Integrated Pitchfork Analysis Applied to Forex, Part 1: Foundations of This New Profitable Trading Technique
By Dr. Mircea Dologa, MD, CTA*
Posted: December 14, 2007

The Integrated Pitchfork Analysis concept not only builds the trader's confidence but also offers a global and unique professional trading edge that can be used in everyday practice. It has been developed in synergy with existing state-of-the-art professional trading tools. The first part of this article will describe the foundation of the technique, and the second will show how the method integrates with already existing modern trading tools.

The Pitchfork's Median Line Characteristics

The ancestor of the pitchfork's median line first appears in the work of Roger W. Babson in the first decades of the 20th century. Mr. Babson successfully used the charts to forecast the October 1929 stock market crash, well ahead of the event. Their precise name was Normal Line.

The late Dr. Alan Hall Andrews, a student of Roger W. Babson, was very passionate about technical analysis. He assiduously attended his mentor's Action and Reaction Newtonian Principle seminar. In the early 1960s, he organized the essence of this concept into a 60-page course, named the "Action-Reaction Course" in acknowledgement of Roger W. Babson's contribution to his learning curve.

Dr. Andrews' work, described as the "Median Line Method" -- drawn median lines on the charts, resembling a fork -- became known in most of the charting programs as Andrews Pitchfork. The median line (ML) is the middle line of a pitchfork that inter-relates three pivots: The anchor (P0) with the middle of the P1 - P2 swing (refer to Figure 1).

Now… turning to the 21st century, we can say that the essence of a pitchfork resides in its median line and its acolytes: U-MLH, L-MLH, WL, TL, and so forth.

The parallel lines to ML, through the P1 and P2 pivots, will form the upper median line (UMLH) and the lower median line (L - MLH). The letter H within the annotation of these two extreme median lines is inherited from our teachers of the 20th century period, mimicking the parallelism of the two vertical lines of the letter H and those of MLH. In our everyday trading routine, we might simply label them ML, UML and LML to save time.

The median line is a virtual link that enhances our comprehension of the pitchfork. Without the ML, the pitchfork would be just another vulgar channel. You might even say that the pitchfork represents the "noblesse of the channels".

The median line is the main component of the pitchfork's framework, not only linking the anchor to the midpoint of the P1 - P2 swing, but also constituting a foundation guide for drawing its acolytes -- the upper and lower median lines, warning lines, Fibonacci lines and sliding parallel lines, and so forth.

I should also mention that the constructed median line will project into the price-time ethereal space,

the immediate past and the current market flow because it was selectively designed by the specific choices of the anchor (P0) and the corresponding P1 - P2 swing.
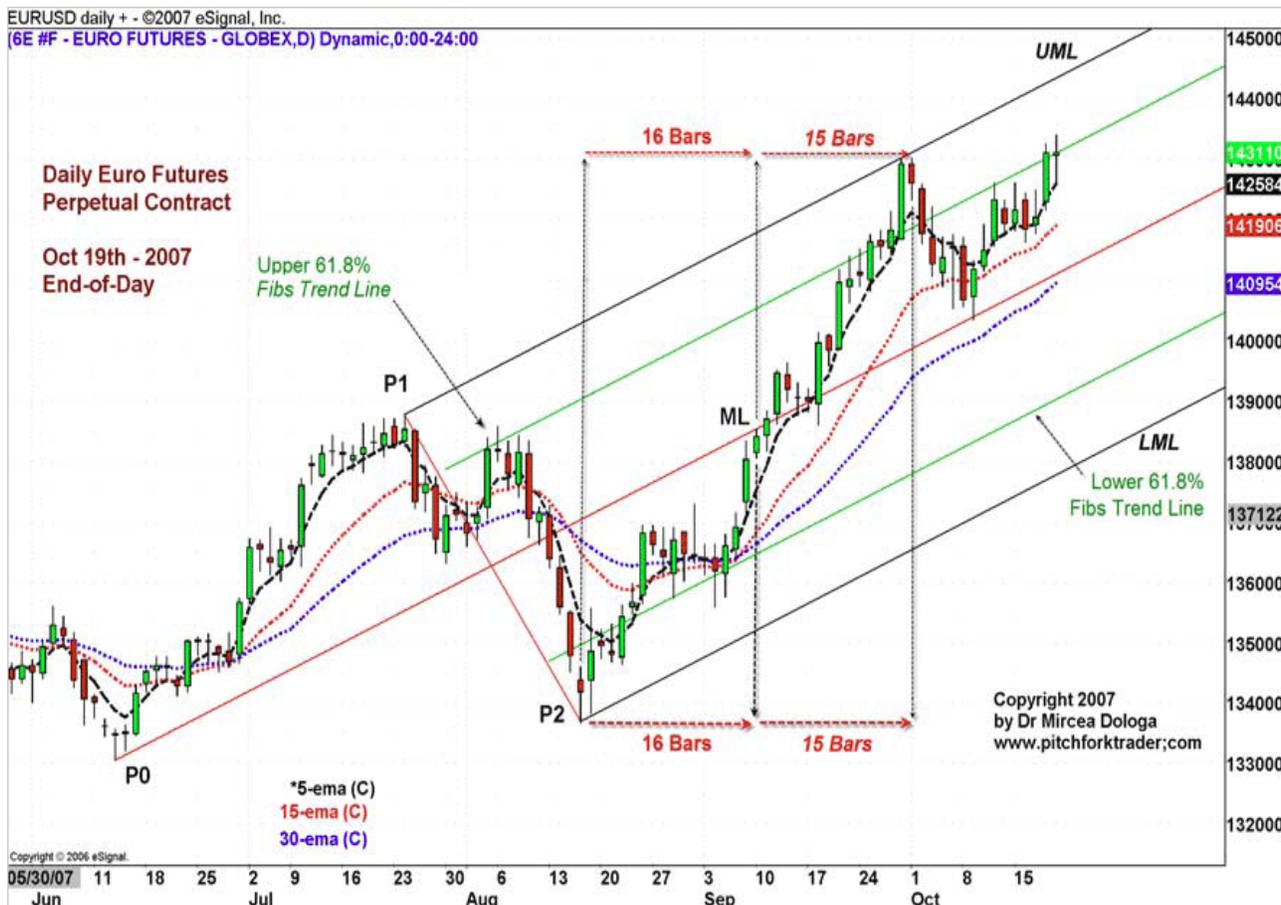

Figure 1. On this chart defining the contextual pitchfork, the role of the median line is as a symmetry axis not only for price levels but also for time bars. (Refer to bar 17, off P2.) After it tested the median line (see bar 22, off P2), the market flow shot all the way up to the UML. This not only halted the market but made it drop back to the median line. In spite of all this, market momentum catapulted market flow upward again, having been temporarily stopped by the upper 61.8% Fibonacci trend line.

To summarize the role of the median line in our everyday trading, I will briefly describe 12 characteristics in the remainder of this article.

Magnet and Symmetry Axis Power

The median line's main role is to attract, in a "magnet"-like manner, market price. Dr. Alan Andrews taught his students that the price returns to the median line approximately 80% of the time. Thus, the median line becomes the minimum price objective. It is one of the best components of the pitchfork and the most powerful in the process of describing market flow in the most optimum manner.

To confirm the optimal description of market flow, we look for:

- Multiple tests performed; as the experienced traders would say: "The final indicator is a tried

and tested trend line
- Symbiosis between the market price and the median lines responsible for:
- Restored energy through the energy building rectangles
- Energy consumption in the process of building huge bars and swings

The median line can be an excellent symmetry axis for the price that:

- Mirrors the most dominant trend (usually a major pitchfork) **OR**
- Runs parallel to the minor trend's axis (a minor pitchfork)

The median line may play a support role (in down-trending) or a resistance role (in up-trending). An old support can rapidly become a new resistance and vice versa.

Triple Action Potential

When price approaches the median line, it creates at a time, one of three movements; a:

- Reversal (a top pivot will be made) **OR**
- Violent piercing, resembling a zoom-through, well exceeding the ML **OR**
- Narrow range, which will prepare the next price outburst

Zooming and Piercing

Zooming through the median line is the signature of high-steam momentum. It can be used to consider a potential low-risk, high-probability trade. As soon as a level is broken, we expect the market to move on to the next level at least or, conversely, retest the ML.

Piercing a median line is rather a mitigated phenomenon; its relative importance is situated between zooming and testing (re-testing). No trade should be set up having only this element.

Testing and Re-Testing

Testing the median line is a very important element of setting up a low-risk, high-probability trade. First, let's clearly define this process. Testing a resistance or support level means that the trader expects the price to halt shortly, or even more dramatic, reverse the current trend. This type of testing would give you the key to knowing where the market might be heading in the immediate future.

Testing implies a pinpointed touch of the price on the support / resistance (S / R) level. Another way to say this would be: No piercing or slight zooming is allowed. The price must be halted exactly on the testing line. The process of evaluating the degree of importance of the halt is greatly enhanced in studying what type of close has the touching bar. Is it in its:

- Lower quarter (a possible reversal for the current up-trend)?
- First upper quarter (a possible reversal, for the current down-trend)?

The space between the tested median line and the close of the touching bar should be measured to quantify the degree of eagerness of the price to reverse or not. Once again, the larger the space, the

stronger the will power of the trend to reverse.

Re-testing is the rich parent of testing. Easy to understand, it happens when multiple tests occur. The number of tests determines the strength of the S / R trend line. The more numerous the tests, the stronger the S / R trend line will become.

Thus, if you have a support trend line that has been tested four times, and a resistance trend line that has been tested only two times, the market will selectively choose to break the resistance (only two touches) because it is not as strong as the support (four touches).

We can conclude that the market will always take the path of the least resistance. But, be careful; you should never trust an un-tested median line except when at least one of the following strong lines (listed in the next paragraph of this article) is present.

Also on this same topic, one hint is worth mentioning. Most traders consider all support / resistance (S / R) trend lines to be created equal, from the point of view of halting power. This is not true. Several S / R lines count at least twice in terms of the degree of their halting power. Among them, we can briefly mention the following **strong lines**:

- Old highs / lows
- A recent gap's high / low or even a 50% gap's Fibonacci ratio
- The all-time high / low of a security (Example: The high / low of a futures contract or stock)
- Fibonacci ratios: 0.38, 0.50 and 0.618
- Round numbers or exact numbers in 10ths, 50ths, 100s or 1,000s
- A vigorous trend line, especially the ML of a higher time frame
- A multi-pivot trend line, drawn through the market (also called an unorthodox line)
- A chart formation pattern: Its symmetry axis, neckline or apex line (of a triangle)

When one of these strong lines is tested by the market price, it will increase with at least 50% the strength of its halting power.

Now that the trader can see the S / R concept in a different light, we emphasize that the concepts of zooming, testing and re-testing of these S / R trend lines are important in setting up our low-risk, high-probability trades.

Failures

The behavior of the price approaching the median line tells a lot about the strength of momentum and its final destination. If the market price can't reach the median line, turning back earlier, it forms a failure, sort of a cut-off momentum move. In this case, we say that the price failed to reach the median line.

The failure signals a reversal. Once the price reverses, it will take the direction of the opposing lower / higher median line. The counter-move will be more powerful than the initial approaching ML movement. Please remember this; it can give you a real competitive edge.

The distance (space) between the ML and the newly created failure pivot can and should be

measured in order to quantify the degree of momentum weakness. Most traders don't know this.

ML-Related Market Strength or Weakness: Double Six Parameter Rules

The median line can be used to evaluate the degree of the strength or the weakness (double six parameters) of the ongoing market. These features are extremely important for trading decisions, and they can really change the outcome of the trading results.

Six Parameter Rules: Characteristics of ML-Related Up-Sloping Momentum

1. There are no potential resistances ahead (the path of least resistance).
2. A certain type of penetration of ML or U - MLH with huge bars; prices close in their upper bars' level (above 50%), as far as possible above the mentioned lines; the higher the close location, the stronger the upward trend momentum.
3. A gap over the ML is a sign of strength. Its magnet-like power will vacuum the price backward and try to fill the gap. The bigger the gap, and the more recent, the better the odds of filling it will be. The absence or even the scarcity of strong resistance levels, situated ahead of the market, facilitates the upward conquering of this least-resistant path.
4. There is no testing in view of any MLs or L - MLHs belonging to any other pitchfork structure.
5. We have the effect (strong upward momentum) but not the responsible cause, even if the source of this strong momentum is obvious: A resident trading range energy cluster lying on the L - MLH, or further up, on the ML.
6. The median line of the market context and the ML of the upper time frame are both oriented upward, in sync with the direction of the trade.

Six Parameter Rules: Characteristics of ML-Related Down-Sloping Momentum

1. There is no potential support below (the path of least resistance).
2. A certain type of penetration of ML or L - MLH with huge bars; prices close in their lower bars' level (under 50%), as far as possible below the mentioned lines; the lower the close location, the stronger the down-sloping momentum.
3. A gap underneath the ML is a sign of weakness. Its magnet-like power will vacuum the price backward and try to get the gap filled. The bigger the gap, and the more recent, the better the odds of filling it will be. The absence or even the scarcity of strong support levels situated beneath this down-sloping market facilitates the sinking of the price through the least-resistant path.
4. There is no testing in view of any MLs or U - MLHs belonging to any other pitchfork structure.
5. We have the effect (high-steam downward momentum) but don't yet have the chart formation responsible for it. The probable cause is the resident trading range energy cluster lying on the U - MLH, or further down, on the ML.
6. The median line of the market context and that of the upper time frame are both oriented downward, in sync with the direction of the trade.

Other Functions of the ML

If we delve even deeper into the characteristics of the median line, we will two other phenomena.

The A / R Line Is the Parent of the ML

The median line can be perfectly assimilated with the Center Line (CL) of the Action / Reaction line set-up. MLs are specialized cases of the Action / Reaction line set-up. This explains the case of a "hybrid" pitchfork, which is nothing but an outcome of the A / R line set-up.

The ML Has Different Versions

A median line can also be named after its exact location with respect to another pitchfork or a gap (that is, the mini-median line, gap median line and inside median line).

The major median line encloses the other minor median lines. It is as if the 60-minute time frame ML dominates the market flow of the 15-minute chart ML.

The mini-median lines are usually constructed to pinpoint the direction of a small correction, of 1 to 5 bars (also called a pullback [in up-trends] or small rallies or peaks [in down-trends]). They pinpoint an eventual reversal.

The ML of a Single-Bar Pitchfork

A little-known median line, even for the astute trader, is the ML of a single-bar pitchfork. The four components of a bar (open, close, high and low) will be the candidates to be selected to get the three optimal pivots necessary to construct the minuscule pitchfork.

A question arises…What kind of usage can a trader get from such a tiny pitchfork? The answer is not obvious…The only possible use, at this small fractal scale level of the trend, is money management, or to be more precise, setting up or verifying the stop loss strategy.

The Border Line Concept of the ML

The borderline concept is perfectly illustrated by a median line while it is being pierced. If the market is:

- Dropping with a tiny pierce, just a little under ML, but closes back above the ML, a possible reversal is imminent
- Rising with a tiny pierce, just a little above the ML, but closes back beneath the ML, a possible reversal is imminent

Wide Median Line Context

Wide median lines should be treated like wide channels. First, we divide the wide median line 50% to try to see how well this version describes the market. In case an optimal result is not obtained, we should apply a different Fibonacci ratio, until the correct proportion of the width's division is achieved.

The Newest ML -- a Step Ahead of the Market

The prices are always heading toward the newest median line. The trader should always be ready to

draw a new median line when a probable correction is in view.

Multiple MLs

Multiple median lines having the same slope means a strong trend, which will probably not last long and will probably terminate with a trading range.

*Reprinted (and modified) with permission from Dr. Mircea Dologa. Parts 1 and 2 of this article were first published as one article in *Forex Mastery* magazine, November 2007. Dr. Dologa, MD, CTA, is a Commodity Trading Advisor and is founder of a new trading concept for newcomers and experienced traders at: www.pitchforktrader.com.