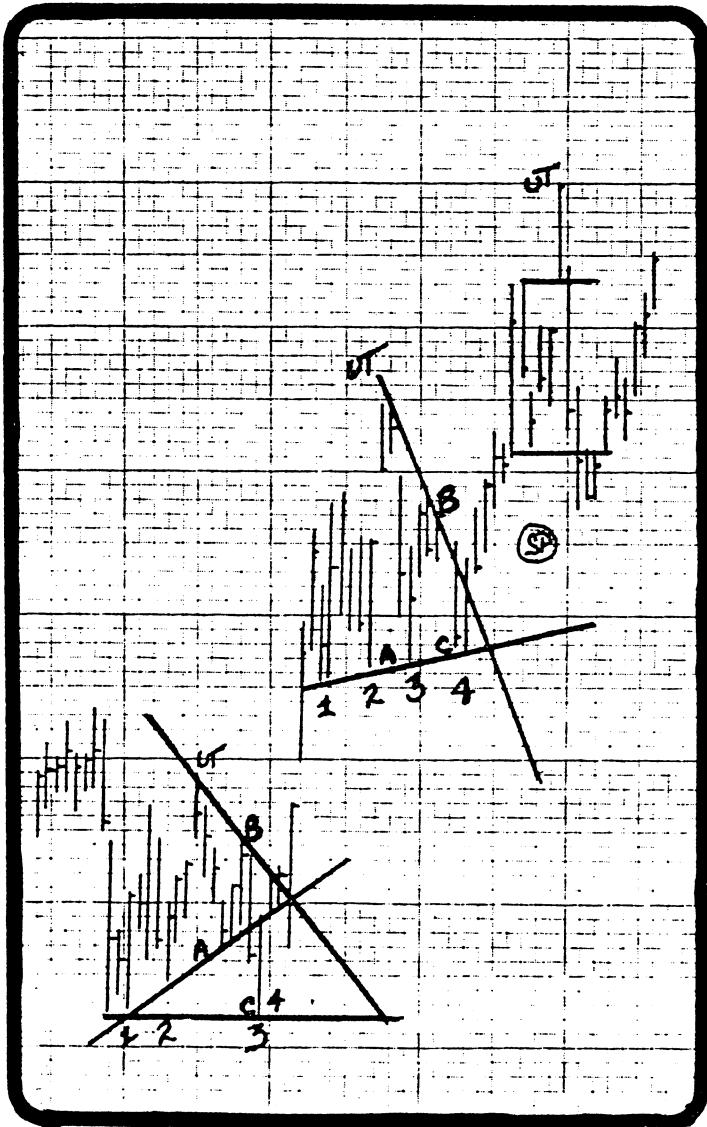


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Institute Ltd.

Hendersonville, N.C.



# Scientific Interpretation of Bar Charts

By John R. Hill

**SCIENTIFIC INTERPRETATION OF BAR CHARTS**

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## ACKNOWLEDGMENT

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Chicago, Illinois 60604

## PREFACE

Learning the science of commodity trading is a constant search for knowledge. Never a day passes in which some new market principle is gleaned from the mass activity in the futures market. It has been my practice to examine each trade in detail after it has been completed to evaluate the "why" of technical market action. These notes have been assembled in this latest work. Some of these ideas are repetitious and, at points, I'm sure the market student will consider it a bit disorganized and simply too many facets to consider in arriving at a market decision. However, rather than delete, most of these notes have been included. We are attempting to impart ideas to the market

student. As someone has said, "One good idea is worth millions". It is assumed that one has familiarity with commodity markets and has read our previous book Stock & Commodity Market Trend Trading by Advanced Technical Analysis.

It is our sincere hope that each of you reading this work will glean at least one good idea that will enhance your trading ability and profits.

John R. Hill  
February 21, 1979

## About the Author

John Hill majored in Chemical Engineering at Ohio State University, graduating with a B.S. and Master's degree in 1948 and 1950. His career in the chemical industry was primarily involved with economics and marketing.

Profitable trading in commodities enabled him to resign from the chemical industry, move to the beautiful North Carolina Mountains, and devote full time to the study of market action.

Interest in the stock market and commodities began in the late 1950's. Almost every known book or course written on the subject of technical analysis and the psychology of the market has been studied at great length by Mr. Hill. He is a firm believer that the composite opinion of a market is best known by studying market action.

Mr. Hill is author of two previous books: Technical & Mathematical Analysis of Trends in the Commodity & Stock Markets, and Stock & Commodity Market Trend Trading by Advanced Technical Analysis. He wrote the technical market letter for Paine Webber Jackson & Curtis prior to establishing the Research Institute. Mr. Hill is one of only nine approved independent money advisors for clients of Merrill Lynch Pierce Fenner & Smith.

Mr. Hill is president of Commodity Research Institute Ltd., a firm devoted to teaching, advising and managing money in the commodity markets. The institute publishes a highly successful weekly letter devoted to the psychology of the markets.

Mr. Hill is a battle-scarred veteran who has taken and tested all the known systems in the past 20 years. His engineering background and successful experience make him eminently qualified for chart analysis, interpretations and projection of future trends.

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## CHAPTER 1

### DAILY BAR CHART ANALYSIS



Slightly exceeded previous top and closes below mid-range. This implies market shifting into neutral with odds favoring a downturn if this high is again tested.



Wide opening opposite previous trend and close is opportunity to take long position provided 30 minute rule works. (Rule explained in detail in our first book.)



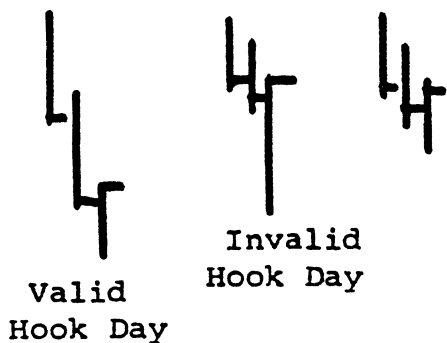
When opening is opposite previous day's trend, wait for close or breaking of prior day's mid-range before taking a position unless you have other reasons such as previous support point in this price area.



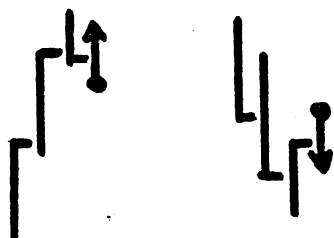
Such action is generally bearish. Sharp day rally is a short covering affair. Thirty minute rule after N. R. day would confirm the case.



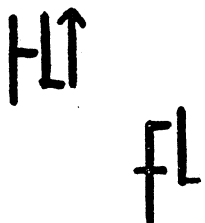
Buy via 30 minute rule if price after 30 minutes is above previous day's close. Stop might be placed below the day's low.



Hook- A hook closing is one that reverses the previous one of more closings by a relatively small amount. The theory is that an attempt will be made to continue the movement in the primary direction after this one-day counter trend. Added validity to this theory is when the hook day has the characteristics of: (a) relatively narrow range with low to average volume, and (b) low of previous day is penetrated. A high volume day, or a wide spread reversal can represent a true trend change. Also, if 2 or more closings are in the vicinity of the hook day, its forecasting value is questionable..



Practical Application: After two up days and a hook closing, buy via 30 minute rule (or do the reverse on downside effort) provided the price after 30 minutes has moved above prior close.



Action-Reaction Concept - Look for equal one-day upmove after one-day downmove.

When 2nd day closes below mid-range of first day, do not buy via 30 minute rule if opening is in close proximity to close of 2nd day.



A compound formation of this type represents a balanced one between bulls and bears. Market can move either way out of such a formation. Buy/sell via 30 minute rule after the fourth day.

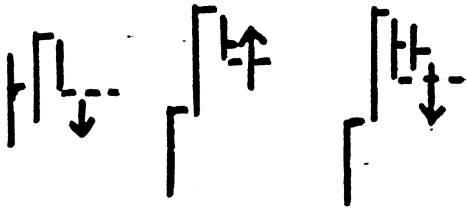


Short possibility. Market opens above previous high and above previous pivot pt. However, the high is 25% or less (of previous day's range) above the peak.



Downturn. Closing below opening and previous day's mid-range suggests a downmove.

Inside Days (ID)

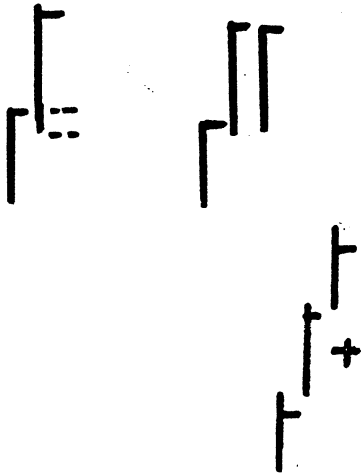


- One day up prior to ID day. Breaking of low generally signals a downmove.
- Two or more up days prior to ID day. It is hazardous to short on penetration of low of ID day as momentum is to the upside.
- Breaking the low of two ID days after two wide spread up days is probably a valid reversal. Go with it.



Market moves out of a consolidation phase with a relatively narrow spread and high volume suggests a possible trap. A reverse move is likely. Short via 30 minute rule.

Action: Two strong up days. Potential buy point is in the range of today's low & previous day's high for at least one more effort to the upside.



Confirmation for another upside effort is provided on a third day by the action as shown. Market dips to buy zone and then rallies and closes high. A close below the buy zone would make the analysis questionable and call for a violation of the rule.

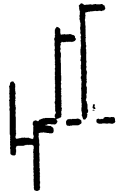
-The buy zone for a 2 or 3 day upmove is only good on the 1st or 2nd day return movement.

Action: Three relatively strong up days. Potential buy pt. is the 50% reaction pt. for at least one more effort to the upside.



← - Market staying down on last day on low to average volume rather than bouncing back may indicate weakness with more downside effort likely.

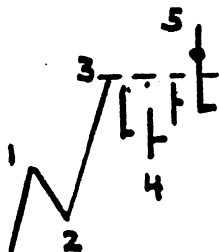
## BUY 1-DAY REACTION



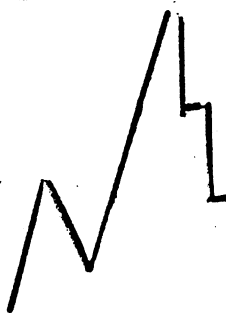
### Conditions

- (a) 2 up days with 2nd day's spread mostly above 1st day.
  - (b) market dips to support point and then rallies and closes strong.
  - (c) added strength is indicated if close is above previous day's high.
- Close must be above mid-range of 2nd day.

Market probably headed down. Note the close on third day is below the two prior closes.



Market that goes above a pp and then closes lower below opening is a potential short for at least a trip back down to support point. It could also be a major turning point if this is after a 5-wave up movement.

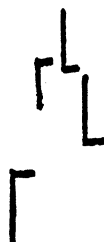


- Always buy a 2-day reaction against trend particularly when the previous drive has greatly exceeded the previous pivot point.

- News of the moment frequently causes a counter movement to a logical point to take a position opposite to the news driving force.

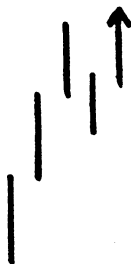
- Watch closes to use them for placing stops, etc.

- A 2-day counter move into a gap is a perfect place to take a nibble counter to the 2-day move.





- Watch for penetration on a 4th day testing of a support/resistance point.

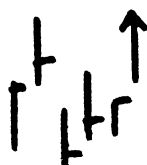


Action - Three-day rise followed by one-day reaction. The day following this often reveals direction of next intermediate move.



Close is short term bullish and shifts momentum to the upside. It might be worth going long if this is at double or higher bottom.

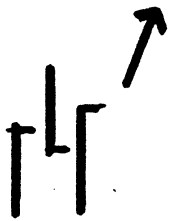
- Take profits at  
 (a) Parallel objective  
 (b) Swing objective  
 unless market is in a running stage.



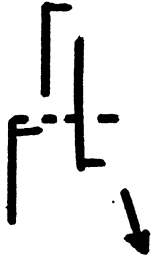
Action  
 - Gap filled on fourth day.  
 - High close on last day suggests near term upmove.



Test & then close above 2nd day signals an upmove.



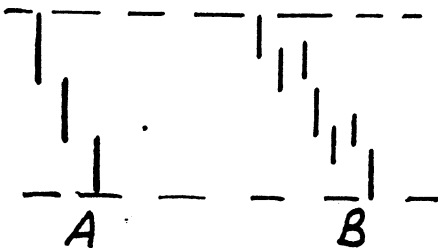
- Good action signal in an upmove market, close on day's 1 & 3 is above opening and mid-range. Close on third day is above two prior closes.



Great signal for trend ending. Note weakness via:

1. Three-day equilibrium down
2. NOL close basis
3. Close below two-day intersection

This type action frequently comes after an upward spike.



A is a much greater sign of weakness than is B. A is out of control and subject to further break after a rally. B is a controlled move down and just might be accumulation for an upmove.

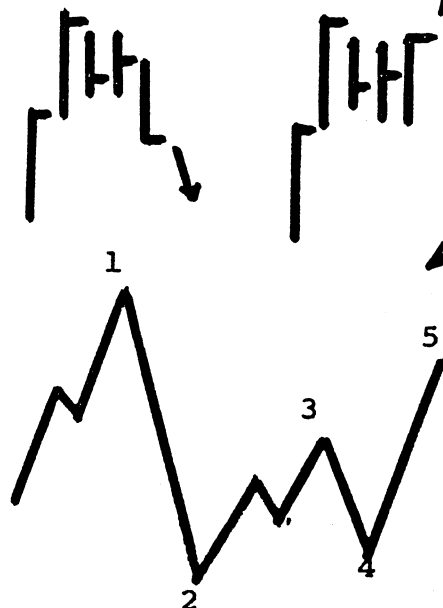
Factors in evaluating two reversal days back-to-back:

1. Relative spreads. Wider spread on 2nd day implies greater weakness.
2. Close above or below 50% point.
3. Several days' action prior to reversal day.



Drive & Three-Day Theory

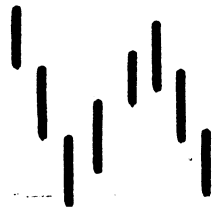
Action on three days following a drive or movement in one direction will often reveal direction of the next intermediate movement.



Wall Theory

- Movement 1-2 creates a wall that is difficult to scale on a first effort.
- 2-3 creates a less difficult barrier to cross.
- 3-4 is drop back to absorb remaining supply.

Seldom short on first approach to a support point.  
 May short if market goes there and resists rally effort  
 for several time periods.



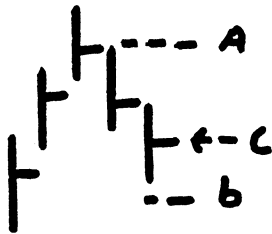
No Short



Potential Short

When trend is up. Market more likely to support around  
 daily lows.

When trend is down. Penetration of daily lows, particularly  
 after a 1-2 day rally, likely to set off a new downside  
 move.



-Never enter blind open order after a 3-day  
 up. May buy after one day down.

Buy (a) 1 tick above previous day's high or  
 (b) one spread below close of first down day  
 (c) buy on close of second day.

### OPENINGS

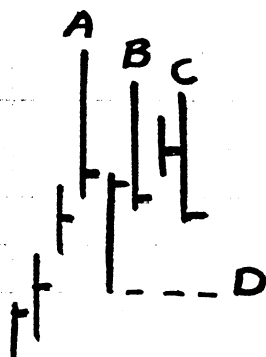
1. Opening price is the most deceiving price of the day.
2. Openings normally carry through on closing direction  
 of the night before.
3. Opening contrary to direction of trend the night before  
 may be a false signal.
4. An opening opposite a previous close and established trend  
 automatically means a specified loss. Vacuum created by gap  
 between close and opening may and frequently causes an attempt  
 to close gap. Wait until first pivot point is made via  
 ten-minute chart prior to liquidating or placing a close stop.

## CHAPTER 2

### CHART ACTION

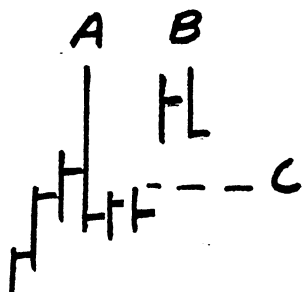
In this lesson, an attempt will be made to teach the law of supply and demand, as illustrated by market action. Isolated sections of charts are shown. The forces at work are briefly discussed. One should develop the habit of looking at small sections of chart action, but to act on this alone can lead to poor trading habits. One must learn to integrate the small picture with the larger one, then the road to success is a smoother one. One must also learn to project future action and when the market does not respond in the manner predicted, it is generally wise to liquidate a position.

#### 1. Potential Short



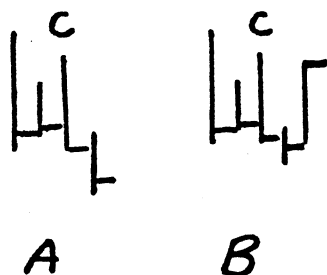
Market has a good-sized move up to "A" where it runs into heavy supply as noted by close back down toward bottom of wide range day. This has carrythrough on the down side the next day again characterized by wide range. A reversal day occurs at "B" followed by inside day. Action at "C" is where it appears that bears have won and it is a potential short. Close at "C" should be below low at "B". If this is narrow range action below the low at "D", then the wisdom of a short might be questioned.

#### 2. Potential Short



The wide reversal day at "A" should put one on the alert that move may be approaching an end. Usually, a bounce follows such an action as shown at "B". Volume should be less at this stage with daily ranges becoming smaller. The reversal day at "B" is the point to try a short. If next downswing holds above point "C" on a close basis, the short may be in trouble. If close is above mid-range, it might be best to liquidate.

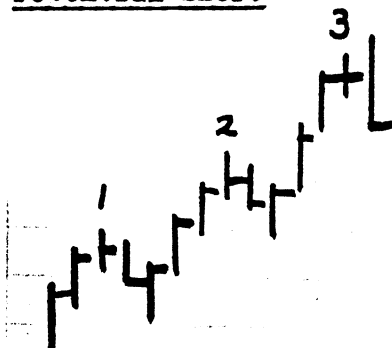
#### 3. Potential Short



Both "A" and "B" are potential short sales on the reversal day at "C". The inside day was broken on top side, had no follow-through but reversed and closed on bottom. However, in case "B", this action was immediately counteracted by a narrow range and a thrust action the last day. Short (if taken) should be covered and a long position assumed. In case "A", the short looks secure.

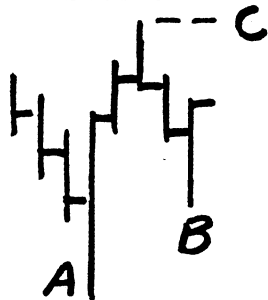


4. Potential Short



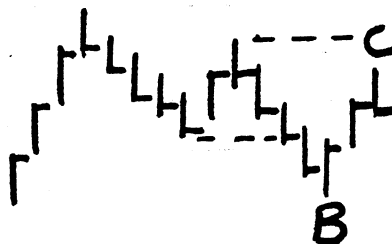
A reversal day coming after extended move and immediately preceded by a narrow range day is a potential candidate for a short, particularly if volume is high. In any event, longs should probably be liquidated. Note this is third rise to a top.

5. Potential Buy



Reversal day at "B", after wide spread at "A", indicating aggressive demand, is a potential buy point for a move above "C" and perhaps higher.

6. Potential Short



New low at "B" should put you on alert for short sell if next rally fails to make new high. The reversal day at "C" is the time to go short.

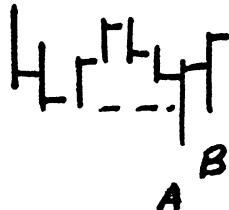
7. Potential Short



New high followed by:

- (a) failure to follow through
- (b) modest to wide spread on downside
- (c) closing at bottom is opportunity to short

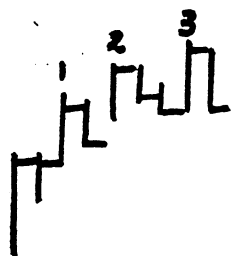
8. Potential Buy



Rally is coming as evidenced by:

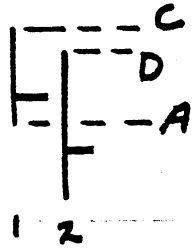
- (a) high closes at "A" and "B"
- (b) higher bottom at "B". Further evidence could be increased volume at "B".
- (c) no aggressive supply below previous minor bottom.

9. Potential Short



In an upmove, look at spread on reaction days, plus number of days in reaction to help evaluate when market is running out of steam. Example shows a commodity getting progressively weaker in upmove. First reaction was only one day; second was two days. Last day shown has wide spread on the downside with low close. There were 3-rallies to the top with thrusts getting shorter.

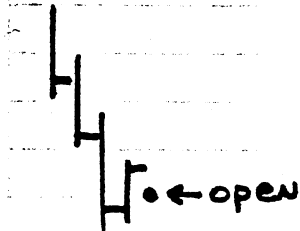
10. Continued Downmove



Odds favor a down day following these 2-days because:

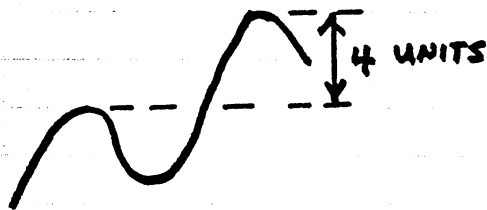
1. The spread at (2) is greater than (1)
2. Lower high (D vs C)
3. Lower low
4. Close below both previous close and previous low (A)

11. Potential Short



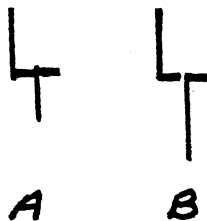
After a sharp first break, market in many instances will only rally one day before renewed liquidation. Help aids in determining this is a narrow spread followed by lower opening next a.m. Sell short on this lower opening. (Converse is also true)

12. Continued Upmove



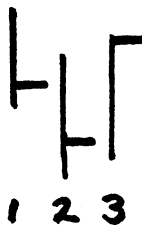
The extent that a buying wave breaks a previous top is an aid in determining quality of buying. A rough rule of thumb is when previous top is broken by 4 units of price (1/2¢ in grains), the movement will continue for at least 2¢.

13. Degree of Weakness



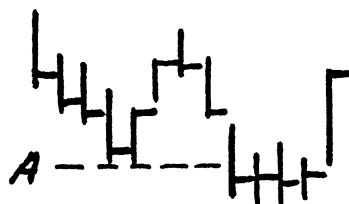
The extent that a previous low is broken can give one some idea of extent of supply or demand. Example "B" is probably weaker than "A".

14. Weakness Reversal



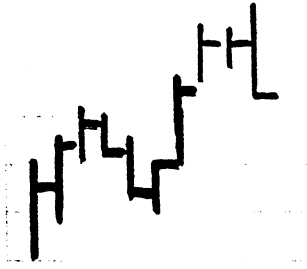
Days 1 and 2 would indicate further weakness. However, 3rd day negates this action and points toward upmove. Of course, a narrow range day following this day might indicate resumption of the downmove.

15. Spring Type Action



Market moved below level at "A" and sat there for four days, then had thrust action, showing good demand. An increase in volume is desirable on last day. The previous four days should show volume drying up and thrust getting narrow.

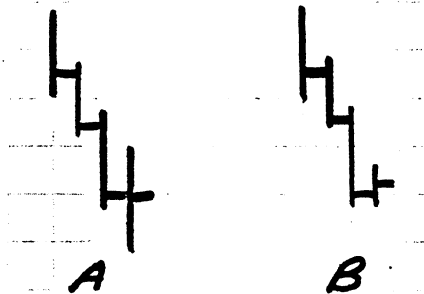
16. Sign of Weakness



Sign of weakness is an outside day which covers the preceding two days with a bottom close. This in effect is an upthrust after a narrow range day. High volume would confirm this as top day for the near future and an opportunity for a short sale.

The reverse is true for a sign of strength, however, volume should be small showing no supply.

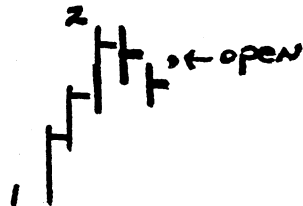
17. Food for Thought



A - This type of action at bottom of move can indicate selling is overdone and a rally will follow, particularly if volume is high on last day. The relative wide spread on last day shows a battle is going with perhaps some good quality buying.

B - This type action might indicate a resting prior to renewed liquidation, particularly if three previous days were down days.

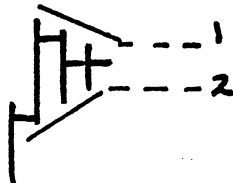
18. Potential Buy



A long position might be taken after:

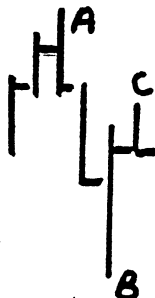
1. Strong demand as evidenced by move from (1) to (2).
2. Down day takes place on narrowing of spread, reduced volume, and close off bottom.
3. Next day's opening is up, indicating reaction may be over and another upmove similar to 1-2 may be coming.

19. Can Go Either Way



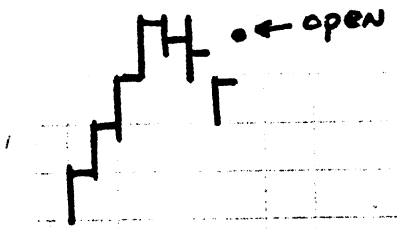
Market will generally move in the direction that it breaks out of the 2nd inside day. A stop order can be placed at 1 and 2, and a position taken for a trading turn.

20. Potential Short



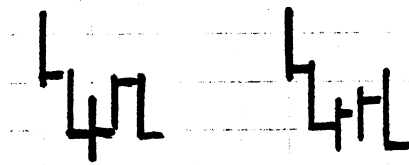
A-B is a long swing down and a potential sign of weakness. Rally failure at "C" makes for a lower top and a potential 2nd sign of weakness. A short might be indicated for another swing down, equal to A-B.

21. Potential Buy



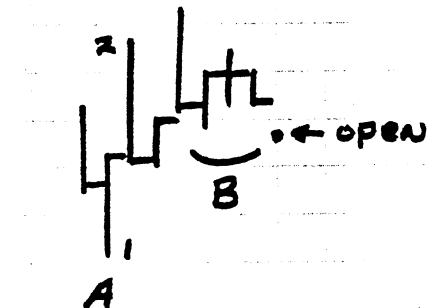
Market showed aggressive demand in move from 1-2. It rested two days and then traded below last three days. Spread was relatively narrow and it closed in upper 50% of range. Volume increased. The next day it gapped and subsequently moved rapidly on up.

22. Potential Shorts



Note lack of demand.

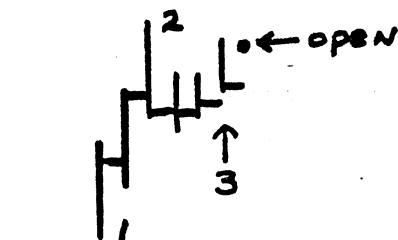
23. Potential Short



A - Two days from 1-2 indicates demand by wide spread and higher highs.

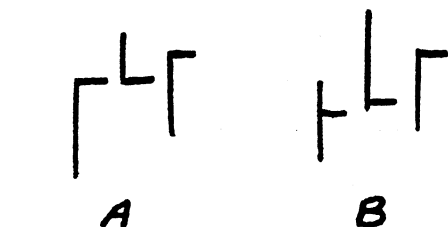
B - Shows demand running out of steam and this is opportunity for a short.

24. Continuation of Move



Move from 1-2 indicates underlying demand. Following three days is digestion. Another upswing is indicated by higher high and low at "3" followed by up opening on last day.

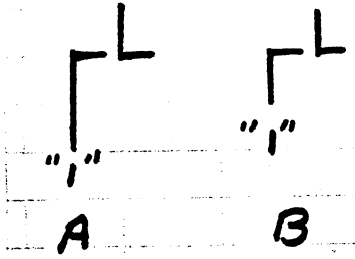
25. Market Action



"A" did not go up but reversed on next day for decisive downmove.

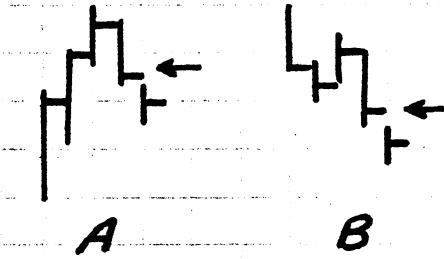
"B" was the start of decisive upmove.  
 - Note spreads on both second days  
 - Note spreads on first day  
 - Close at B-3 was above high on B-1

26. Food for Thought



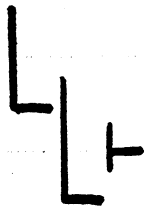
"B" is probably a better short than "A". At "A" the wide spread at "1" indicates some demand whereas B-1 shows a narrow spread and probably very little good quality buying.

27. Potential Buys



You may take a calculated risk on a stop buy just over a narrow range, provided previous action has shown good quality buying, as in "A". Case "B" shows a decided downtrend; thus, a long position might be risky. A rally above narrow range day in early part of day and then a close down would place long position in jeopardy.

28. Continuation of Move



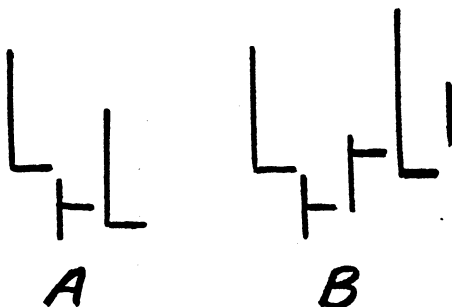
Narrow range on light volume after two days of wide spread and heavy volume is usually not a change in trend. Selling was overdone but this is not good quality buying.

29. Upmove Possible



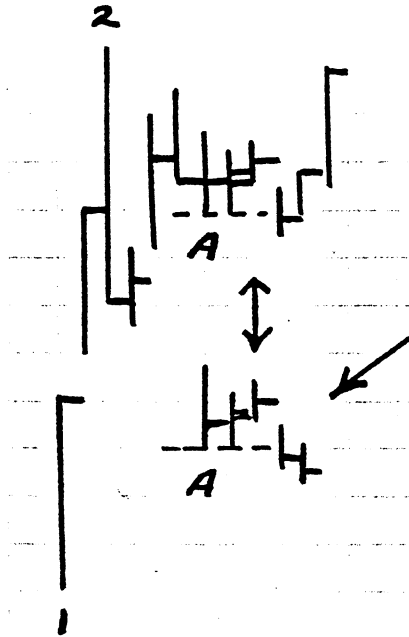
Slight increase in volume on last day compared to previous day indicates demand and the changes for a minor upmove are good. Commodity has shown higher support.

30. Food for Thought



A - Renewed liquidation likely to occur. Note failure of rally.  
 B - Upmove possible. Note different complexion than "A". There have been two up days. The reversal day had no carry-through.

31. Continued Upmove

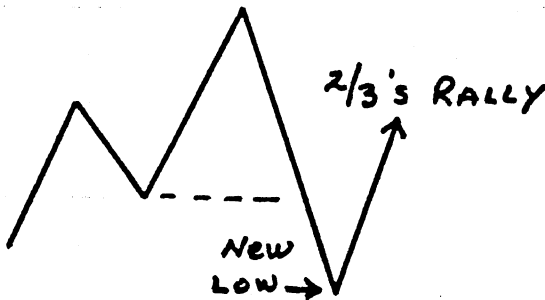


Move from 1-2 was a sign of strength. Ability to hold at high level for a series of days was a resting or additional accumulation taking place. Market moved below minor resistance point "A" on a narrow spread and small volume. Rally back to previous level of closings on next day indicated no supply present. Aggressive buying came in when bulls saw this action.

This type of action would show lack of demand, with additional downside movement probable.

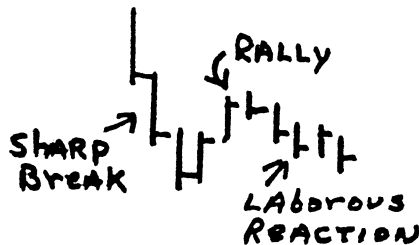
32. Market Action - When a commodity opens limit up and then trades down during latter part of day, but closes at limit up, the back-off indicates some supply and it may have a corrective move before it goes ahead. If it should open off the next a.m., it is almost certain that a corrective move will ensue.

33. Market Action



New minor trend low following new high is subject to vigorous rally; perhaps at least 2/3's. New high showed evidence of continued buying power. New low is perhaps first show of weakness, but with latent unexhausted buying power, commodity makes another effort. Failure of this effort might be place for a short.

34. Market Action



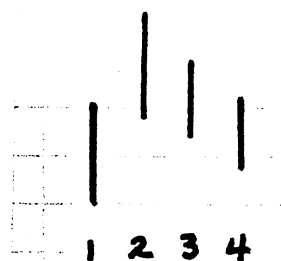
Rally after a sharp break generally will not hold. If it is good quality demand, it should prove itself by a laborious reaction and this is the time to buy--just prior or at end of reaction.

35. Market Action



Selling pressure may be dying out but there is no evidence of demand and may be subject to renewed liquidation--note low close (below previous day's low and close) and inability to rally to 1/2 point of previous day. Action prior to this last day may give you an idea on type of support here or whether it could be subject to renewed liquidation.

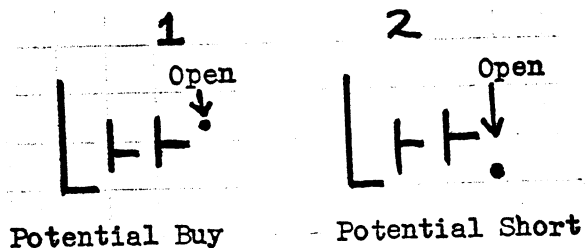
36. Market Action



Required conditions for purchase below spread of previous day are:

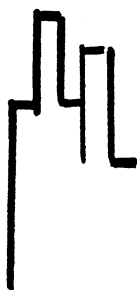
1. Previous move up should have been one of strength
2. Volume should confirm
3. Can only buy on 2nd down day (No. 4) if one of the following conditions prevails.
  - (a) Spread narrows
  - (b) Price on 2nd day opens above previous day's close and has now gone dead slightly below No. 3 prior to 11 a.m.
  - (c) Price opens down; spread:  $4 < 3$ ; and at 11 a.m. price is above open. You might also stop buy just above previous day's close.
  - (d) Close is at top of No. 4 on a narrow spread day.

37. Market Action



The short looks better than the buy because of wide spread on first day, which showed evidence of weakness you might take a position on opening in No. 2.

38. Market Action



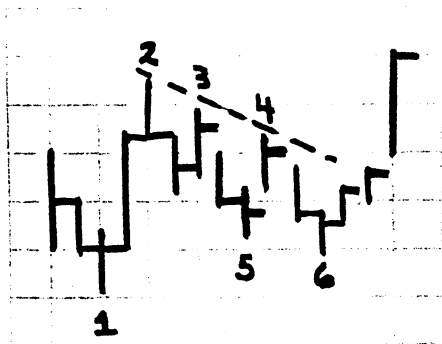
Action on first two days could be climactic. Following three days showed evidence of supply as noted by lower tops, wide spreads, and low close on last day. A possible short would be on lower opening on last day or on close, which indicates lack of follow-through. Previous day's move was an abortive short covering rally.

39. Potential Short



New high on narrow spread and reduced volume is sign of lack of buying pressure. Shorts are not scared into covering. If close is in the lower part of range, longs should be covered. A lower opening next a.m. might be a good position to short for a trading turn.

40. Buy Situation



The thrust from 1-2 covering three days is a potentially bullish signal. A buy is indicated if further technical action is constructive.

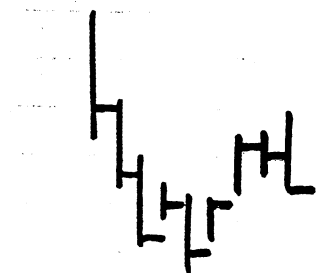
Action from 2-6 shows market wearing out supply. Note narrow spreads at points 5 and 6.

Note thrust action on wide spreads at 3 and 4.

The two days following Pt. 6 show market gaining strength and making a fourth attack on trend connecting 2, 3, 4.

Pt. 6 could be considered a spring and purchased.

41. Type of Supply

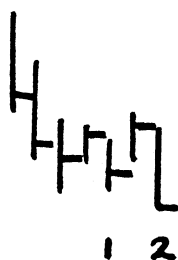


Type of supply may be determined by how a market moves up or down. One that jumps up quickly and then sits there for two-three days on narrowing spreads might be a good short sale, particularly if the previous down move showed evidence of supply.

(Converse also true)

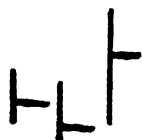
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42. Spreads



Spreads and volume are indispensable in evaluating direction of move. Pt. 1 might indicate move coming to an end. However, Pt. 2 in relation to Pt. 1 shows supply coming in and suggests further downside action. Volume may or may not increase at this point.

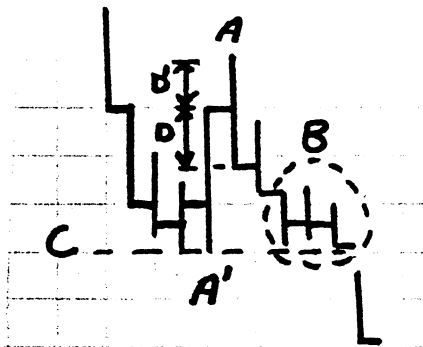
43. Potential Buy



When you have a day of wide spread following two narrow range days with higher bottom, significant movement above two previous highs, and close above two previous closes, it is a buy or sell in the converse. You should have follow-through on the next day. If you don't, you are less certain of the wisdom in a long position.



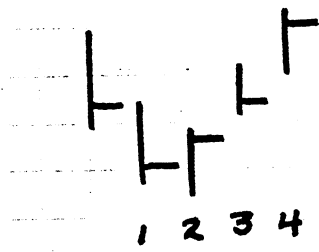
44. Potential Short



Two possible places for a short position are shown:

1. The  $D^1/D$  relationship of less than 1.0, with wide spread on downturn day at "A". Volume shows very significant increase.
2. The three days circled at "B" show no rallying power whatsoever after losing all gain from  $A^1$  to A in three days. Low close on last day is place for taking a chance. Next day's action should break out the lows with a wide spread and increase in volume and close below "C". Otherwise, you may have a bad position. Closings pointed the direction down.

45. Potential Buy



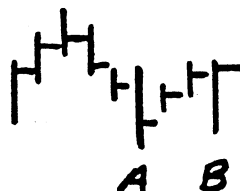
Move on two days down to Pt. 1 indicates weakness. Points 2 and 3 look like corrective rally. However, note Pt. 4 in relation to Pt. 3. This is a show of strength and is a potential buy. Spread widened, volume slightly increased and close was high. Even Pt. 3 in relation to Pt. 2 showed some strength. Entire day's action was above previous day.

46. Market Action



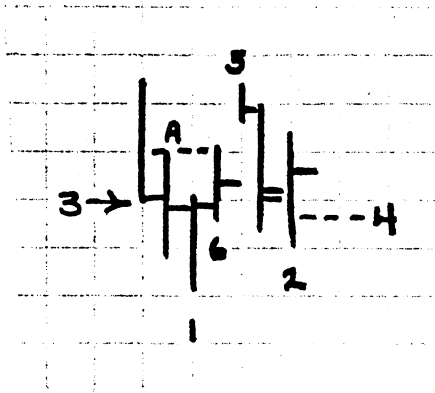
Gap opening on downside is a sign of weakness, but is not all conclusive. If further trading during the day fails to break this opening, that could signify strength.

47. Potential Buy



- A. Selling climax
- B. Sign of strength, particularly if this day has more volume than selling climax day.

48. Potential Buy



Point 2 was a buy as evidenced by:

- Higher bottom by  $1/2\phi$  (2 versus 1)
- Broke previous day's low by only  $1/8$  showing limited supply
- Spread was modest and closed near top
- Closed significantly above previous day's close
  - At  $1/2$  point of previous day's spread
  - Above cluster of closes at Point 3

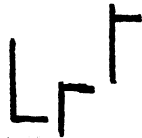
High supply was not evident at Point 5. However, volume was higher at Pt. 5 (up volume) than on the next day (downside) which is a positive factor.

- Day No. 5 showed some buying power as it made a significant new high above two tops at Pt. "A". A weak market would not have had the ability to move above Pt. "A"
- Cycle changed (three days up and only one down)
- High at Pt. 2 showed ability to move above close at day No. 6.

Negative factors

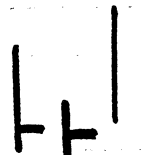
- Market in major downtrend.
- Previous day's spread was wide and closed below close on day No. 6. Also, low on day No. 6 was broken (however, not decisively, and it had sufficient buying power to close off the low).
- If bought, the next day should show good demand (wide spread, high close and increase in volume), otherwise, it could be subject to renewed liquidation. For instance, a close below Pt. 4 would call for a short sale.

49. Market Action



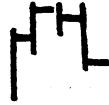
Widening spread compared to first day signifies demand and continuation of upmove. Note high close.

50. Potential Buy

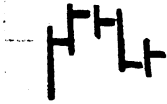


A wide spread after a narrow range implies demand (in up case) and a potential move in the direction of the wide spread.

51. Potential Short

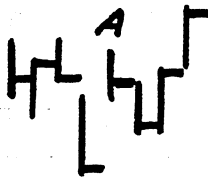


If this is action in which major move is down, then this is worth a nibble on the short side, with close stop. On fourth day, note low close below three previous closes and wider spread compared to third day.



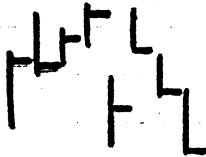
However, if action on next day is as shown, short might be abandoned.

52. Market Action



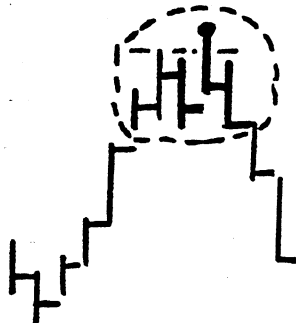
Jump-up at "A" after sharp break on wide spread indicates underlying demand and might be bought on test of bottom under right conditions. (Wide spread and close at top of range) Conversely, a dull rally after sharp break might indicate more weakness to come.

52a. Market Action



This is jump-up after sharp break where conditions were not right on test of bottom. It went on down. The jump-up had a relatively narrow spread, closed at bottom, then went on down. Probably best to wait until second day after jump-up prior to taking a long position.

53. Potential Short



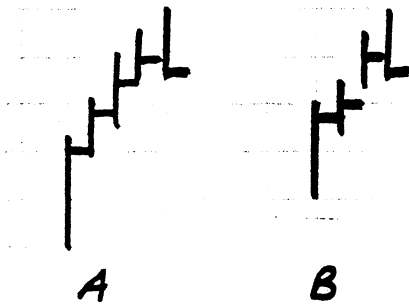
Top - Note five days at top with relatively narrow spread and no significant upside progress. On first day, there was a gap, but spread was narrow and volume high, indicating supply. On third day, spread slightly increased on the downside. It opens in new high ground on the fourth day on very bullish news, but could not hold it. Low close on fifth day with relatively wide spread below four previous closes was opportunity for short.

54. Closing Price Reversals

Factors to consider:

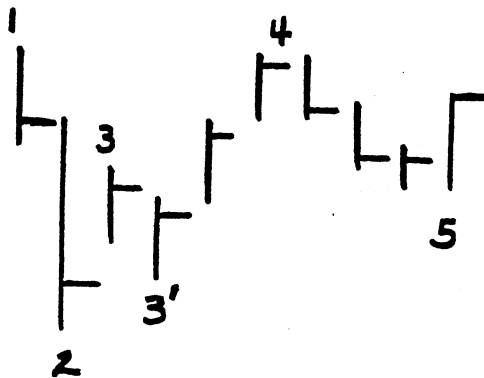
- Spread - wider the spread, more significant
- Volume - heavy volume is more convincing than less volume
- Number of closes it reversed (two are more significant than one)
- Previous high/low points. If a closing price reversal occurs, which goes above a previous high, but closes back down, it is more likely to be a true reversal.
- Duration of move - if a move has been underway for some time, a closing price reversal is more likely to be a true one.
- Safest closing price reversal is one in direction of trend
- Safest closing price reversal is one following a narrow range day.

55. One Day Reactions



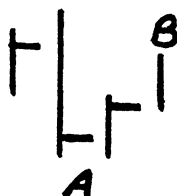
"A" is more likely to have only a one day reaction than is "B" because in "A" you have four strong up days signifying underlying strength. At "B" you have three up days, but move is obviously not as strong (thrust is shorter).

56. Potential Buy



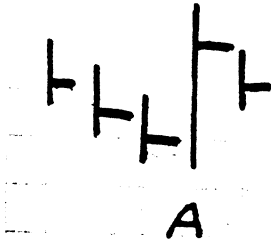
- Buy at No. 5
- 1-2 is a shake-out
- 3 shows some demand by relatively wide spread and jump-up from previous day.
- 3'-4 shows three days of widening spread and good demand.
- 5 - wide spread and high close--good demand--previous evidence also shows good demand. Also market held at higher level than 3' for three days.

57. Potential Short



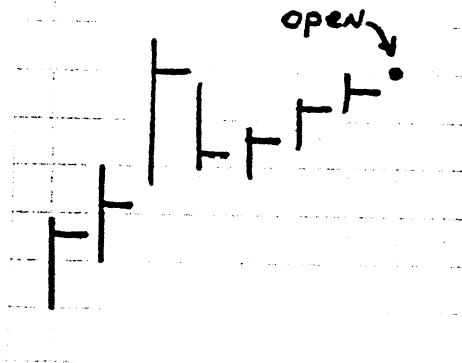
Wide swing down at "A" is a potential show of weakness. Short may be possible at "B" for a minor swing down. This is not so if day "B" has wide spread with high close.

58. Potential Buy



This is not a short, but a potential buy. Wide spread at "A" could be short covering and/or underlying strength. A low spread at "A" would indicate no significant buying power.

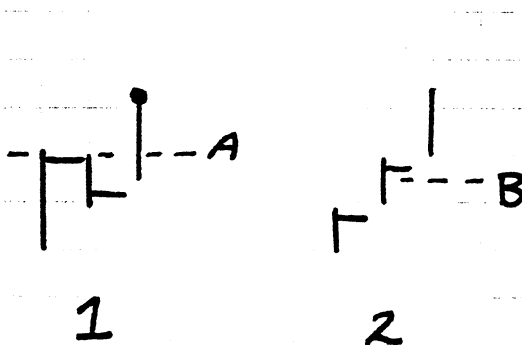
59. Market Action



Situation as shown is hazardous and perhaps longs might be liquidated because:

1. This is third day up, thus it is time for a reaction.
2. Demand in two previous days has not been aggressive.
3. Price is near previous top where heavy supply was present.  
- If price goes above opening level and holds past 10:30-11:00 a.m., this shows latent demand and a good chance for continued upmove.

60. Placing of Stops

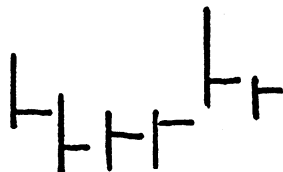


If price at 11 a.m. is below opening but still above previous day's close, probably the best method of liquidating a trade is:

1. Place a stop just below previous day's close.
2. Enter sell order in upper 1/2 of the day's range, MIT, or hold until close.
3. Near close, if still in, enter stop on close just below 1/2 point of range, or keep stop as is (below previous day's close).

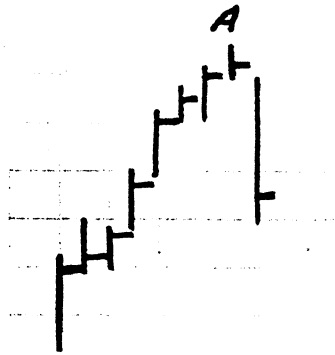
It is probably a wise idea to liquidate in Case 1, if price at 11 a.m. is below Pt. "A"--previous highs. However, in Case 2, it may be wise to hold on past 11 a.m. and let stop protect you at Pt. "B".

61. Potential Buy



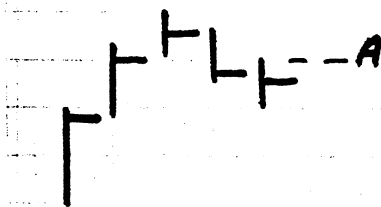
Market moved above two narrow range days and showed wide spread, Narrow range day on last day shown would indicate a potential upmove.

62. Market Action

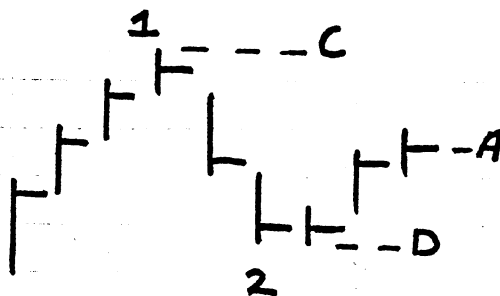


After sharp run up as is shown at "A", with narrowing spreads and making very little progress on closes, a correction may be anticipated and in some cases, it can be most severe.

63. Narrow Range Rules

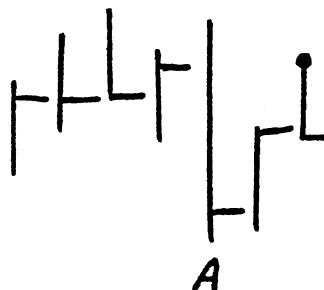


- ± Go long on opening above "A".
- Go long if price at 11 a.m. is above opening and "A".
- Go long if close is above "A".
- Place stops below narrow range day or the day following NR.



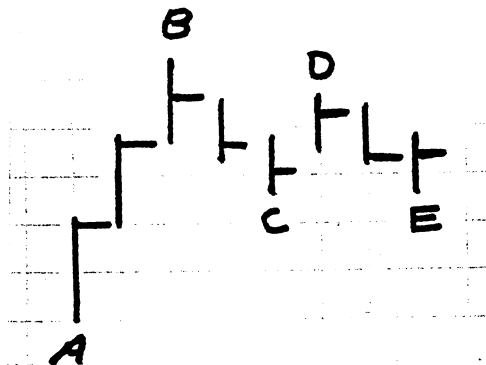
- Go short on opening below "A".
- Go short if price at 11 a.m. is below opening and "A".
- Go short if close is below "A" at bottom of range.
- Place stops above "C".
- Be prepared to take profit below "D".
- Should only consider going short if move from 1-2 offers attractive profit potential.

64. Potential Short



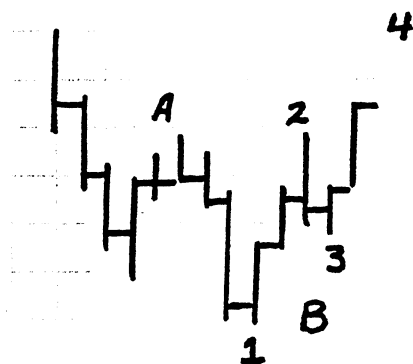
Wide swing down to "A" is a sign of weakness. The reversal day is the place to try a short for a swing down to vicinity of "A" and perhaps further.

65. Preparation for Move



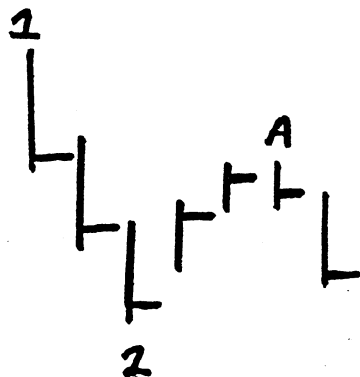
- A-B - Sharp rally of 2-3 days.
- B-C - Recession about 1/2 way back.
- C-D - Another rally of perhaps one day.
- D-E - Second recession of only two days.
  - Volume dries up, high close.
  - Correction is around 65% of A-B move.

66. Market Action



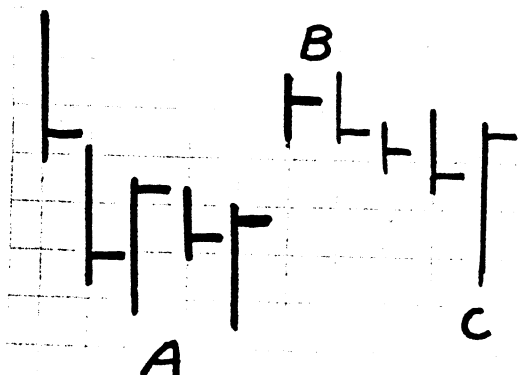
- A - You had a closing price reversal, but unable to follow through for two days.
- B - Sharp rally from 1-2 followed by closing price reversal (CPR). The CPR was not followed through. Should not short in view of sharp rally indicating demand.
  - After move 1-2, always good chance 3-4 will be of similar magnitude.

67. Potential Short



Lack of demand after showing large supply in move from 1-2. Opportunity for short at "A".

68. Potential Buy

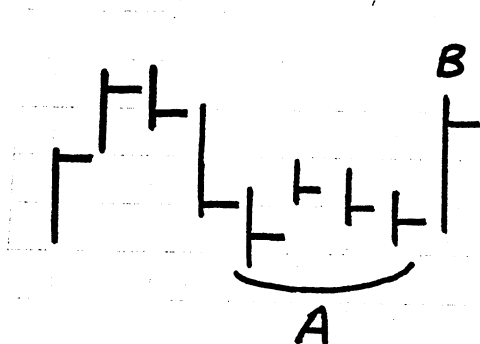


A - Shows four days of support indicating demand and perhaps accumulation.

B - This is a jump-up on increased volume which is partial confirmation that "A" might be accumulation. First three days after "B" was on extremely low volume, certainly implying no aggressive supply.

C - This was payoff day. It dipped down to low of "A"—found no supply and rallied aggressively above three previous closes and closed on top of wide spread with increase in volume.

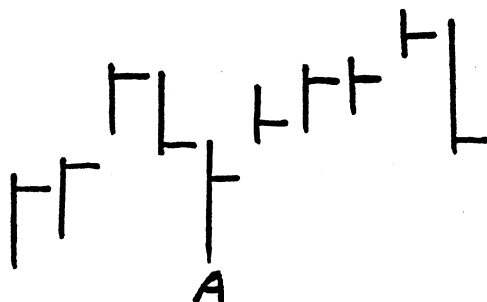
69. Potential Buy



A - Four days of support.

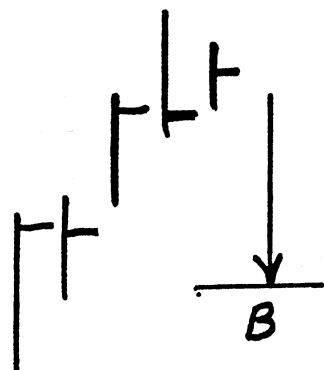
B - Wide spread on upside with increase in volume.

70. Potential Short



A - This is a wide swing down and indicates supply is entering picture. Then to have a narrow range followed by wide spread on downside with low close put final touches on it. Bears have won.

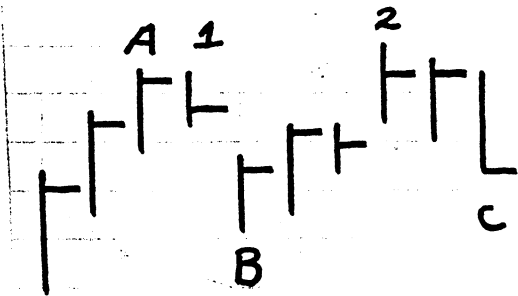
71. Overbought



This is an example of an overbought market. The fourth day shows a great deal of supply as is confirmed the next day (narrow range). Market corrected down to point "B" before resuming uptrend.



72. Potential Short



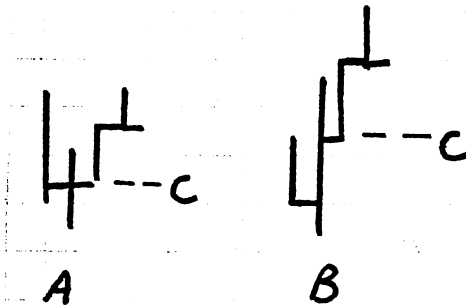
A - Supply coming in as evidenced by shortening of thrust.

B- Move down to "B" was more than it should be.

C - This is a very evident show of weakness and should be sold short as evidenced by:

- Wide spread on downside
- Low close. Closed below low of previous day.
- Closed below a number of closes on wide spread.
- Double top at 1 and 2.

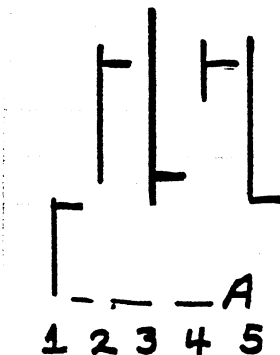
73. Market Action



Case B shows aggressive rally and bottom day looks climactic, thus a buy point is in the area of "C".

Case A has a dull rally and is a good candidate for a short. Bottom area does not look climactic. In any event, it is certainly not a buy in vicinity of "C".

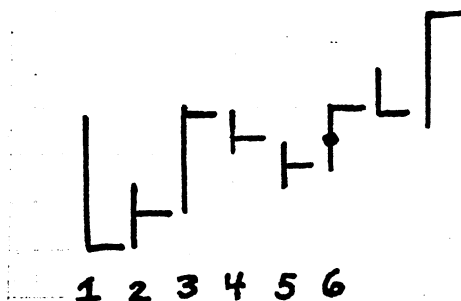
74. Market Action



Which day is likely to have follow-through on downside, day 3 or 5?

Day 3 is a reversal day, which follows a very strong up day, thus you are likely to have a bounce back up. Day 5 follows a relatively weak up day, closes on bottom (day 3 has some bounce off bottom), thus, you are likely to have follow-through on downside with support coming at "A".

75. Market Action



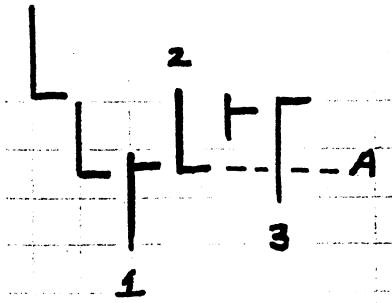
Day 3 shows latent demand.

Days 4, 5 and 2 are reluctant down days.

Day 6 - Higher opening is point to buy.

Second possible buy point is on close above high of day 5.

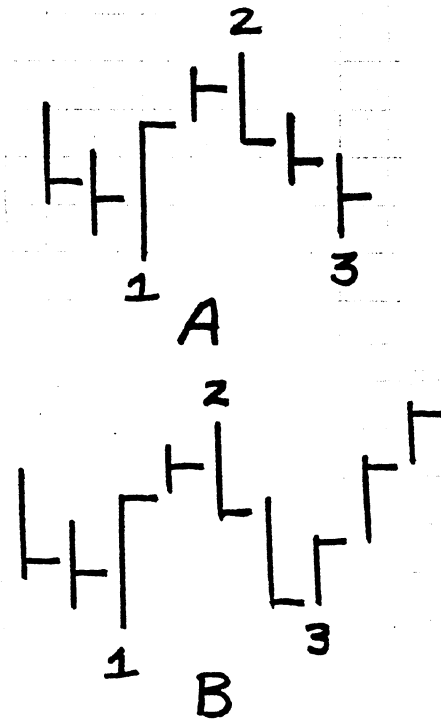
76. Market Action



Buy

1. A three day drive down
2. 1 1/2 day rally--it might appear that another three day down is in the offering, however, at (1) you had a sharp (wide spread, high volume) reversal day, which could be climactic. The inside day indicates selling pressure on the downside is diminishing.
3. A reversal day that goes below the two days at "A" and snaps back up, is strong indication that downturn is over for present and market will make an upside attempt.

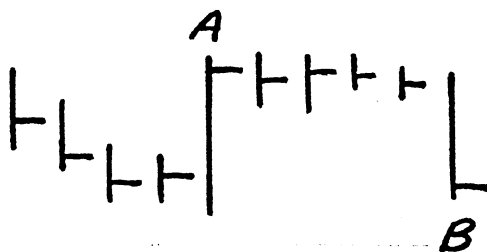
77. Market Action



Will a Previous Bottom Hold?

How a market approaches a former low can give clues as to whether or not the low will hold. For instance, in "A" the market has good rally up (1-2). The question becomes--will it hold as this low is again approached (2-3). The answer is probably no. We see lower lows for three days. Closes, highs and lows are all lower. There is no spring action, which indicates no aggressive demand. For this bottom to hold, some demand should be seen, as in "B". Drop to Pt. 3 was rapid, but note next three days. Good demand.

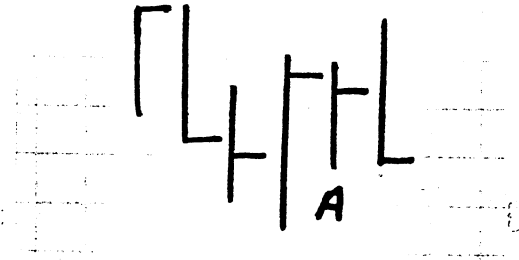
78. Thrust Action



Thrust action can indicate potential buys when out of flat or rising bottoms. Do not buy at "A" on thrust with action each day showing lower bottoms. Can short at "B" as thrust was below flat top.

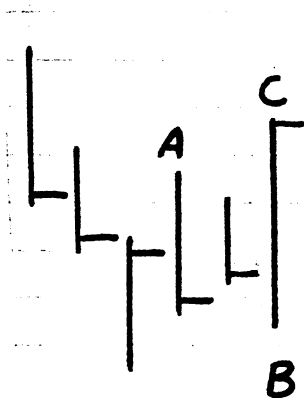
Thrust out of tight formation should show wide spread and increased volume, otherwise, the formation is subject to question.

79. Potential Short



The inside day at "A" indicates lack of follow-through on upside and its relatively wide spread is in itself some expression of weakness. Last day shown is a big show of weakness. 11 a.m. rule might get you in at better price than close.

80. Potential Buy



A - The downside reversal day at "A" had no carry-through on the downside.

B - Higher bottom

C - Wide spread with high close indicates aggressive demand.

- It closed above four previous highs and is also the second reversal day.

81. Potential Buy

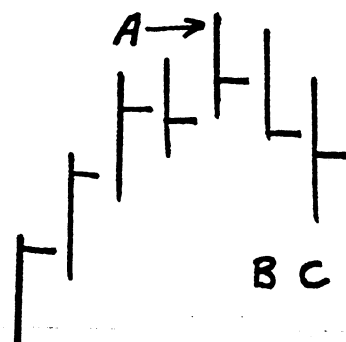


Second day is a jump with relatively wide spread and high close.

Third day looks like big weakness.

Fourth day aborts this action and closes at high. Worth a scalp on the long side.

82. Potential Short

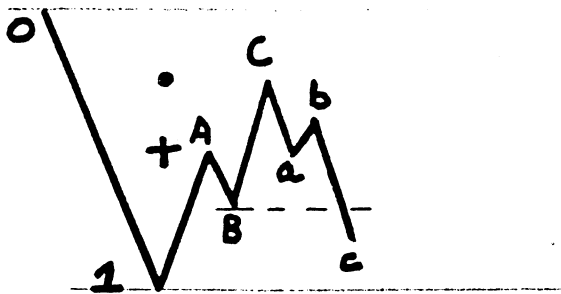


A - Unable to go ahead. Supply coming in.

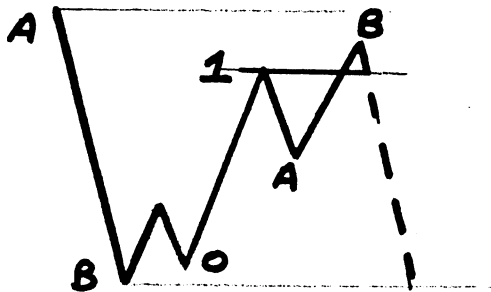
B - Wide spread on downside with low close.

C - Some buying coming in the market, but it still is weak, as evidenced by lower closes and wide spread on downside.

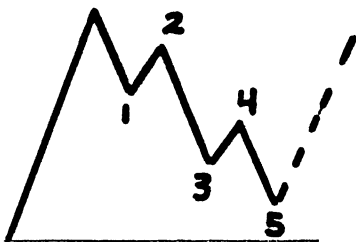




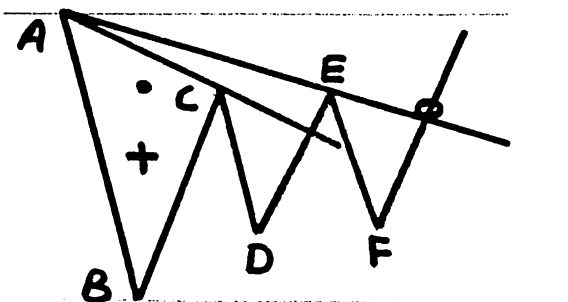
- 0-1 is trend down.
- ABC up to 75% pt. implies a minimum 5-pt. triangular correction.
- If abc holds above 1, market is neutral.
- If abc holds above B, market trend is changing to up.
- If abc breaks Pt.1, trend remains down.



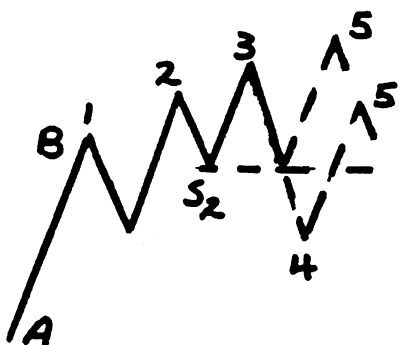
- AB is directional thrust.
- If AB is shorter than 0-1 and barely penetrates Pt.1, beware of a possible move back to test low at 0.



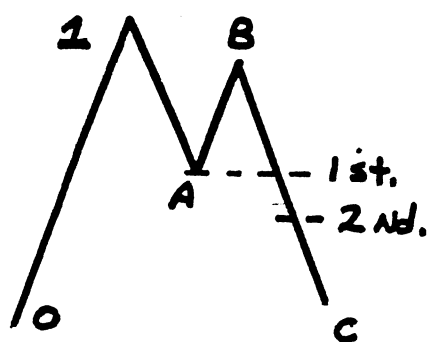
- When 5 wave down is completed and 5 is shorter than 3, an aggressive ABC rally is a possibility. Added fuel is possible if this is at a former low.



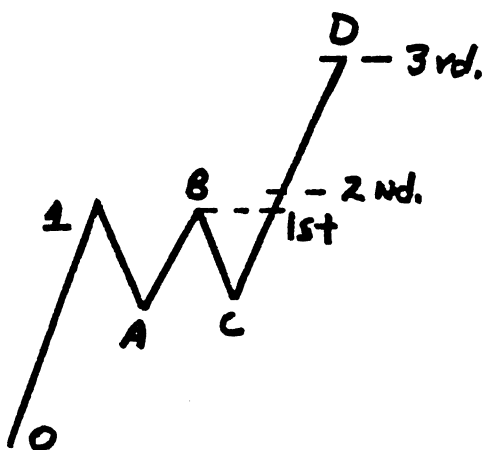
- AB is a potential sign of weakness.
- BC rally is 75% or more. This type rally implies a minimum ABCDE correction.
- D is at a higher level than B. E is equal to or above C.
- Potential buy pt. is penetration of AE trendline.



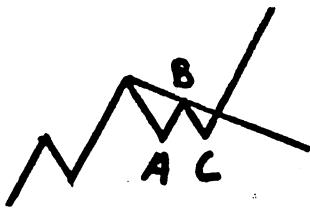
- AB is a directional thrust.
- 1,2,3 is 3-drives to a possible top with a correction required.
- 3-4 is the correction. If 3-4 terminates at or above  $S_2$ , strength is shown and a continuation movement is possible.
- If 3-4 goes below  $S_2$ , it is possible that entire movement may be over and this is sign of weakness.
- If 5 then terminates below 3, it is a possible short.



- 0-1 is directional move.
- Strength is shown if A terminates anywhere above 0.
- BC objectives
- 1st -  $BC = AB$
- 2nd -  $BC = 1A$
- Nominal objective is the average of 1 & 2.
- A third driving force is for movement to come back to point of origin or 0.

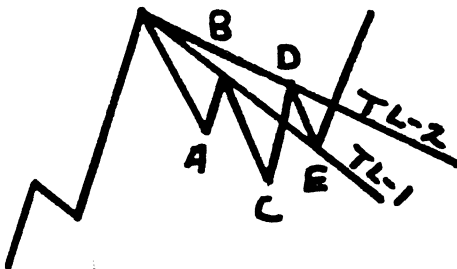


- Compound Objective
- 1st  $CD = BC$
- 2nd  $CD = AB$
- 3rd  $CD = 0-1$

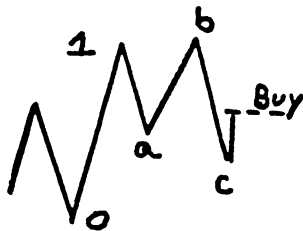


-Breaking of a TL connecting a new high and first rally point is a purchase when penetrated, provided A & C are at the same level.

Pt. C should be confirmed by the high of the low day at C being penetrated.

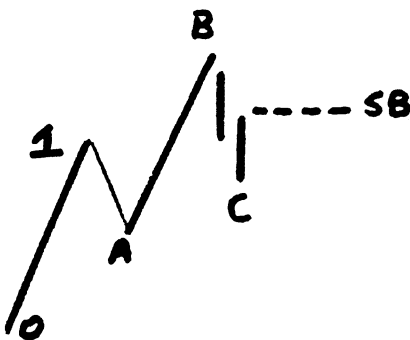


If C is below A, wait for second TL. Might purchase when TL-2 is penetrated if E is at same level at C or higher.



- A buy may be made above the high of the low day at C. However, stop must be below O until price moves above the high at b.

Time in A-leg forecasts whether the correction will be a simple A or a complex ABC or ABCDE. A long-time period in A forecasts a complex correction.



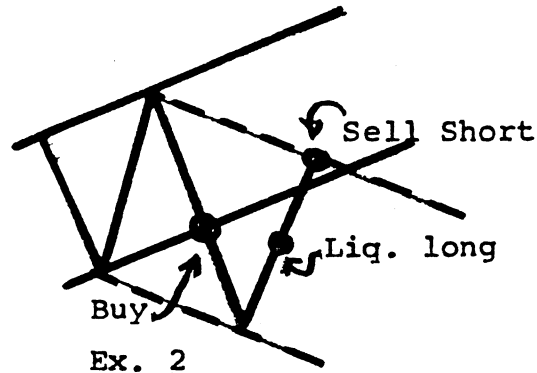
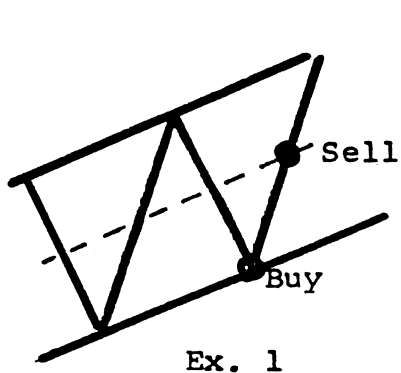
-Irregular correction (B higher than 1)  
Best entry is one tick above high of low day at C.

-The steeper a rise, the more likely a market reaches an overextended condition and subject to a major reversal.

-Look for reversal indications at points in space where a reversal is likely to occur. Less evidence is needed when trading with trend.

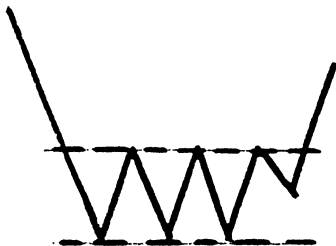
## Scalping Techniques

- A. Buy at extremes of trend channel and take profits at 50% point in channel.



Example 2 shows the action to take when a new trend channel is set up.

Major channels should be employed.



Lines. A "line" in trading is a relatively small range of congestion. The longer period of time that a commodity stays in a "line", the greater the movement will be when it breaks out.

Volume, activity, and spread should increase on the breakout or the move may be a false breakout.

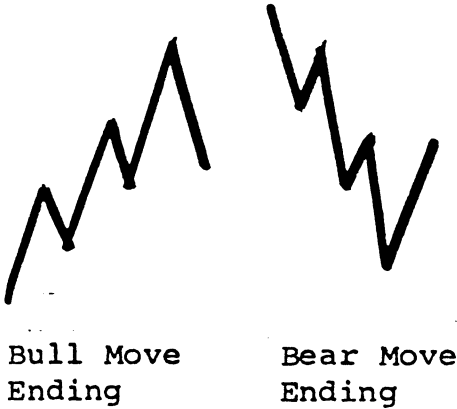
"Lines" do not occur at market tops, generally. Tops are characterized by sharp rallies, deep declines and churning action.

A topside breakout is usually signalled when volume is light at the top of the "line" and picks up in the lower part.



CHAPTER 4

HOW TO DETECT A TREND CHANGE

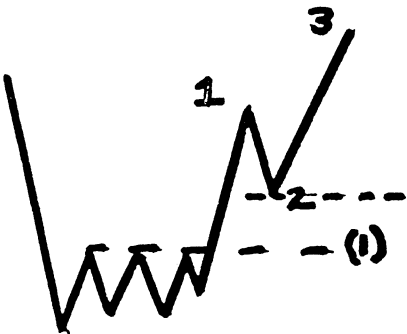


Move Ending - A bull/bear move ending is signalled when a reaction/rally exceeds any previous reaction in both time and space.



A bull move generally will not occur without base development. After the move ending signal, as described above, there will be a number of reactions from this rally. They frequently number 3-4 and take around 3-5 weeks to complete. There will be a rising tendency during this development. In the last recession, the lows of each day will tend to be higher than the preceding day.

The above description is ideal. Markets can and do change from accumulation to distribution during such phases. The trained mind must be flexible in his thinking and adapt accordingly. Generally, it is best to follow the latest movement in time and space when scalping in such areas.



When market moves out of base development into a running phase, it may be wise to take profits after a 1,2,3 up. Potential buy back point is at (1), point 2, 50% point of entire move or at point of breakout.

Never buy a 50% reaction of 2-3 move by placing order blindly. Might consider purchase on a 2-day reaction.

Swings and proportions of swing do not work as accurately when market is in a congestion phase.

Steps in a Trend Change (Bear to Bull)

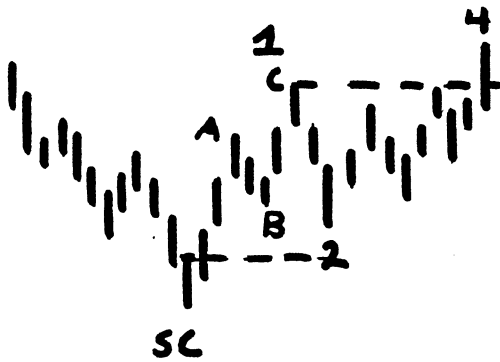
1. Rally exceeds any previous rally in both time and space. This is frequently an ABC counter move.

2. Dip to 2 holds above entire bottom range of SC (selling climax).

3. There are usually 3-4 dips inside the trading band (1-2) prior to any worthwhile move.

4. Confirmation of a trend change comes when the resistance level at 1 is penetrated.

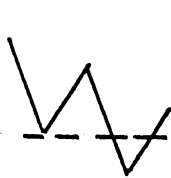
- Place to take a nibble on the long side is 1 tick above the high of the low day at 2.



In a trend change, the first wave down prior to an evident show of weakness will be labored but steady and shows time and space on the downside as at Point 1. The sharp break then comes at 2.

Spring and Upthrust Action

A spring or upthrust has stronger implications if more than one pivot point is reversed. Also, the action has greater significance if this is not the most recent pivot point.



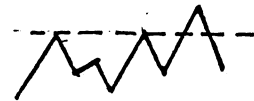
Weak Spring



Strong Spring



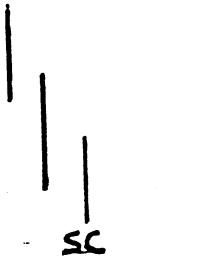
Weak Upthrust



Strong Upthrust

Steps in a Trend Change

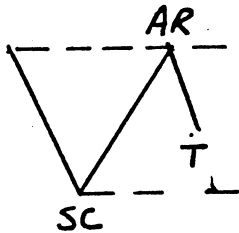
1. Selling climax - sharp move down with wide spread and heavy volume.



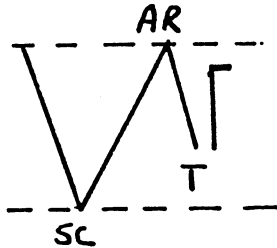
2. Automatic rally (AR) which:  
 (a) exceeds any previous rally in both time and space  
 (b) rally completely retraces (CR) all of the last minor trend down.



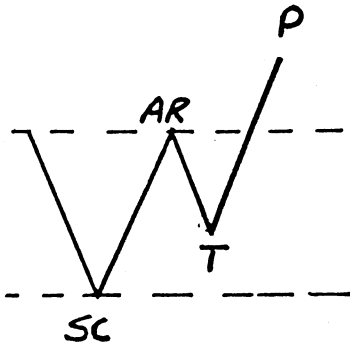
3. Test of low on reduced volume. Test should hold above previous low.

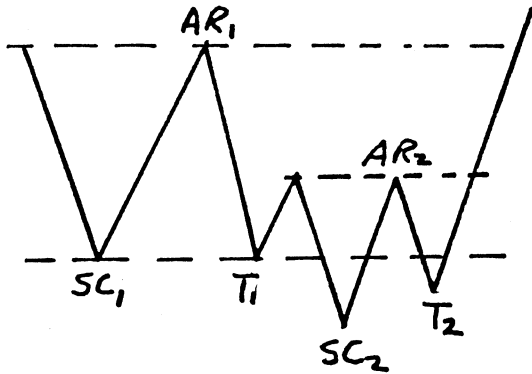


4. Thrust action after test. This shifts momentum to upside.



5. Penetration of AR top.



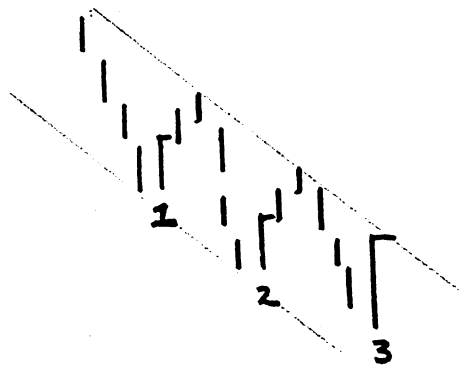
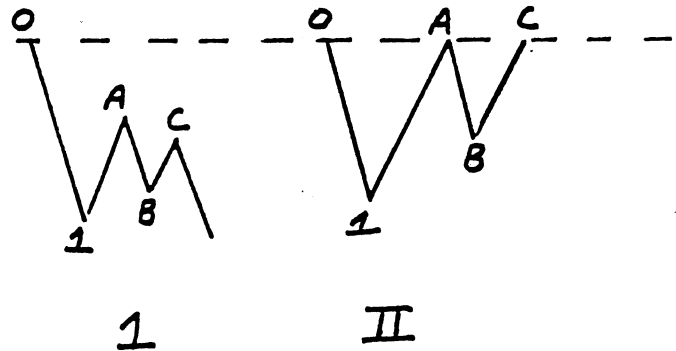


Compound Trend Change Formation

Frequently the steps outlined in a trend change are a compound formation as shown in example.

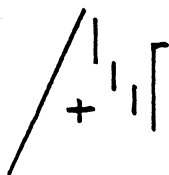
Complete Retracement Theory

- A complete retracement of any move establishes the line of least resistance.
- Example 1 shows move 1A has not completely retraced 01, thus, it is a potential short after C.
- Example 2 shows move 1A completely retracing all of 01, thus, it is a potential buy after B.



First day in Rally frequently reveals technical makeup. Compare the spread and close of this one day to the preceding one day rallies coming off the lows. A stronger day implies a shift from down to neutral. Be alert for a trend change. If this is in a bed of accumulation it may be worth a nibble on the long side.

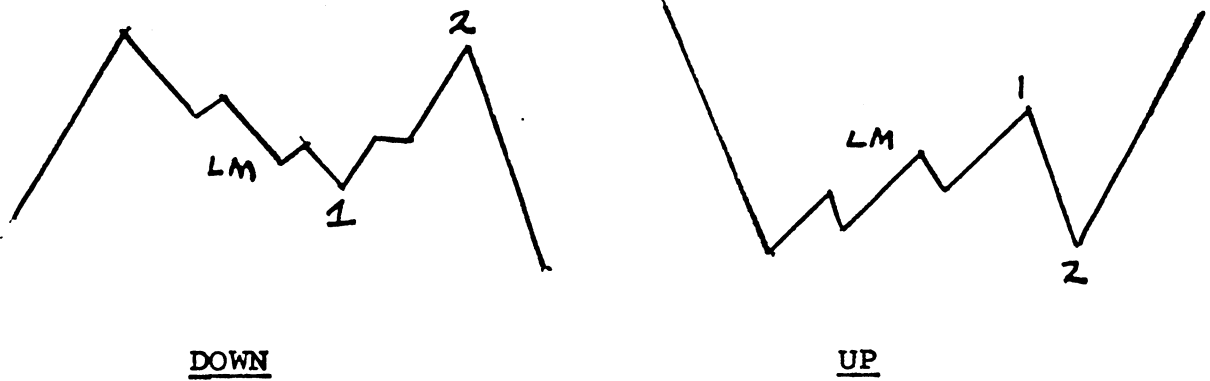
50% Points



- A dip below 50% point and then a sharp rally back is a sign of good support at that level.

## Labored Moves (LM)

It has been a casual observation that the direction of any labored move in congestion frequently points the direction of the next intermediate move out of congestion.

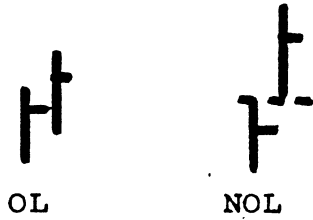


Movement 1 is the labored move.

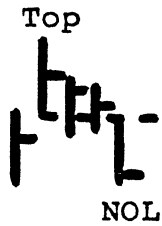
Movement 2 is the counter move correcting the overbought (oversold) condition. If Point 2 fails to break out, look for a sharp counter move in the opposite direction.

A "labored move" is one that moves generally in one direction without much volatility and it frequently is composed of five minor waves.

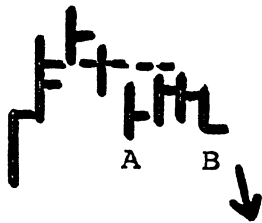
DAILY OVERLAP THEORY



Overlap (OL) Day - An overlap day is where any part of the daily range trades within the range of the previous day's range. Non-overlap (NOL) day is where no part or say only 10% of the daily range covers any part of the previous day's range.

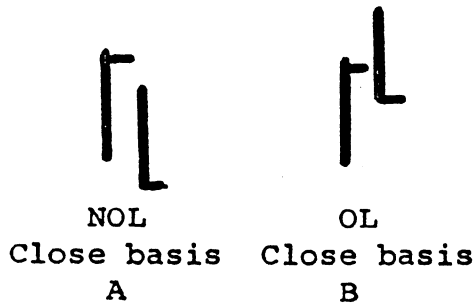


NOL top - is when a day sells completely below the range of any day in a top area. This may be the first or several days later.

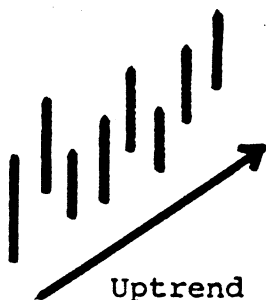


Stop in Trend Change by NOL Theory -

- A. A NOL day occurs
- B. 3-OL days take place with close on 3rd day in lower part of trading range & below the close of two prior days.

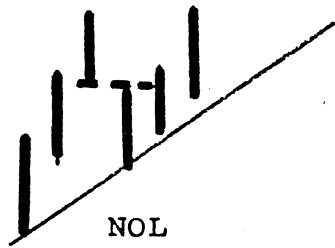


NOL Close Basis: When a price fails to overlap a close. OL close basis: Price overlaps previous close. A shows greater weakness than B.

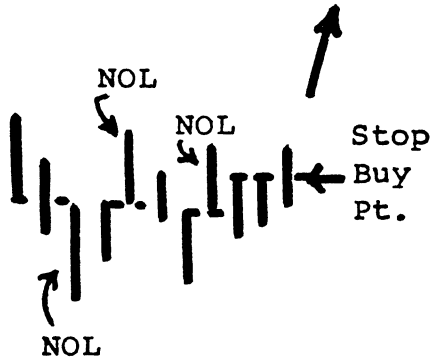


Overlapping days (OL)

- Trend remains in effect as long as days overlap.

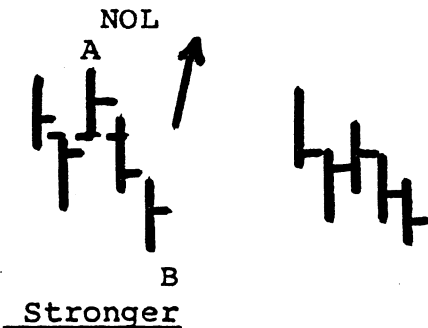


- Trend may still be in effect when days do not overlap.
- However, this often is preliminary supply (demand) entering the market and one should be alert for possibility of trend change on next rally.
- Trendline more valid when connecting pts. on non-overlapping (NOL) pivot points.



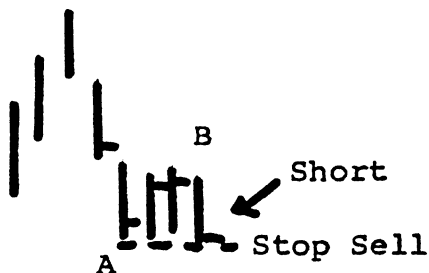
Overlapping will point the direction out of a congestion phase. Absence of NOL day on the downside after the last NOL up points direction as up. Such action generally comes at the end of a congestion phase.

Price remains in a given direction as long as prices overlap the previous day's close. Trend changes when prices fail to do this. One signal is not enough to act on.



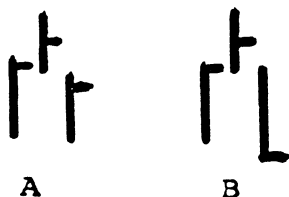
A NOL day is much better indicator of a possible trend change. Be alert for another NOL day at B.

Combination of NOL & OL theory based on previous day spread & previous day's close is probably best used to indicate trend change.

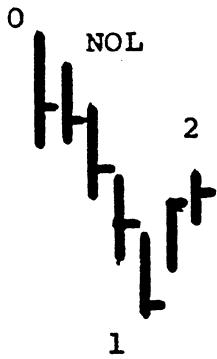


NOL Theory for use in Trend Change

Move down to A had 2-NOL days indicating possible trend change to down. Following 3-days showed complete inability of any rally. A short was in order at low close on 3rd day or on a stop below the 3-day low. Very important for a low close on 3rd day.



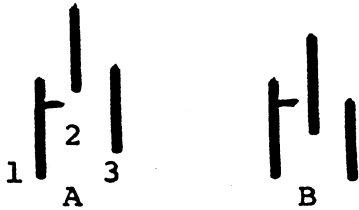
B - NOL day is much weaker than A as spread is wider and close is in lower part of daily range.



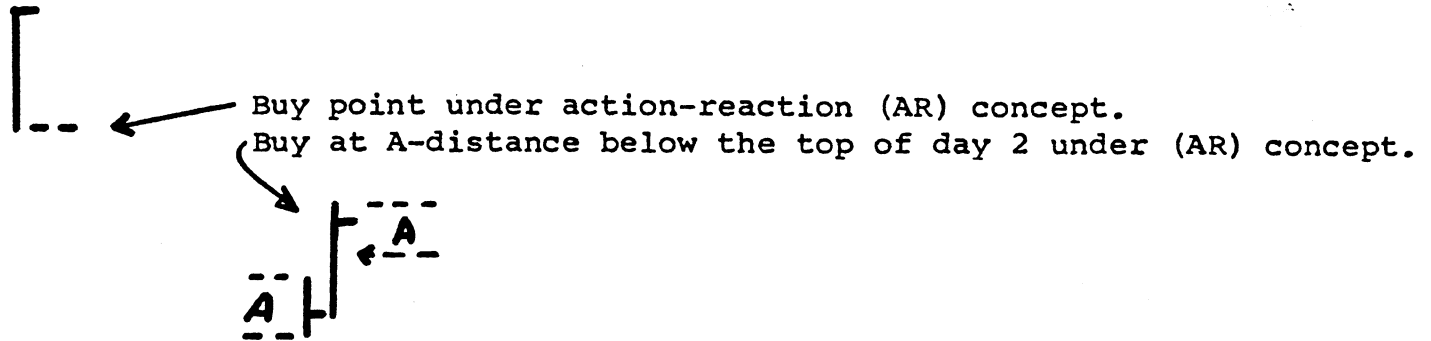
Action-Reaction Concept.

Action to suggest termination of 1-2 movement.

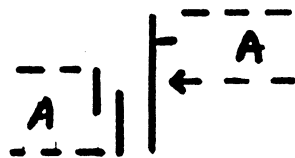
- N.R. followed by wide spread on D.S. forecast a 2-3 move equal to 0-1.
- A topside NOL should be present.



Situation A is much stronger than B. Reason is that day 2 trades mostly above the high & close of day 1.



Buy at A distance below the top of day 3 under (AR) concept.

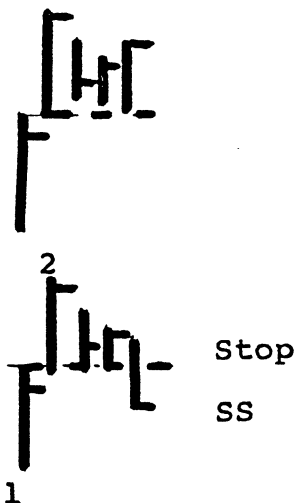




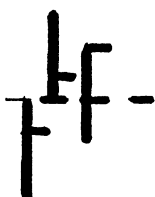
TWO DAY INTERSECTION THEORY

Two-Day Intersection Theory -

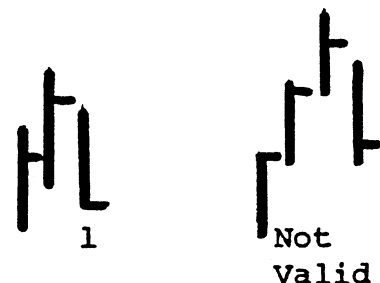
Action: Two wide spread (WS) days on upside. Next three days unable to penetrate intersection. High close on third day forecasts upmove.



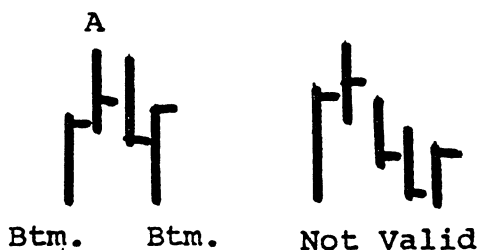
3rd day closing below two wide spread day intersection & below low of past 3 days forecast down move. Added confirmation is if day 2 has a shorter spread.



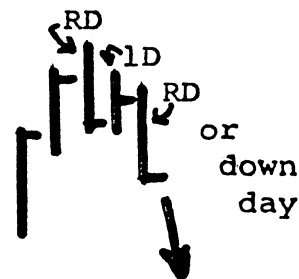
Market dips below intersection of 2 WS days and closes higher indicates continued upmove. Close above 2 previous closes best.



Downmove forecast. Close below 2 day intersection and 2 previous closes on wide spread indicates downturn. 3rd day should have largest daily range of the 3 days. Action questionable if 3 up days preceded action.

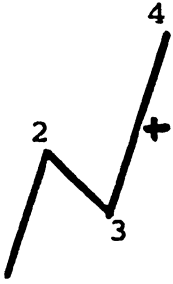


This type reversal day action coming at a double bottom indicates upmove. Market closes above previous day's low and close. Not valid unless at a previous or higher bottom. Action also not valid if the move down from A took two days or more (ex. reversal day). 70% of time it is false signal.



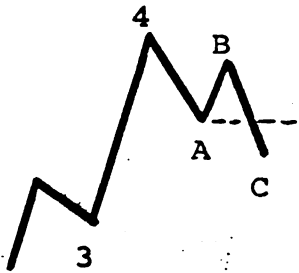
- 2 RD's or 1 RD & 1 down day with an inside day in between is usually indicative of a trend change.

TRADING RUNNING MARKETS



Techniques for trading running market

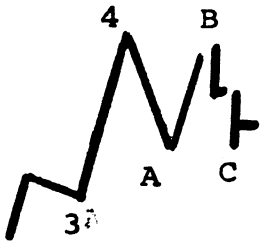
- Never buy a 50% reaction of 3-4 on first day in reaction.
- May enter a buy order at 50% point on a second day reaction.
- Safest buy is at Pt.3 provided  $3,4 \geq 1,2$ .
- Best buy is on an ABC reaction to the 3-4 move.



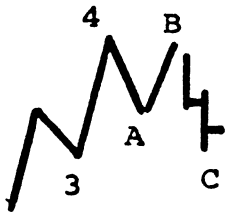
Buy Points Are:

1. At point where BC equals 4A
2. At level of A
3. Stop buy 1 tick above A after price drops below A.

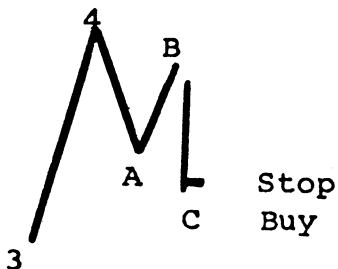
- In some cases, move C will terminate above A which is bullish. Buy a 2-day reaction.



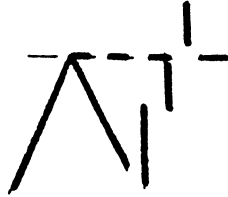
- Buy a 2-day dip after B, even if it terminates below A. Spread on second day down after B should shorten with close above mid-range.



- Stop buy one tick above close on first day market closes below A.



Narrow range and heavy volume in new high territory is opportunity for short scalp for a trip back across trading zone.



A 3-day counter move places market in an exhausted overbought condition particularly if spreads are becoming shorter. A short above the high of the 2nd day may be appropriate particularly if major trend is down. Generally the 1st or 2nd day after this top day will tell the answer. A widening spread on the downside should appear or another swing up may be in the picture.



After any sharp reversal, expect a minimum 1,2,3, up or at least a double top prior to a resumption of down effort.



-How a market moves away from a point determines whether or not that point will hold on next testing.

-Always go back 3-4 cycles to determine market direction.

-Thrust after period of inaction usually points direction of move.

-Three periods after thrust reveals whether or not it is false or real.



Demand Thrust



3-Day Confirmation



False Thrust

DAY TRADE SCALPING RULES

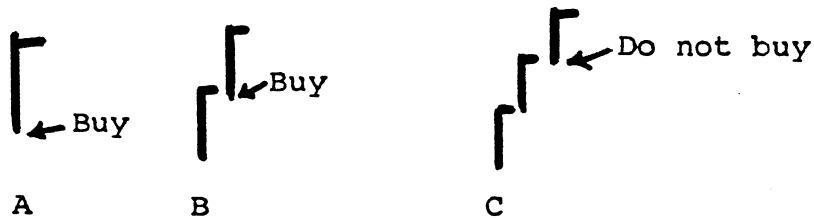
A market has three conditions:

- A. Up trend
- B. Down Trend
- C. Congestion

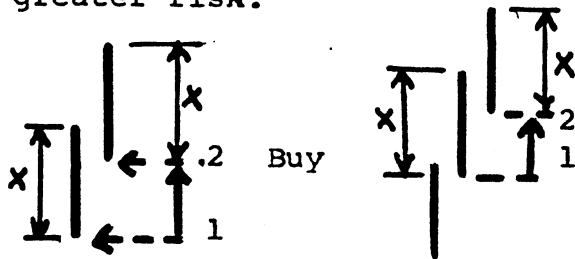
Uptrend Scalping rules

Buy Points

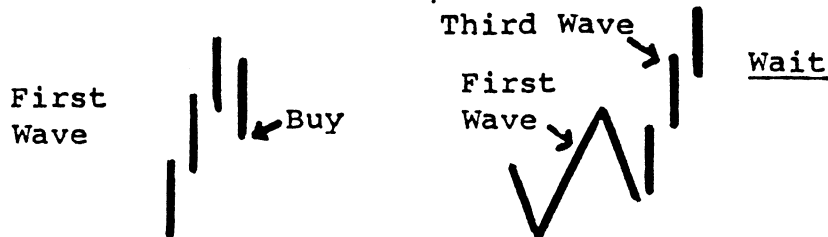
1. Never short a market in an uptrend.
2. Enter buy order at a daily low on the first or second day in a run. Never buy the low of a third day up in a run.



3. Under condition A & B it is also permissible to buy one daily spread below the intraday high of a move. Such action carries greater risk.



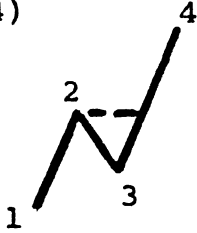
4. Under condition C, where there are three or more days in an upmove, enter long position at the low of the first down day or on the close of the first down day. Do this only on first wave action. Wait in third wave action.



5. Enter buy order one daily spread below the close of a second upday.
6. May also enter buy orders on the basis of action-reaction concept, i.e., buy at a point equal to the previous reaction.

### Profit Points

1. Take profits at previous high or at swing objective (1-2 equals 3-4)



2. Take profits at high of previous day.
3. Take profits at 0.5-1, daily spread distance above the close on the day of entry.
4. Take profits on close of a three-day up move.
5. Take profit one spread distance above close on day of entry. There is no set condition as to which one of these conditions will yield the most profit. Generally, the safest approach is to take profits by rule 2.

### Stop Loss

Stop one tick below (above) the last pivot point.

### Contingency Plans

The worst possible condition is to let a stop get caught. Sometimes this is unavoidable and the stop is there for protection. At other times, a long position may be liquidated at a daily high or at the 50% point of a daily range in which case the loss is minimized.

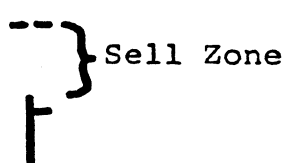
### Downtrend Scalping Rules

Same as the uptrend rules only opposite.

### Congestion Scalping Rules

#### Buy-Sell Areas

1. Buy daily lows or sell daily highs.
2. Frequently a better entry point is achieved by buying or (selling) on 0.5-1.0 spread distance from the point of close when the close is at the extremes of the daily range.

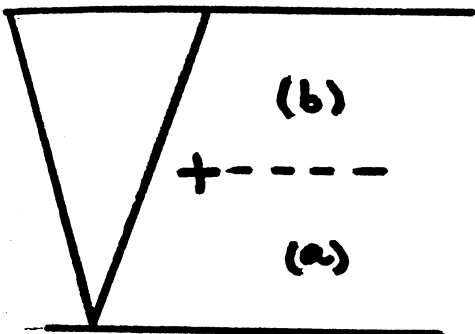


3. Buy/sell at previous daily highs, lows or closes.

### Profit Point

1. Take profits equal to one daily spread or at pertinent pivot points (previous highs, lows and closes).

## Day Trading Technique



When a clearly defined trading zone has been formed, one may frequently trade to advantage by:

(a) buying daily lows when below the 50% point and taking profits at daily highs.

(b) selling daily highs when above the 50% point and taking profit at daily lows.

### In a Running market

Bull Market. Buy daily lows preferably on a 1-2 day reaction.

Bear Market. Sell daily highs.

A variation to the above is to buy/sell channel extremes and cover at mid-range.

- Valid pivot point is one based on a 2-day reversal. A one day reversal is subject to question.

- When market makes new high, one of three things will happen:

- A. Continued upmove
- B. Sideways pattern
- C. Reaction

At new highs, a selling force is present. This selling force may be sufficient to terminate the move or merely correct an overbought condition. Action at this point will generally reveal whether or not move is terminal.

## SCALPING SYSTEM

Congestion - When a new high (low) on a chart is followed by at least two prices in the opposite direction. Prices do not have to be consecutive, however, close on second down day must be lower/(higher) than first day.

### Valid Congestion Patterns



(A)



(B)

### Non-Valid Congestion Patterns



### Hill's Day Trading

- Support and resistance points are the previous daily highs, lows and closes.
- Action around these points determines immediate direction of the market.
- A 5 or 10 minute bar chart can be used to advantage to evaluate market at these critical points.
- Action between high and low is in no-man's-land. Intraday action may be misleading until one of the critical points is tested or penetrated.
- Most of the time only sell at previous top, and only buy at previous low. There are exceptions to this, of course. A five-minute chart will usually reveal whether penetration is aggressive. A non-aggressive penetration calls for selling at a top or buying a bottom.

## CHAPTER 9

### DAILY TAPE READING TECHNIQUES

Analysis of soybeans indicates the potential of day trading for short profits, 1.5-3.0¢, is far greater than capturing the daily range. The following table illustrates this principle. One basic requirement is that markets have sufficient volatility. For instance, soybeans have an average of six three-cent moves every day. It is theoretically possible to make \$690 after commissions. No one can do that, however, what if one captures 1-2 per day over and above losses. The world is his oyster.

We have tried numerous variations of chart keeping, setting specific price objectives, etc. What we reached is shown in our check list.

#### ANALYSIS OF NOV. '78 SOYBEANS

<u>Date</u>	<u>Daily Range</u>	<u>Actual Moves ¢ - No. of Times</u>			
		<u>2¢</u>	<u>3¢</u>	<u>4¢</u>	<u>1 1/2¢</u>
8/31	6.5	10	7	4	17
9/1	7	5	2	1	9
9/5	11	11	5	4	13
9/6	11	7	3	1	17
9/7	6.5	5	3	2	8
9/8	8	8	7	4	11
9/11	9	10	7	5	18
9/12	4.5	7	6	2	17
9/13	11	17	8	7	27
9/14	11.5	12	10	8	22
9/15	6	8	5	3	16
		<u>100</u>	<u>63</u>	<u>41</u>	<u>175</u>
Average	8.5	<u>9</u>	<u>6</u>	<u>3</u>	<u>16</u>
Net/day (1)	390	\$585	\$690	\$495	\$640

(1) Net profit after commissions of \$35.



CHECK LIST  
DAILY TAPE READING TECHNIQUES

REQUIREMENTS

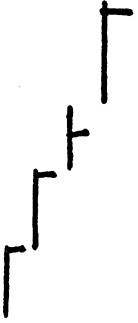
1. Five-minute bar chart
2. Swing chart
3. Stop loss & liquidation orders always
4. Pyramid - seldom wise, can sell double number of contracts at next action point. This is particularly true in congestion phase.

CHECK LIST

1. Trend - always trade with trend.
  2. Length of thrusts & reactions. Only enter trade when profit potential is there. Appropriate point is amount of previous reaction or 50% point.
  3. Number of support/resistance points below/above action point. The more support there is, the better chance of making profit.
  4. Elliott Wave Analysis. Market will generally move out of consolidation in the same direction it entered.
  5. Three-Wave Theory. Safest trade is after three waves against the trend.
  6. Time Cycles. Always mark on chart.
  7. Sharpness of rally/reaction away from prior pivot point will indicate if demand is aggressive or not, when that point is again approached.
  8. Number and length of thrusts in one direction.
  9. Support and resistance points. In uptrend, look to buy at or slightly below prior support point.
  10. Opening, previous close, and previous high and low are important action points and should be clearly marked on chart.
  11. Preliminary demand usually enters prior to a bottom.
  12. Angles of ascent/descent.
  13. Number of support periods immediately below point of going long. Best to buy on reaction to support after showing a sign of strength.
  14. L-formation weaker than V.
  15. If buying/selling A-leg, always wait 15 minutes or three periods. You may place buy order for the C-leg at swing objective or at Point A.
  16. It is always hazardous to buy a 50% reaction on the A-leg blindly. Wait for it to reach that point and show some stability prior to entering.
  17. Trade the tape. Do not scalp. By that, we mean, go with indications of the tape and do not have a rigid profit set, such as 2-3¢. One must be flexible in this area. Most of the time one is going for 2-3¢. Sometimes a good run is implied and one should stay in for much larger profits.
- 54 At other times, you are trying to save your scalp. Don't wait for stop to be caught if tape indications show you are in the market on the wrong side.

CHAPTER 10

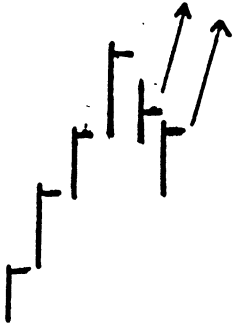
ACTUAL MARKET ACTION ANALYSIS



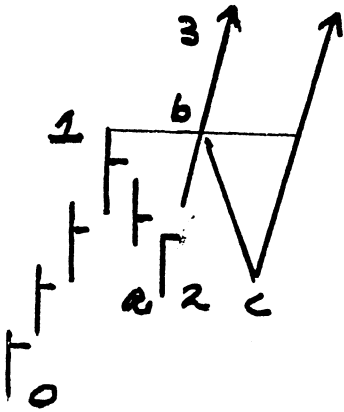
1. Sharp rally in both time and space.  
Action: Do not sell short. May buy at a one-day low or at 50% reaction point.

Market will support on this low on next test unless late in day and this action is on opening.

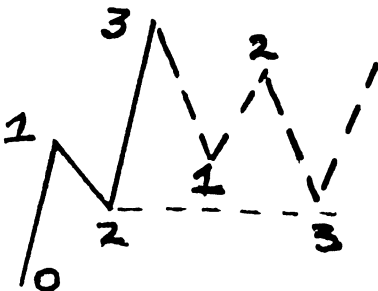
After a 3-4 day rally of this nature (unless at a terminal market end) three actions are likely.



- (a) A 1.0 to 1.5 day reaction, which is a buying opportunity for another leg up. Be careful if this is 2nd or 3rd leg up.

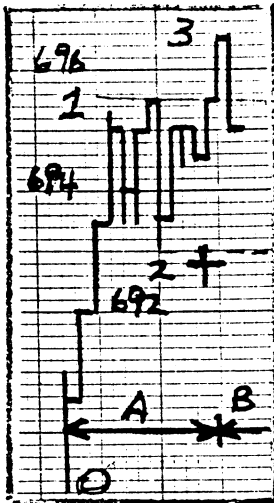


- (b) Another attempt to rally which will, in most cases exceed the Pt.1 top and will be 50 to 61%, as long as the 0-1 move. If 2-3 > 0-1, this is strength and may be handled as in (a).

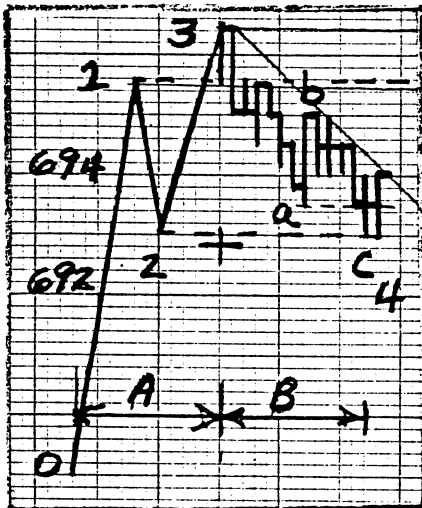


- (c) Market will move into congestion with an ABC type correction. Retracement of greater than 60% implies such action.

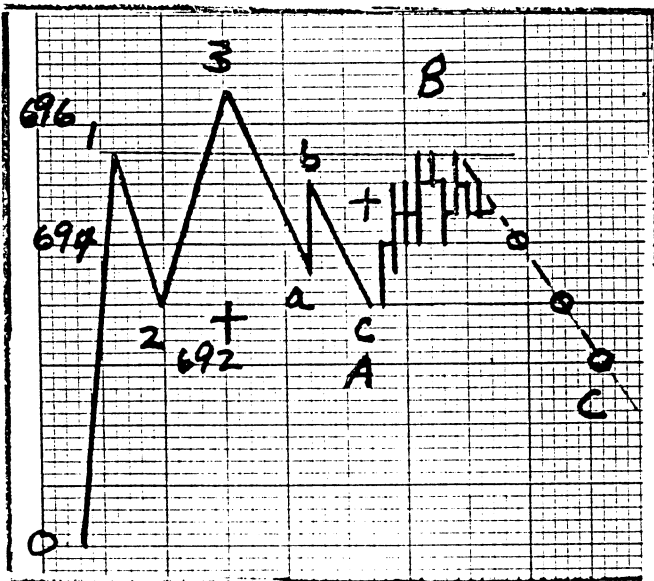
After 3, expect a 1,2,3 counter trend move back to Pt.2 or the 50% point. Time in counter move should approximately equal time in up move.



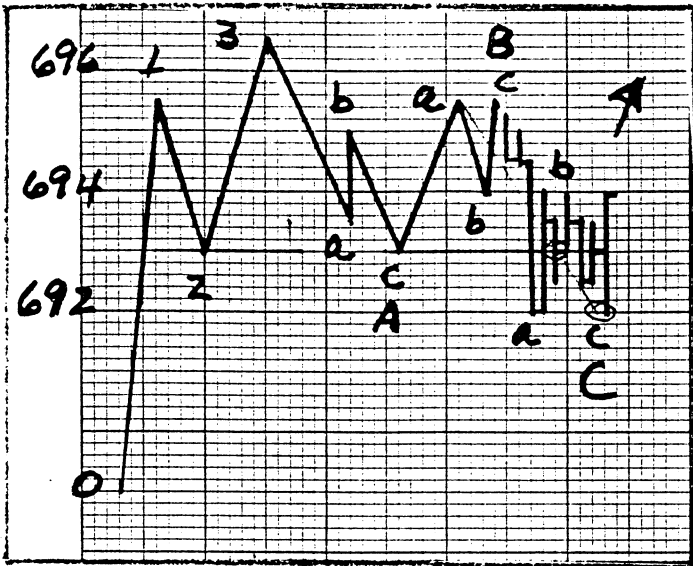
2. Typical upthrust after a 1,2,3 up with the 3rd wave being shorter than the 0-1 wave. This may be shorted for a minor move against the trend. Support point is at Pt.2 or the 50% point and this is a buy area for a trip back toward highs. Time point for buy is when B equals A.



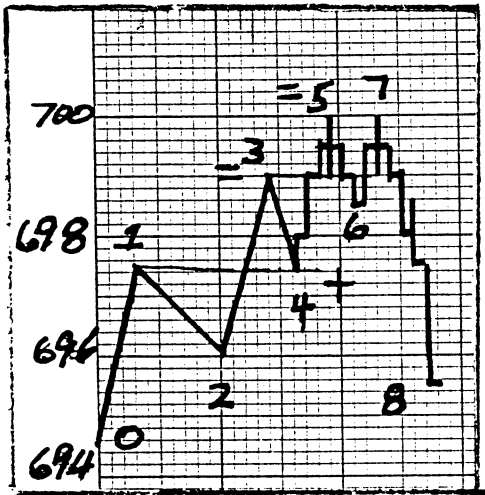
3. Dull a,b,c reaction back to support point mentioned in Ex. 1 in equal time frame was point to take profits and perhaps buy. Supply exhaustion noted when dip below "a" failed to uncover supply. 2-3 is forecast move up with Pt.1 also a resistance point. Move ending should be at Pt.1 or 3 after a 1,2,3 up.



4. 0-1 is directional thrust with congestion area remaining above the 50% point implying strength. A leg down was labored and in a minor a,b,c form. Correction to the AB move is now needed. Forecast is an a,b,c down with a swing objective at C. Support point "a" might stop the move. Pt. C should end the correction and market should have sufficient accumulation to make another attempt for new highs.



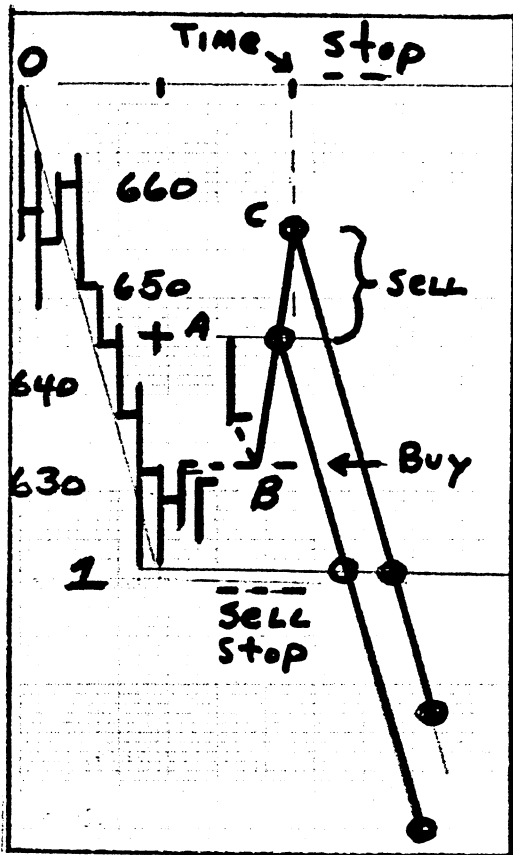
5. Market moved down in a minor a,b,c to the objective point in time & space. Rapid snapback after the dip below two major support points (2, A) confirmed the lack of heavy supply. The sharp rally from Pt.C after testing "a", confirmed no supply & aggressive demand. Market now ready to move out in a run equaling 0-3 in time & space. (Market moved up 11.5¢ in 45 minutes after last time period shown.)



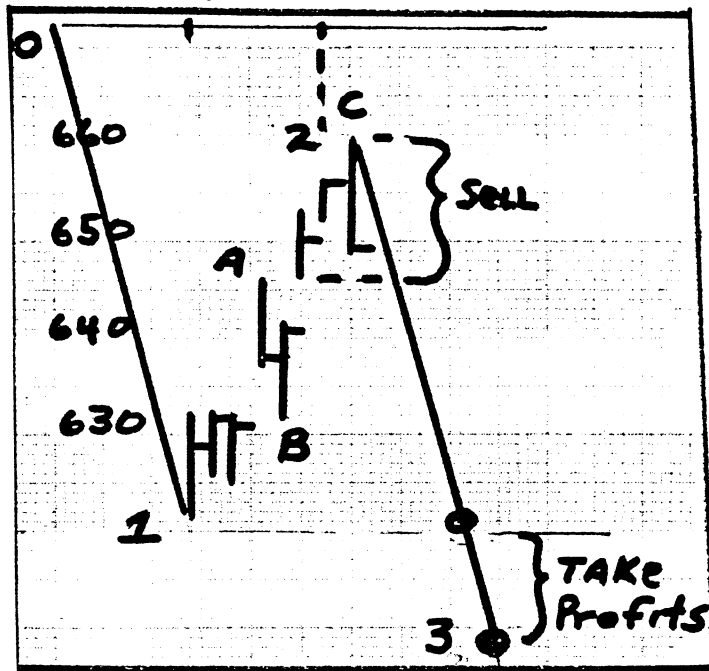
Move had 5-minor waves up. Weakness indicated in 5th wave by (a) market failed to reach objective, (b) spread shortened when it went above Pt.3 indicating no aggressive short covering or buying. Move 5-6 equalled 1-2 & 3-4 implying constant selling pressure. Failure of 6-7 to achieve new highs is confirmation of weakness. A minimum 1,2,3 down is now envisioned to at least the 50% point and perhaps full retracement.

Charts in this section are five-minute bar charts of soybeans. Note the similarity between this chart and any daily bar chart.

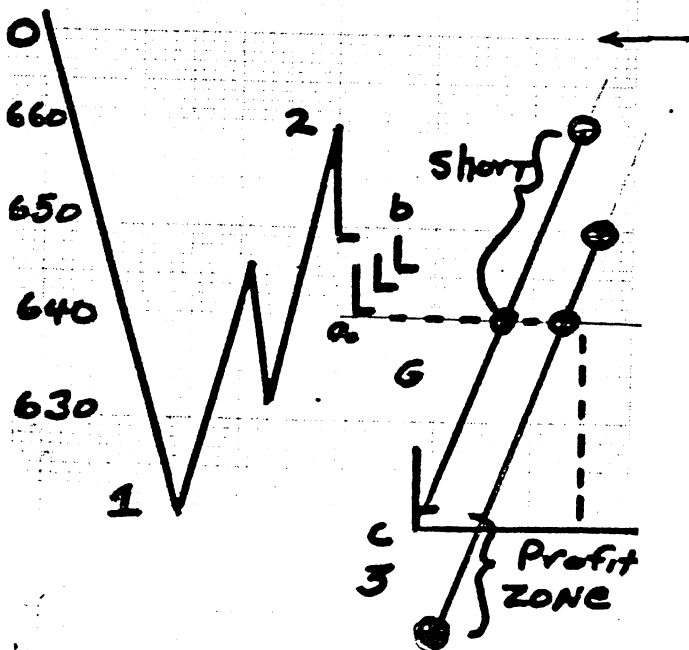
TECHNICAL ANALYSIS OF JULY '79 SOYBEANS



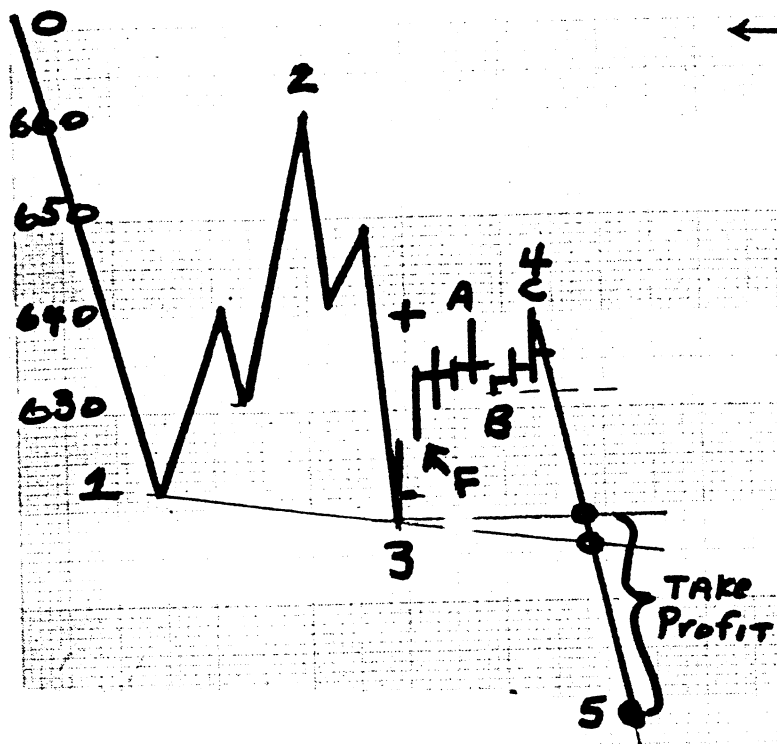
← Major trend down as shown by 0-1 movement of 8 days. Correction underway which may last 4-8 days. "A" rally left a gap--look for minimum ABC up. Support predicted at top of gap for B leg. Counter trend trade might be taken at top of 3-days for a move to the top of A or to C (1A = BC). Profit potential--14-25¢.



→ Outside day at C signals end of ABC correction. A 1,2,3 movement down now predicted. Objective is at prior support point or at 3 (01 = 23). Assuming entry at average point in sell zone, the profit potential is 33-45¢. Time to objective is 4-6 days.

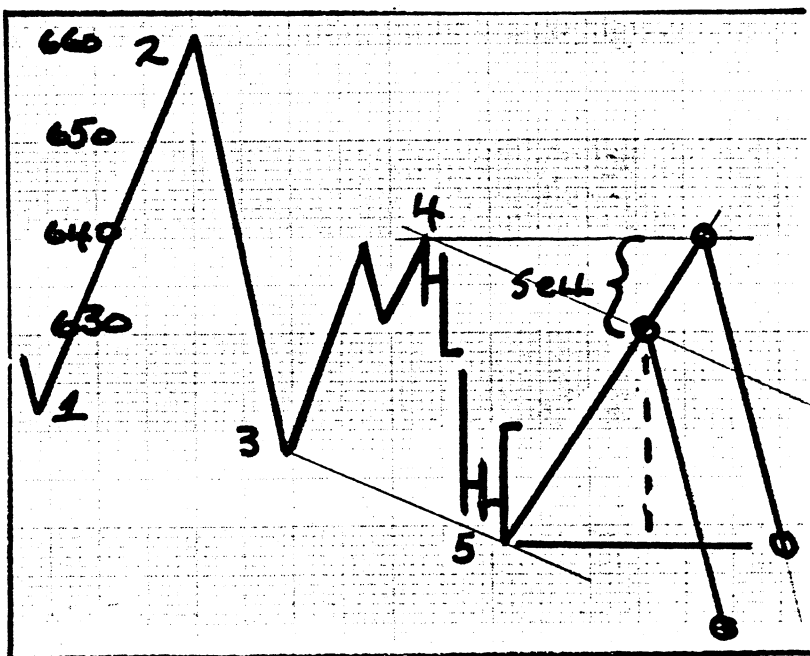


← Moment of truth at hand. Do you take profits at the first objective or does greed prevail and you hold on for still greater profits. Gap has left a vacuum, thus, an effort to fill would be normal. Market penetrated Point 1 and failed to uncover enough supply for a close below 1. Market has completed a minor a,b,c down. If market turns, an ABC up lasting as long as 8 days is possible. As much as 20¢ of the gain may be lost in this rally, if it comes.



← The complete change of sentiment at F confirmed a low at 3 and initiated the expected correction. What now? An ABC down, lasting about 5-6 days would now be normal. As 3-4 could not exceed the 50% point, penetration of 3 is forecast. This is the fifth major wave, thus, one should be alert for a major move ending. A close below B would initiate the beginning of the fifth wave.

Outside day signals end of wave 5. An ABC up predicted at this stage lasting perhaps 8 days. The three down days with the last one being a narrow range day, should have alerted one that movement is about over. Objective equal to 3-4 move. Trend would turn up by a close above 4. Note that this possible trend change is similar to the change on wave 2. (Narrow range day followed by outside day) Wave 5 was shorter than waves 1 & 3, which is another subtle change from bear to bull taking place.



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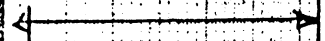
# SOYBEANS

JULY, 1979

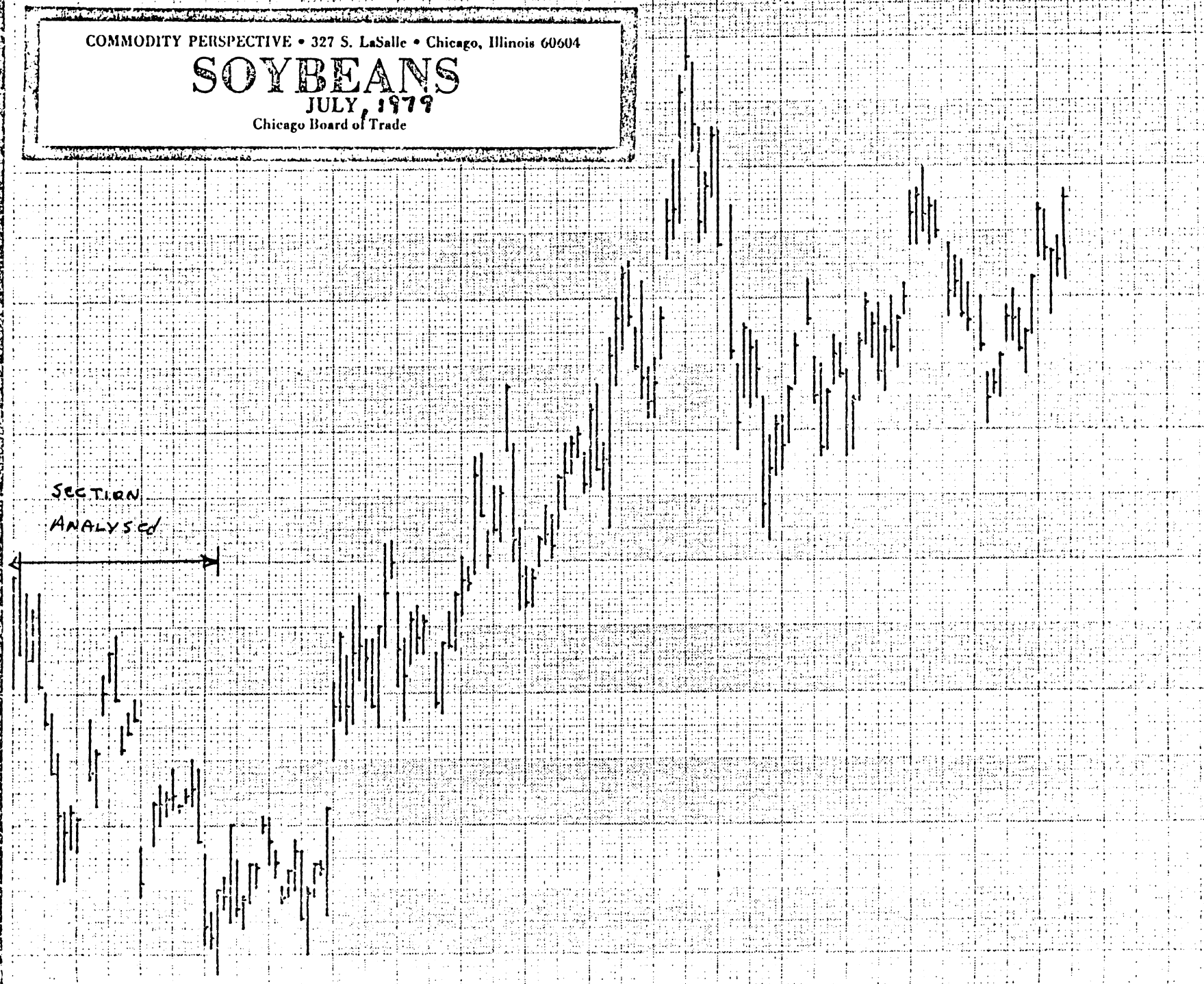
Chicago Board of Trade

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SECTION  
ANALYSED



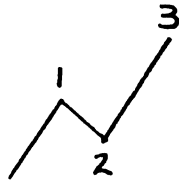
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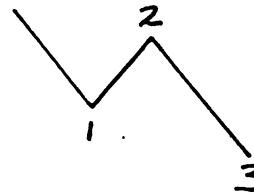
CHAPTER 11

WAVE ANALYSIS OF JULY, 1979 SOYBEANS

A Market Rule - Markets have a tendency to run in waves of 1,2,3 prior to changing direction. Occasionally, they have a 1 or 1,2,3,4,5 and on rare occasions a 1,2,3,4,5,6,7.



Three Waves Up



Three Waves Down

This knowledge can be used for considerable investment advantage. An examination of July, 1979 soybeans shows the following statistics:

Wave	No.(Includes ABC's)	Length		Average Length	
		¢	Time	¢	Time
1	7	22-61	2-5	38	4
1,2,3	11	18-50	4-10	31	7
1,2,3,4,5	3	44-80	13-16	57	14
1,2,3,4,5,6,7	1	63	13	63	13

Conclusions from this study are:

1. A position taken at the end of three waves will yield profits 73% (11/15) of the time. Profit potential is 22-80¢ if position taken at the extreme.
2. Average 1,2,3 wave movement is seven days in duration. The medium time is also seven days. The five-minute bar chart may be used to gain entry at the best price. Close monitoring of a move might begin at the fifth day in a movement.

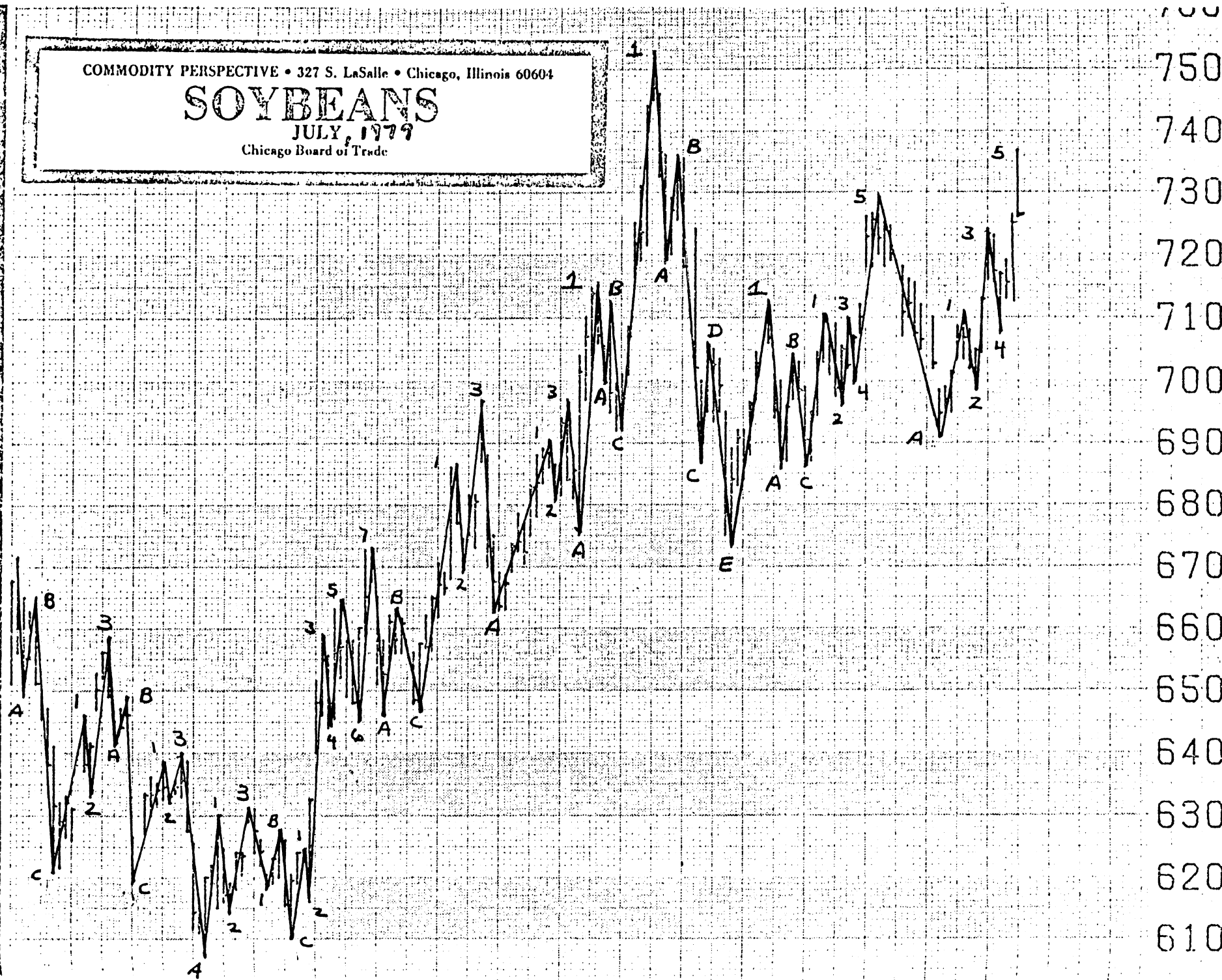


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# SOYBEANS

JULY, 1979

Chicago Board of Trade



FOUR DAY CLOSE & TRENDLINE BREAK

Students of market action are constantly seeking the perfect system which will eliminate all judgement and act purely on the mechanics of market action. Such studies, in our judgement, are doomed to failure as human nature is not an exact science. Nevertheless, there are mechanical approaches which will yield substantial profits if rigorously followed. One such system is the four day close and trendline break. Its performance when used in a current market option (July Soybeans, 1979) is tested.

Credit for this basic idea is given to Key Volume Publications (Box 407, White Plains, N. Y. 10602). They have used it with considerable success in the stock market. Rules are:

1. Draw a trendline (TL) connecting the last two or three daily highs or pivot points (use the one that gives steepest TL). Then observe:
  - (a) has the TL been broken
  - (b) was the closing across the TL
  - (c) did the closing exceed the last four or more closings ( or five out of the last six)

If the answer to these questions is yes, then you have an action signal. Stop is placed above/below last pivot point.

This basic system does not yield satisfactory results if a position is not liquidated until another reverse signal is flashed (note Table 1). However, performance is greatly improved if profits are taken at the average movement of a 1,2,3 cycle (or ABC). See Table 2 for this performance.

TABLE 1

Four Day Close, TL Break

<u>Trade</u>			<u>Profit</u>
<u>No.</u>	<u>Bou.</u>	<u>Sold</u>	<u>(Loss)</u>
1	638	626	(12)
2	634	621	(13)
3	634	631	(3)
4	623	627	4
5	630	619	(11)
6	625	619	(6)
7	632	653	21
8	664	653	(11)
9	665	673	8
10	674	673	(1)
11	674	700	26
12	707	700	(7)
13	707	722	15
14	696	722	26
15	696	691	(5)
16	703	691	(8)
17	703	720	17
18	707	720	13
	Total Net Profit		53¢

TABLE 2

Four Day Close, TL Break, Take Profits

<u>Trade</u>			<u>Profit</u>
<u>No.</u>	<u>Bou.</u>	<u>Sold</u>	<u>(Loss)</u>
1	638	652	14
2	634	621	(13)
3	634	631	(3)
4	609	627	18
5	630	619	11
6	625	619	(6)
7	632	641	9
8	664	653	(9)
9	665	679	14
10	674	673	(1)
11	674	694	20
12	707	700	(7)
13	707	723	16
14*	705	722	17
15	696	704	9
16	703	691	(8)
17	703	718	15
18	698	720	22
	Net Profit		118

% Profitable Trades 61%

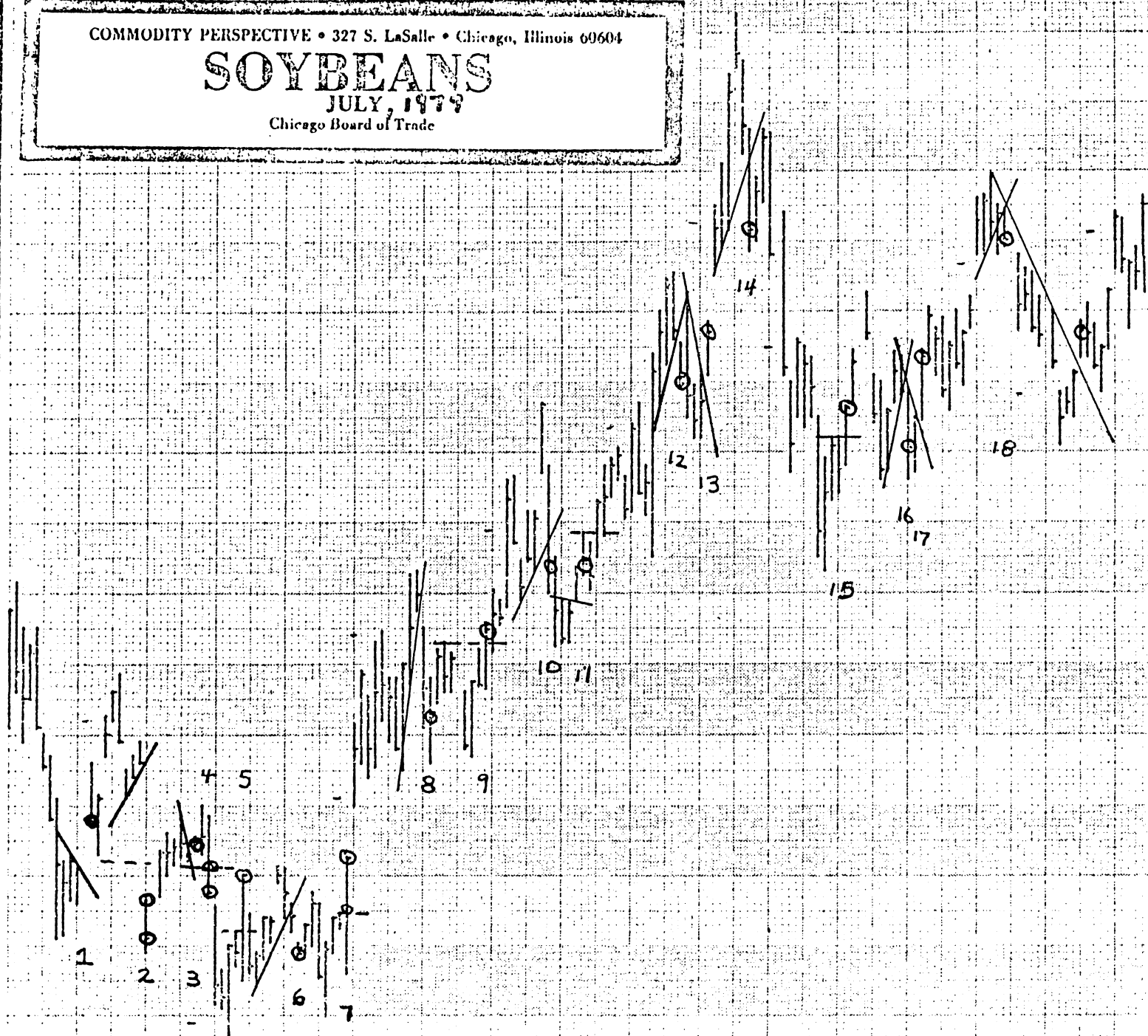
\*Take profits when total move equals 31¢  
(average amount of ABC move).

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# SOYBEANS

JULY, 1977

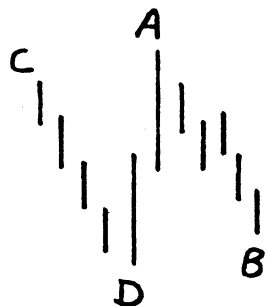
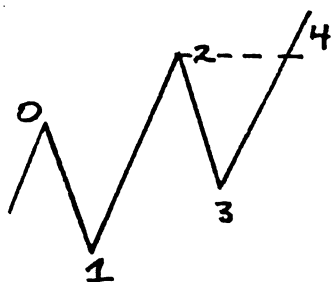
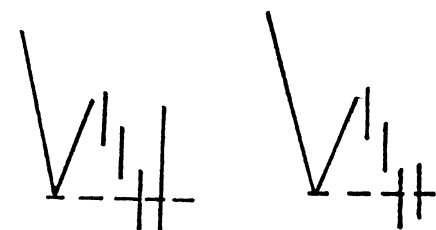
Chicago Board of Trade



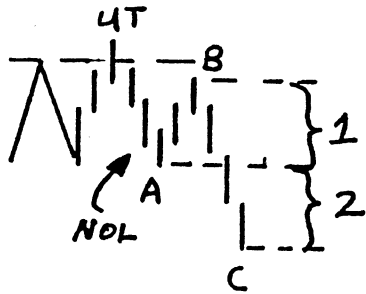
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## Rules for Swing Trading

- Go for profits of the immediately preceding swing.
- Space is more predictable than time. Always have angle graph.
- Strongest spring is one with the sharpest reversal and overlaps the most closes.
- Buy at 01 distance below 2.
- Liquidate at slightly less than 1-2 distance above 3.
- If 2-3 is greater than 0-1, be alert for a trend change and lower liquidation order to 1 tick below 2.
- Initial stop is 0-1 distance below point of entry.
- Upthrusts and springs are quite common in the market and generally only mean a 50-100% retracement of the most recent swing.

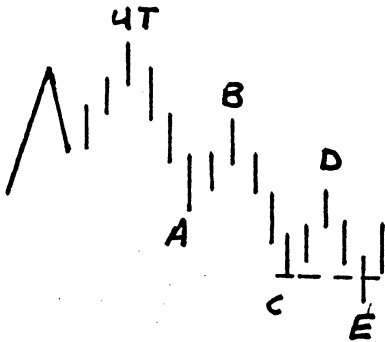


- A - Sharp rally points direction of strength.
- B - Reluctant reaction implies another drive to test and perhaps penetrate top. Look back to CD as an aid in evaluating if AB will hold for another drive up.



- If NOL occurs after UT, look for a possible ABC down. If distance  $2 \geq 1$ , do not buy on spring action above A.

- After UT, be alert for purchase. Buy point is on spring at E when market barely penetrates C.



- A sharp rally at D implies good quality buying and is a potential buy at E. This is particularly true after an ABC down against the prevailing trend.