stop at 2270. The rally in June to July was 497 points times 1.618 equals 804 points. 2270 plus 804 equals 3084 for our new target. Our risk is 100 points compared to our reward of 700 points. Our stop can trail the highest close made by 100 points.

The chart (Fig. 2) on copper is another example. This time I am using an momentum oscillator as the technical indicator and I am waiting or divergence. A divergent signal is given when price makes a lower low and the oscillator makes a higher low. This tells us that the momentum has decreased. The number and volume of sellers has decreased in relation to

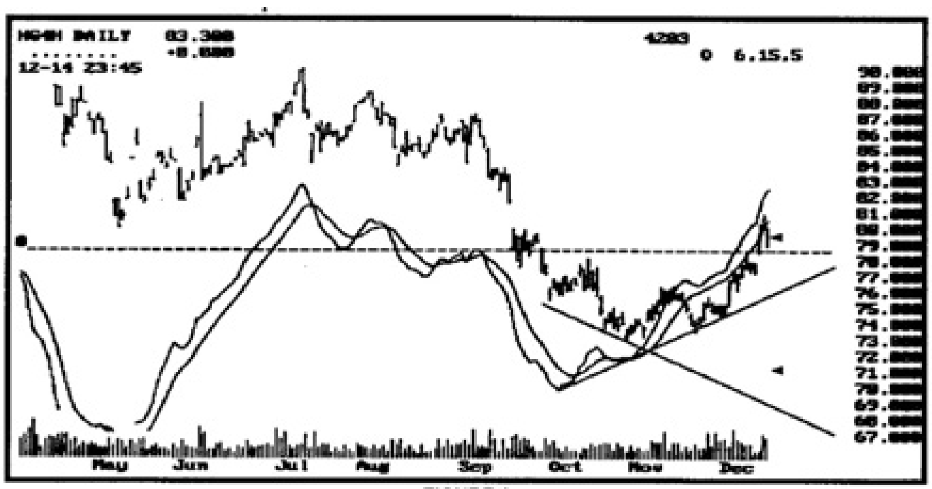


FIGURE 1

how far price was moved. Since the momentum has decreased, this means that we can expect a possible turn around in the trend.

Copper made a low on November 26th, 1993 at a price of 73.00. This low was a new contract low, yet the oscillator made a much higher bottom than the previous one. I do not buy Copper on this indicator alone. I watch the first rally which ends on November 11th, 1993 at a price of 76.25. I want to cut down on my risk so I place an order to buy at 74.30. The low at 73.00 minus the high at 76.25 equals 3.25 points times the fibonacci .618 equals 2.00. I subtract 1.95 from 76.25 equals 74.30.

This is my buy point. The stop is placed at 72.90 for a risk of 1.40 points. The first target is found by multiplying 3.25, the amount of the first rally, by 1.6 18. This equals 5.25 plus 73.35, the first pivot low after the contract low, equals 78.60. 78.60 minus 74.30 equals 2.30. Our risk of 1.40 points has a reward of 2.30 points. This is not really that great, yet it is better than 1 to 1.

Now it is important that you back test your system. I personally do not use continuous charts in any of my back testing. I will roll over my testing from one contract to the next on a preset date near the end of the contract that is approaching delivery. Only when the back testing shows very favorable results will I be able to take the final step of the mechanical system. That step is the taking of the great leap of faith and actually trading the system in the market place.

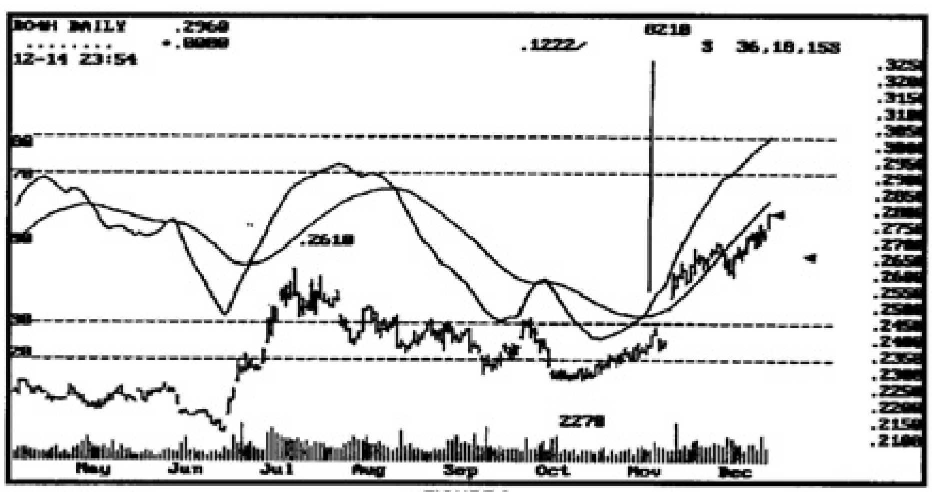


FIGURE 2

The Edge that Makes the Difference

By Robert Koppel and Howard Abell

Traders always speak of “getting the edge” and this is particularly true of the most successful traders. However, to a person, the top traders understand that the edge has little to do with the common sense or conventional notion of getting a good fill in the market or being stopped out exactly at your price. And it makes little difference if these traders employ fundamental or technical analysis, whether they are day traders or position themselves for the long pull. The idea that was repeated time and time again by the top traders was that an edge is essential, and their edge is the overriding ability to be resilient to whatever the market sends in their direction: weathering difficult times, even “busting out” with little emotional impact, being able to maintain unassailable confidence in themselves and their proven methodology at all times. For these top performers, trading is a game and although methodologies vary widely, they all shared in common a burning, unquenchable desire to become successful at trading (however they define success), often at significant personal and professional expense. Other commodities in capturing the edge included: A personal discipline based on hard work, independence, and patience. A love of trading. Well-defined risk management. Total acceptance of losing as part of the trading process. The edge that makes the difference then comes down to this.

1. Fully understand your motive for trading. Once you know what your motives are examine them carefully. Most traders trade in a constant state of conflict. It has been our experience that many people who think they want to trade really don’t. In addition, your motive should include a strong need for personal independence which is crucial.

Trader Response	Having the Edge	Losing the Edge
Patience	Waits for opportunities to materialized based on well thought out game plan	Little planning, reacts according to personal whim
Discipline	Sees the big picture, responds deliberately	Emotional, anxious often confused about what to do
Strategy	Highly planned; limits losses, lets profits run	Little planning, does not rely on consistent methodology
Expertise	Well prepared- has done necessary homework	Little market knowledge, unprepared
Motive	Long-term motive i.e. intellectual challenge	To make money, instant gratification
Goals	Clearly defined	Ill defined
Risk Control	Highly controlled risk/reward ratio	Little or no control over risk/reward ratio
State of Mind	Positive, resourceful empowering beliefs and focus. High level of self-esteem and trust, relaxed and confident	Nervous, anxious, believes the worst will happen. Focus is distracted. Traders in conflict

2. Develop a personal strategy that works for you and fits your personality. If the system doesn't feel right, you're going to lose before you even start.

3. It has to be fun. We can't stress this point enough. Trading has to literally, feel good. Which is to say, you must be in a frame of mind which allows you to envoy the process effortlessly, be resourceful, and make good judgments.

4. Hard work is essential. There's no way to get around it. You must put in the time. As Woody Allen said, "Ninety percent of existence is showing up." You must also be able to keep trading in perspective.

5. Confidence. You must possess a repertoire of personal beliefs that constantly reinforces feelings of high self-esteem and confidence in your analysis and execution of trades, whether you win or lose. Needless to say, discipline, patience, personal responsibility, and repeated success make this a lot easier.

6. Positive state of mind. If there is a single variable which guarantees success it is this one. The top performing traders have developed an internal terrain that reduces anxiety and promotes excellence. They manage to achieve this end by internally representing external events in such away that assures success, adjusting and redefining as they deem appropriate. They do this by employing a belief system that does not allow for the concept of failure and a personal focus which concentrates on what is essential to achieving this end. In short, they have mastered the ability to create states of mind and body that are resourceful and assure whatever it takes to succeed. Exactly how they do this we present in great detail without psychological jargon, in The Innergame of Trading. In addition, we clearly demonstrate how all serious traders can measurably improve their trading by rejecting the psychology of losing and embracing the winner's state of mind.

Robert Koppel is a former long term member of the Chicago Mercantile Exchange He is currently Director of Trading at A bell Asset Management Corp. Howard A bell is president of A bell Asset Management Corp., a CTA firm managing individual and institutional portfolios. A former member of the Chicago Board of Trade and the Chicago Mercantile Exchange, he was president of C.S.A., Inc., a Futures Commission Merchant. He is the co-author of The Insider's Edge (Pro bus, 1985). For information about The Innergame of Trading contact Bob Koppel or Howard A bell at 1-800-634-0270, Fax 1-312-641-3199. The Innergame of Trading is available from Trader's World Magazine. Call 800-288-4266 to order There is a 15 day money back guarantee.

The Law of Vibration

By Petter Amundsen

I state that the law of vibration is the fundamental law upon which wireless telegraph, wireless telephone and phonographs are based. This is an excerpt from the famous interview with Mr. Gann in the December 1909 issue of the Ticker and Investment Digest. Mr. Gann gives three examples of where you can find the Law of Vibration at work. I don't know why he omits the most obvious area for experiencing vibration, which is sound, but rather mentions technical inventions. This might have something to do with his appetite for inventions, ref. The Tunnel through the Air, and his emphasis on scientific forecasting.

Anyway, any student of Mr. Gann's work would benefit from the studying the natural musical intervals and their connection to mathematics, It will be much easier to accept the effect of mathematical resistance levels once you have experienced or understood why they work. I claim that the natural musical intervals is the key to many of Mr. Gann's methods, since music is the most common place to find evidence of the Law of Vibration (and Oscillation) that is fund throughout the universe.

It is said that Mr. Gann was influenced by Pythagoras, and the harmonics of the universe experienced through musical intervals on the monochord is the cornerstone of his teachings. It is important to remember that the intervals found in a modem piano are not natural, but tempered, in order to function when playing in any key, be it C major or F sharp minor. However, you can experience the different quality of an octave and a pure fifth and a minor third well enough to understand why some price levels (frequencies) will give better support/resistance than others. Mr. Gann said that numbers vibrate, and this is probably the most difficult thing

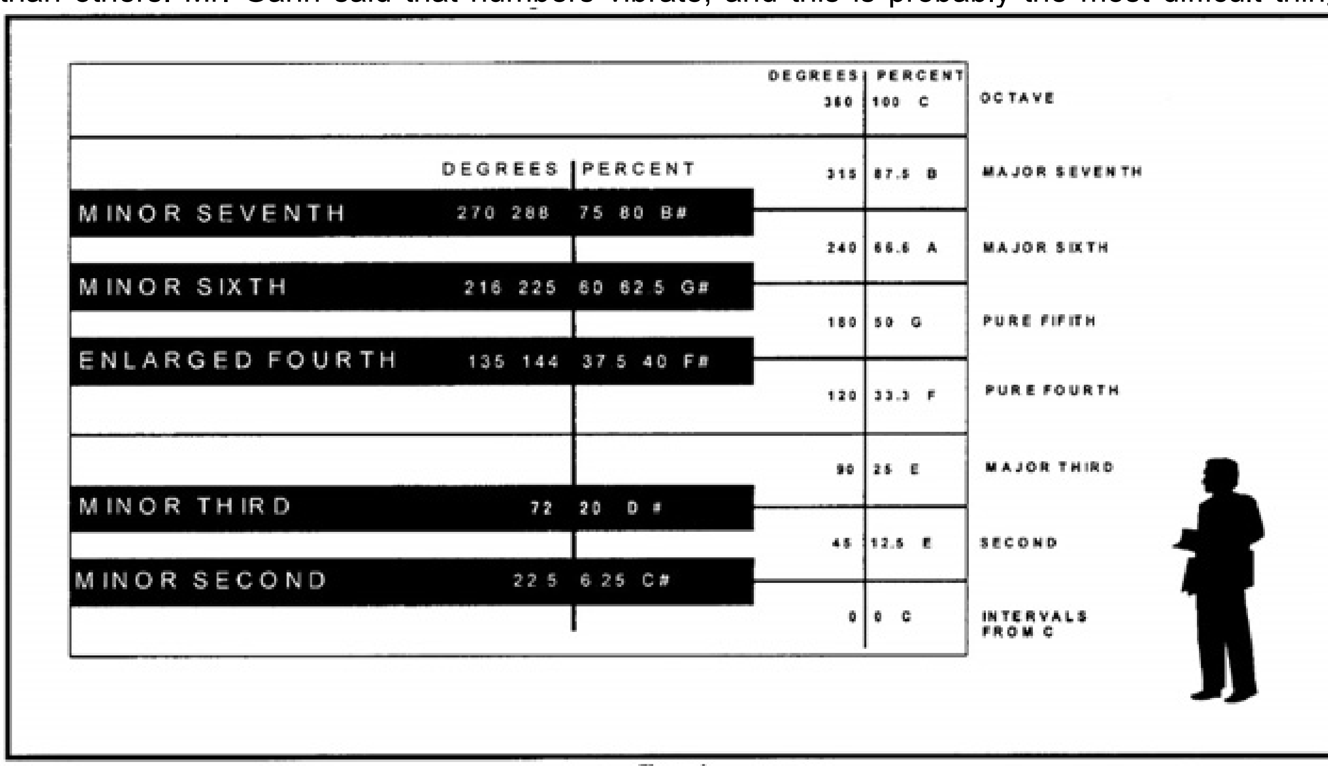


Figure 1

to understand while studying his methods. It is rather something you just accept because you can see that it works.

“The number are not intermixed, chaotically and accidentally, but are subject to regular periodicity. The changes and developments are also seen to be in many cases undulatory.”

This means that the actual price traded at and ranges are vibrating and will influence price-levels in the future. We are taught to take a high, low and range and divide into eights and thirds and sometimes tenths. He says that the most important level is 50% and also 100% if up from a low. Now, why are these levels so important?

Imagine there is an important bottom in Bordeaux Reg Wine futures at 256 cents/gallon. This number is the same frequency at the middle C on your piano, just to make things easier. We are in a bull market and the price climbs to the 50% level which is 384 cents. The market has then risen a pure fifth up to the first G up from C. Try playing this interval on a piano.

The tonal quality of a pure fifth is almost like an octave, the two notes, C and G melt together as if they were one. In fact, they are the closest of relatives, Since G is the first natural harmonic of C (apart from C itself). If you have ever tuned an instrument you will know the sensation when the vibrations level out at the pure fifth or the octave level. The two frequencies together are powerful! Try humming in the shower,slowly up and down to seek the frequency of the bathroom itself. When you find it, you need only produce a weak tone to saturate the whole room with sound! It is the same with the markets. The old bottom is still vibrating, and when the market trades around it’s natural harmonics, price will be affected. The natural harmonics will be like magnets to the market. The vibrations seek equilibration.

Now, our Red Wine future, which we are long, breaks through the pure fifth level on the fourth attempt and is heading for the octave which is 512 cents/gallon. The octave represents a full circle and is 100% up from the bottom. This will be the first C above middle C, and the price is now theoretically the same as it was at the important bottom. If our 256 bottom was important, the market must react around the octave level. Equilibration will only last a very, very short period, though, and will make the market react to other opposing forces, just like perfect harmony in our lives never lasts long each time we experience it. It’s all the same.

A perfect example is found in May Soybeans: The all time low was 67 cents July 16, 1939. The all time high came in 225 degrees of a 60 year cycle later, April 22, 1977 at 1076 1/2.

The octaves up from 67 are 134, 268, 536 and 1072. We got our four and one half cents of lost motion at the top after 37 years! To indicate how little this is musically, please consider this; on a modern tempered piano they stretch the octaves a bit to make the tempering sound better. Four octaves up from 67 will then be 1,115.5, and still sound like a pure octave!

The other “gann-levels” come in the following ways on the natural, not tempered, scale: (See Figure 1)

The reason why there are two levels for some of the black keys is that some natural semitones will differ if played from above rather than from below. Ask your local violinist!

You do not see 30 and 60 degrees here. That done not means they are not harmonics! Our scale has twelve keys, Other cultures have chosen otherwise and have more or fewer notes. The minor harmonics are important, but you should focus on the basic intervals like thirds, fourth, fifth, and sixths unless your trading plan is so accurate that you can benefit from using the whole array. By the way, 144 degrees up from 536 (third octave May beans) nailed the 1993 high at 751.

Armed with this information you can make a “keyboard” of resistance levels for each major low or high.

Very important: When using a high as your basis, you must first divide it into sub-octaves, taing 50% off to get the octave below and then 50% off this octave and so on. Then you fill in between from below and up! If you simply take a high and divide by 8 and 3 you are missing a whole lot! Always calculate from below and up! Why Mr. Gann did not day this, I don't know, but I am sure he knew that this is the proper way to do it!

The angles work just the same way. 8x1, 4x1, 2x1, lxi, 1x2, 1x4 and 1x8 are all octaves, and they incorporate the duet between the time cycle and the price cycle. The 1x6, 1x3, 2x3, 3x2, 3x1 and 6x1 angles are the pure fifths. These are very powerful angles, simply because the fifth if further away in the natural overtone scale then the octave. The reason you do not make angles based on quarters, thirds etc. is that you will most certainly suffer from the information overload.

The musical intervals will of course be found influencing the time cycles. That is why I use degrees as well as percentages. The universe is governed by the same mathematical low of vibration. Musical intervals and the effect of the cycles are merely two effects from the same cause. The octave is one full cycle. That is why time and price is the same.

PS. If you look at the musical intervals astrologically, you will be suprised. Play the "evil" aspects, 0, 90, 180, 270 degrees (C, E, G and B flat) as a chord. Then play the "good" aspects 0, 120, 240 degrees (C, F, A), and you have played a beautiful cadence!! Tension released!

P.P.S. The fibonacci rations have nothing in common with natural musical intervals.

Fading Tommy's Daddy!

By Terry R. Davis

Commodity traders are a sorry lot. We are always sorry that we bought at the top or sold at the bottom. All of us have done this... .and many more continue to do it as part of their private trading "system." Tommy's daddy always did this. If I was long in the bonds and Tommy's daddy came along a few days later and bought, I knew it was time to reverse my position and go net short. I knew I never wanted to be on the same side of a trade as Tommy's daddy. He always waited too long or was too hesitant to act when the time was right. Boy, could he read an Elliott wave. In an up market he would buy within two ticks of a dynamic wave 3 top. To further mystify me his next trade would be to sell the very bottom of wave 4... to the tick. There was something truly uncanny about his ability to call market turns. Unfortunately for Tommy's daddy he was continually on the wrong side at these turns. When he "hit" an occasional winner he would liquidate that position in a matter of days (if not hours.. if not minutes)!

As I mulled these things over in my mind I remembered when I first became a trader. I had one of these very same things. Somehow, in my thirteen years in the markets I have learned to quit shooting myself in the foot. Jessie

Livemore in his excellent book, "Reminiscences of a Stock Operator," says there are three types of traders; 1) the kind that don't know anything and realize it, 2) the kind that don't know anything and think they do and, 3) the ones that are trying to obtain mastery of the markets. My dealings with hundreds of other traders over the years seems to bear these findings out. Tommy's daddy had enough money to live the good life even if the markets never treated him with much respect. If you have traded long enough, you have probably run across Tommy's daddy too. You may have even been Tommy's daddy. The markets are surely no respecter of persons. Tommy's daddy can be young or old. ..rich or poor... male or female. The continued disdain that the market had for Tommy's daddy knew no boundaries. Whenever he had a bullish position before a bullish report came out... .you guessed it ... the market went down. Whenever gold had to go to $1500 it went to $300. What gives? What made Tommy's daddy such an accurate trader? He continually batted 85%. That's right 85% wrong. One of the first $3000 systems suffered from the extreme ills of curve fitting past data. After the system had been on the market for perhaps a year, it was found that the system was indeed 75% accurate. To be 75% accurate you had to fade every trade by doing the exact opposite of what was signaled. Somehow the developer had succeeded in getting Tommy's daddy into a hand-held calculator. This was a mighty task for the early 80's.

Every new trader can be categorized as taking the 'stage' as Tommy's daddy. New traders are coming to the market (for the slaughter) day in and day out. There has never been a shortage, and there probably never will be. Traders that are hooked on the game but are virtually never right are also with us in even greater abundance than in the past. Everywhere you look Tommy's daddy is their to help you. They are there to help you make money.

What would you pay for a system that was at least 75% accurate? We may disagree on a cost but it would surely be a large sum. Right? The Tommy's daddy system is available for absolutely no cost other than commissions. To get this system you will have to pay retail commissions. The heart of the system is dealing one-on-one with a small brokerage firm. Every small town commodity office has Tommy's daddy trading there. In fact, there are probably several trading there on a regular basis. Getting to know the manager of this small firm personally is the key to exploiting the Tommy's daddy system. You are looking to "fade"

Tommy's daddy on every trade. You need the manager to be able to accomplish this. He is bound by law to maintain the confidentiality of his office traders' account. He however does not make any money unless trades are placed. Your proposition to him is this:

Whenever Tommy's daddy (he knows his real name) takes a trade, he is to place you on the other side of the trade. You don't need or want to know Tommy's daddy's real name. This allows him to maintain the confidentiality that he is bound to uphold. It also allows him to make double commissions on trades. You and the broker have your needs met; the ability to make money. Most Tommy's daddy traders are small traders so you may be able to follow more than one's "recommendations." Nearly 100% of small town brokerage house traders lose money. If your account is moderate to large you may want to "fade the equity run." This means you take the opposite side of all traders made in the office. What are you waiting for? Get to know the small town broker!

Terry Davis is a full-time trader and small business owner. His Holy Grail Fax Service is ahead by 650% this year and is once again the open new subscribers. He can be reached at 217-347-5101 or 800-225-7642. He welcomes your calls.

Golden Gann

By Jim Watkins

Gann was absolutely golden in his forecasting of many market moves. The purpose of this article is to show a terrific forecast of gold that came to fruition in 1993. After reading a number of Gann articles and books, I noted that Gann often used anniversary dates of/for major events. Early in 1992, Jim Flanagan, Editor of Past Present Futures, sent me an article on silver. He said that 1993 would be a great year for silver.

So I thought that gold might also have a good move if silver moved, and it did! I was watching gold while Jim did his business in the silver market. Many of you should recall that gold and silver made all time highs in 1980. Gold made its high on January 21, 1980. Using the thirteenth anniversary, according to Gann and an Indian induction cycle (13 years) on January 21, 1993, DEC gold struck a low of $335.50 but no 334.00 Golden Ratio occurred on this significant date.

On March 9, 1993, DEC gold had a contract low of 331.70 Show 3321 NRP, its final low. Also show 3336 Golden Ration Number. Using Gann's anniversary date and then using the square of nine chart, you could have known to buy any opportunity prices below 333.60 and 334.00 Golden Ratio Number. Also 3/9/93 was a big, big cycle of time-Gann time.

Now from the Golden Ratio number 333.6 to the 391.0 Golden Ratio number the market must prove that it can penetrate either up or down. On May 19, 1993, December gold hit 389.00 high with no follow through of the 391.0 Golden Ratio number. So the market having failed to move over the Golden Ratio 391 Golden Ratio number, the market had to back down.

How much should or could the market retreat? As the market dropped from the May 19th high down to June 1 low of 371 Golden Ratio again failing at 383.5 on June 4, retreating again to 371 Golden Ratio and making a low of 364.8 or 3646 Natural Resistance Point before rallying to its final peak of 414.0 on August 2nd. Note 411.0 Golden Ratio point struck twice, July 30th and lastly August 2nd and then plunging back to 343.0 (45d S.E. line) a rally followed rising to 10/2 1 high at 3767 Natural Resistance Point and falling back again. Note market touched 361.0 (squared 19) on 11/1 and 11/2 low.

Calculations:
I. 1/21/80 - 1/21/93 13 years
II. 873 HI 871 (450 NW line)
III. 3336 GR to 391.0 GR
IV.334 GR to 441 GR
331.7 to 414.0 = 82.30
GR 334.0 to GR 441.0 = 77.00
Lo missed 2.30, Hi missed 3.00
Dec 93 silver 553 H 553
45 Degrees NW
362 L 361 Squared 1
Definitions:
NRP Natural Resistance Point
GR Golden Ratio

45 Degree Lines
Squares Even, Odd, Cycle
Just a point of interest
Dec 93 Wheat 360H 361
Squared 19
294L298GR
289 Squared 17
Dow Jones 3692.61 High 3721 61
3136 Lo
3087.41 (941/7)
3087
Oct 5, 1992 Low
Golden Ratio 3752

Theory:

All market moves are acted upon by momentum to or through NRP, GR, 45 lines and squares.

Note: 11/17 date the market dropped down to 369.60 low giving ample opportunity to buy below 371.0, the Golden Ratio Line, and then closed at 377.20. This trade showed a profit of $620 at the close of the day and a limited risk of 140 dollars/contract. Thank you very much, Mr. Gann.

Calculations:
I. 361.00 to 381.00
S.W. 450 to N.W. 45 Degrees
(19)2 = 361
11/1/93 H 360.90 C 362.10 L 360.7
11/2 H 364.7 L 363.6 L 361.0
II. 361.0 to 381.0
360.70 to 381.2 11/1 to 11/15
11/5/93 H 381.20 C 377.80 L 375.30
Range 20.50
361.00 missed Lo 30 cents
III. 1/21/93 13 years to 1/21/80 All Time High
1/11 334 Hit
1/15 334.0 Low 3/31, 4/16
1/18, 2/4, 2/22 334.0 Low 353 GR Gapped up 4/26
2/26 356 (22 1/2) Hit 4/26, 4/28
3/8 3336 GR 332.7 Low 356 (22 1/2) Low 4/27
3/9 ~3321 (22 1/20) 331.70 Low
361(19) Hit 4/29, 30, 5, 3, 4,5,6,7, 11
3/10 3321 (22 1/20) 332.0 Low 366 (22 1/2) Hit
371 GR Gapped Up 5/13
381 (45) Hit 5/18, 19 Hi 389.0
391 GR No Hits 5/19 Lo 378.5

Returning to the market’s low of 360.7 on Noven~ber 1 and another key low of 361.0 (19

) S.W. 450 line on November 2 were touched. Then the market rallied to 381.2 on November 5th which was only 20 cents/ounce over the N.W. 45 line price of 381.0. If the market does not “see” and then react to these significant Gann square of nine chart numbers, then I miss what is significant. I stated earlier that the date 10/21/93 was a natural resistance point time cycle. Since this article is about price calculations, time calculations will be discussed in a later article.

The reaction top 381.20 (381.0 N.W. 45 line number) was followed by another key price of 371.0, a Golden Ratio Number, on 11/17 (actual low 369.60). The first rally attempt ran out of momentum. High at 380.4 failed to penetrate 381.0 on November 19th, then falling back to 368.0 low November 29th and below 371.0, the Golden Ratio line. However, the market failed to break 366.0, the next lower 22-1/2 line.

Remember the theory of prices being touched and electing the next number that is lower in this case or higher in line of the market’s momentum. When markets hit a key price--Golden Ratio, Natural Resistance Points, 45 line numbers and, of course, do not neglect squares. Watch all price touches and prices that are not touched. Touches and no touches are key indicators to trend continuations and market failures.

The reaction low of November 29 was followed by several weak days allowing a purchase below 371.0. The rally carried to 377.0 touching 376.4 Natural Resistance Points which indicates thrust to 381 should occur.

Jim Watkins is an active trader in stock, option, bond ad futures markets. Since 1988, he has drawn on his over 27 years of experience to provide daily market predictions to private and corporate investors. Jim can be reached at (901)767-0355.

Compass Divider

By Larry Jacobs

The ratio compass is the most popular trading tool in existence today. In the Trader's World catalog the instrument outsells all other trading tools by 10 to 1! This article will discuss how to use the ratio compass to forcast Elliott Wave moves. To use the ratio compass tool correctly, you must understand the Elliott Wave Theory. Here is the basic theory:

1) In a bull market there are 5 waves up to the top.

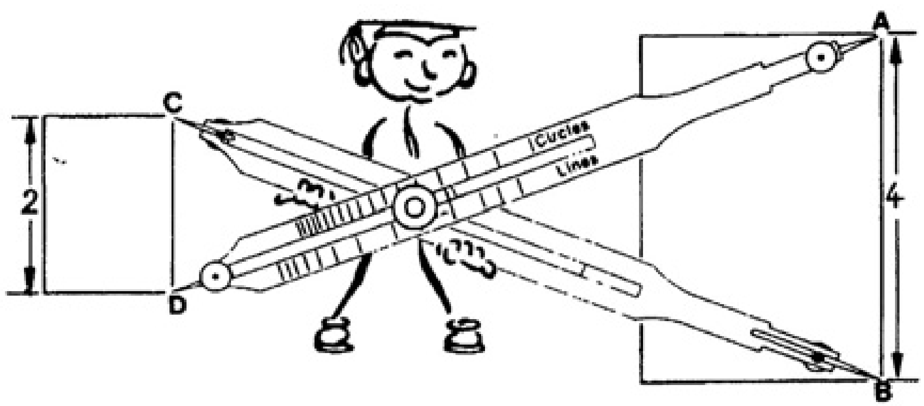
2) Waves 1, 3 and 5 are thrust waves in the direction of the move.

3) Waves 2 and 4 are countertrend or reactionary waves against the main trend.

4) If wave 2 reacts straight down without any zigzag (this is a simple correction) then the other reactionary wave, which is wave 4 will be a complex one. That means you will have a zig zag or an A-B-C type of reaction.

5) The expanding or thrust waves 1. 3, and 5 will usually increase by the following ratios: .618, 1.000, 1.618, 2.618, 3.618 and 4.618.

6) The corrective waves 2 and 4 will be .382, .500 or .618 of the prior wave.The ratio compass can be set so one side is .382 and the other side is .618. That is the most popular setting of the ratio compass. The other way to set the ratio compass is so one side is .500 and the othe side is 1.000. This is a setting of 2 to 1. It is quite easy to make the change from one setting to another. These two settings will give you all you need to do precision ratio analysis. The compass can be used on both paper and even on computer screens. The new 17" flat display monitors are excellent. They are almost like paper if you use a white background and a high quality video card.



The following Elliott Wave secret ratios will help you determine what length each wave should be:

1) Corrective wave 2 is usually .382 or .500 of wave 1.

2) Thrust wave 3 is usually .618 of wave 1 or 1.000 of wave 1.

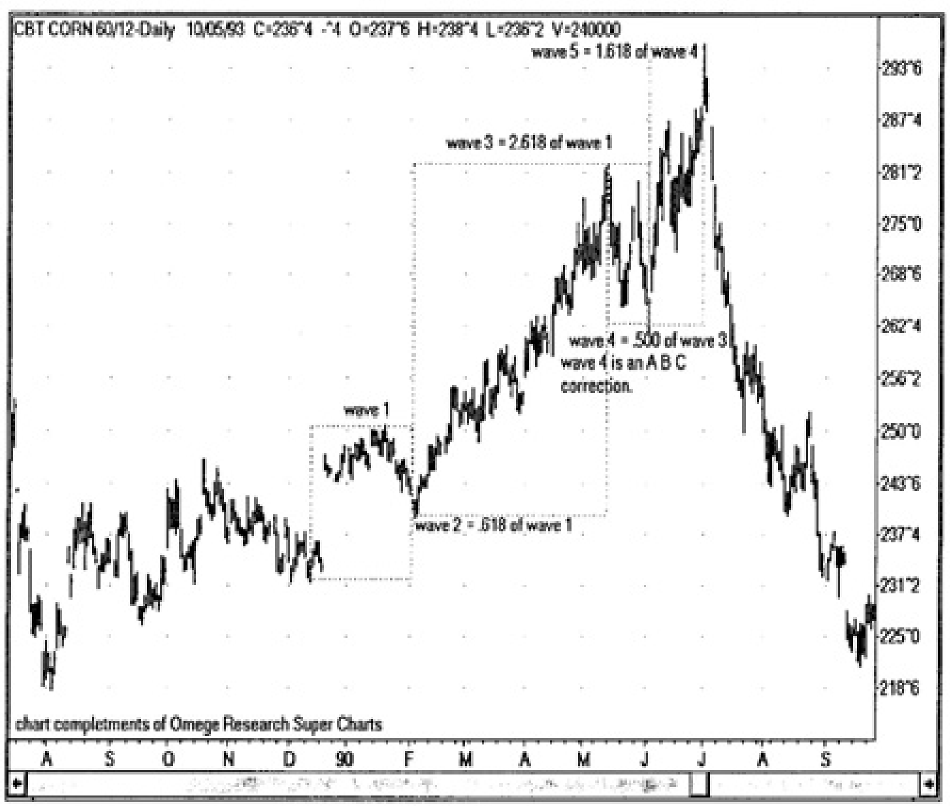
3) Corrective wave 4 is usually .618 .500 or .382 of wave 3. If this is an A B C corrective wave then wave 3 is 1.618 of wave A to B.

4) Thrust wave 5 will usually advance .618 or 1.000 of wave 4.

5) The bottom of wave 4 is usually the .500 mid point of the entire move. These ideas should give you an understanding of how to use the ratio compass to determine where a market is in the overall wave structure and where it might go.

The projections that you get from using the ratio compass should be used in conjunction with other technical analysis techniques. Never use just one method to trade with. Use many methods to cross check other methods.

The ratio compass used in this example is a high quality precision aluminum instrument 7 1/2” in length made in Germany. It is available from Trader’s World Magazine. The regular price of the instrument is $97.95 but is priced at $79.95 in the Trader’s World catalog. The ratio compass comes with a detailed trading manual of many different trading techniques. There is a 15 day money back guarantee.



The Seven Habits of Effective Future Traders

By Bruce Babcock

Stephen Covey's The Seven Habits of Highly Effective People has been on the national best-seller lists for years--first as a hardback and then as a paperback. I wondered how its list might relate to commodity futures trading.

My interpretation of Covey's agenda is as follows: 1) Take responsibility for yourself and your life, 2) Act in light of your vision of success in life, 3) Act with proper attention to the correct priorities, 4) Act in a way that maximizes benefits for everyone, 5) Try to understand the other person before putting your point of view across, 6) Exploit the potential for cooperation among the people in your life, 7) Pay attention to maintaining and refining your physical, mental, social and spiritual dimensions. While there does not appear to be any direct relationship between my commodity trading list and Covey's overall life experience list, there are some definite similarities and differences. It is well known that normally successful approaches do not work in trading. Additionally, life in general requires involvement and interrelating with other people, while trading is a more solitary endeavor. Here is my list of successful habits for traders.

ONE. Understand the true realities of the markets. Understand how money is made and what is possible. The markets are what is called chaotic systems. Chaos theory is the mathematics of analyzing such non-linear, dynamic systems. According to Edgar Peters, author of Chaos and Order in The Capital Markets, mathematicians have conclusively shown the to be non-linear, dynamic systems. Among other things chaotic systems can produce results that look random, but are not. A chaotic market is not efficient, and long-term forecasting is impossible. Market price movement is highly random with a trend component.

Unsuccessful and frustrated commodity traders want to believe there is an order to the markets. They think prices move in systematic ways that are highly disguised. They want to believe they can somehow acquire the "secret" to the price system that will give them an ad, vantage. They think successful trading will result from highly effective methods of predicting future price direction. They have been falling for unsuccessful methods and systems since the markets started trading. The truth is that the markets are not predictable except in the most general way. Luckily, successful trading does not require effective prediction mechanisms. Successful trading involves following trends in whatever time frame you choose. The trend is your edge. If you follow trends with proper money management methods and good market selection, you will make money in the long run. Good market selection refers to selecting good trending markets generally rather than selecting a particular situation likely to result in an immediate trend. There are two related problems for traders. The first is following a good method with enough consistency to have a statistical edge. The second is following the method long enough for the edge to manifest itself.

TWO. Be responsible for your own trading destiny. Analyze your trading behavior. Understand your own motivations. Traders come into commodity trading with a view to making money. After awhile they find the trading process to be fascinating, entertaining and intellectually challenging. Pretty soon the motivation to make money becomes subordinated to the desire to have fun and meet the challenge. The more you trade to have fun and massage your ego, the more likely you are to lose. The kinds of trading behaviors that are the most entertaining are also the least effective. The more you can emphasize making money over having a good time, the more likely it is you will be successful.

Be wary of depending on others for your success. Most of the people you are likely to trust are probably not effective traders. For instance: brokers, gurus, advisors, and friends. There are exceptions, but not many. Depend on others only for clerical help or to support your own decision-making process. Don’t blame others for your failures. This is an easy trap to fall into. No matter what happens, you put yourself into the situation. Therefore, you are responsible for the ultimate result. Until you accept responsibility for everything, you will not be able to change your incorrect behaviors.

THREE. Trade only with proven methods. Test before you trade. When applied consistently, most trading methods don’t work. The conventional wisdom that you read in books is mostly ineffective. Notice that commodity authors never demonstrate the effectiveness of their methods. The best you can hope for is a few, well-chosen examples. The reasons for this is that they are lazy and their methods mostly do not work when tested rigorously. You must be skeptical of everything you read. You must somehow acquire the ability to test any trading method you intend to use. The reliability of non-computerized testing is highly suspect. You must, therefore, use software that tests a particular approach or a variety of approaches. You must learn the correct way to test and evaluate trading approaches.

Have a good approach. Follow the three cardinal rules of trading. 1) Trade with the trend. 2) Cut losses short. 3) Let profits run. These are well known clinches. Yet virtually all losing traders violate these titles consistently. Trading with the trend means buying strength and selling weakness. Most traders are more comfortable buying weakness and selling strength, the essence of top and bottom picking. Trade good markets. Trend is your only edge. You must emphasize those markets which trend the best. This will maximize your statistical edge over time. I wrote a book ranking the markets in historical trendiness. I will continue listing the seven habits of highly effective traders in my next article.

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