

THEORY & PRACTICE

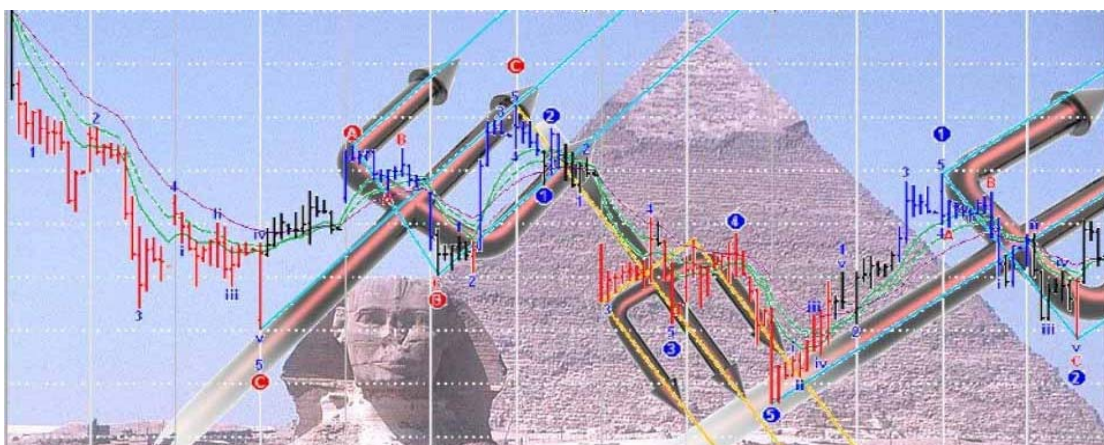
Short-Term TRADING



Integrated Pitchfork Analysis

2

Advanced Level
Dr Mircea Dologa



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Short-Term Trading – Integrated Pitchfork Analysis

Advanced Level

Volume 2

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Short-Term Trading - INTEGRATED PITCHFORK ANALYSIS

Advanced level

300 pages – 450 charts

by Dr Mircea Dologa, MD, CTA

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Introduction

“Human nature tends to see what it expects to see ...” unknown author

The successful trader is the person who can apply the theoretical concepts of the most optimal trading technique, for his markets, and bring his personal touch in real-time trading. The author has created and developed *Integrated Pitchfork Analysis*, in synergy with existing *state-of-the-art* professional trading tools. The *first volume* built the foundation of the technique, and the *second and third tomes* will describe the *integration* of the method with the already existing modern trading tools.

Writing this book has constituted for the author a real continuous teaching challenge, for the entire period of writing. His only obsession was to create, construct, test and finally propose to the colleague trader, *an easy to use professional edge technique*, never utilized before this publication. Among these incommensurable advantages there are the following principles:

- The author writes from his experience and research - a 20-year trading & investing period. He provides a thorough creation, presentation & implementation of the *Integrated Pitchfork Analysis*. Thus, the writer's original concept rooted from more than 75 years of trading experience of our masters like Schabacker, Babson, Marchal, Dr Andrews and more recently Timothy Morge (www.medianline.com). This technique has become a head start in terms of professional trading, based on knowledge and practice during two decades of research. Thus, a *“trading edge too efficient to be ignored”* has been created!
- The “Key Points to Remember” section, located at the end of each chapter, has been designed to sharpen the comprehension of the just exposed theory and case studies and also to provide quick reference points for later quick revisions.
- The author's experience in medical field taught and warned him that there is no positive outcome of any well accomplished task without the *heavy load of clinical case practice*, once that the knowledge and confidence are at “rendez-vous”. Thus he provides for almost every chapter *case studies* that will not only emphasize the theoretical presentation, but will also comfort the trader's comprehension and trading confidence.

As an entrepreneurial person that you are, *otherwise you wouldn't be reading this book right now*, you took up the decision to become a profitably consistent trader... Don't wait... This book is for you!

Be warned... the road to conquer the *Learning Curve* is long and thorny... you'll get there if you really want it, but you'll have to fight teeth and nails!

1. The WHYs of this Professional Book!

This *second volume* was specifically elaborated for the experienced trader, bringing even further and higher the standards of Dr Andrews' technique, founded more than three quarters of a century ago. The *Integrated Pitchfork Analysis* will enhance the ergonomics and the profitability of the trades through the use of three mechanisms:

- The *improvement of the trading accuracy*,
- A *greater trade probability* leading to a *better profitability*,
- An independent *cross-verification*, which exceptionally increases the trade's management, his performing confidence and the outcome of the trade.

Many of these tools did not exist or were not symbiotically and synergistically used together, more than a quarter of a century ago. They surely belong nowadays to the arsenal of the profitable and consistent professional trader: the inter-market analysis, the multiple time frame, the momentum & Fibonacci bar counts, the multiple time frame floor pivots, the Elliott waves principle, the Gann tools, the Jenkins circles, the Wolfe Waves or the ellipses.

2. Never Give-Up... Fight Teeth and Nails!

As most of us probably know, the trader is an eternal student of the markets. Until the efficient and consistent trading level is attained, the trader will have to fight *teeth and nails*, in his quest for knowledge. It means that you must have the stamina and the energy, as well as the skill for continuous tasks in the process of learning and practice. There is nothing out there to be taken for granted...! Or should I say ...? There is no free lunch on Wall Street!

3. Reaching the Advanced Level - Use of Progressive Learning Modules

The teaching procedures exposed in this trading book, fully obey the *epistemology* principles: the presentation of the advanced *Knowledge* in a modular manner and the practice of it, through the analysis of real-time cases with greater emphasis on *Risk and Money Management* concepts. Please find below brief explanations of several taught chapters topics:

- *The description of the Context of the Trade, so often neglected, will really facilitate the comprehension of the market movements, otherwise there wouldn't be any chance of consistent profitable results.*
- *The Pre-open Preparation is a well-kept secret of the professional trader. Between you and me... How many books or even articles have you read or have you seen about this very pragmatic topic?... Isn't this important for the market's opening and morning's trading results? Or should I rather say... Isn't this the key to understand the ensuing day's trading outcome?*
- *The News Trading – Overnight & Intra-Day Unfolding correctly exploited by the trader will profitably fuel the trade(s) of the morning or/and of the day.*
- *The Inter-market Analysis & Fundamentals – Real-Time Use, so often misunderstood topics, due to their labyrinth facets, have the advantage of building the road to the day's trading potential. Many of us can still remember, the disastrous impact of the Russian or the Asian crisis that shook-up the entire world markets, some years ago. We are now aware that the dragonfly's wing fluttering in Asia can be easily heard over the oceans...! Or should I better mention the most recent sub-prime crisis, in the summer of 2007...?*
- *The use of Elliott Waves – Real-Time & Intermediate-Term Use technique intricate with the single or multiple pitchforks is one of the most precious tools available for the astute trader. It can, not only identify the trend and the counter-trend, but can also reveal the exact location of the market flow within the contextual or the local market. Thus, we can observe the maturity of the trend, the price targets and finally the specific levels where the market might fail.*
Due to the common difficulty or even the inability of some traders to thoroughly understand Elliott Waves concept, the author emphasized the applied principle of epistemology, teaching this topic through the use of progressive modules, the process of mental assimilation based on repetitive real-time cases, and the "Key Points to Remember" section, at the end of each chapter. The latter takes its full applicability in the learning process, later on, when the trader can make a quick reference, whenever needed.
- *The sixth chapter – Original Tools for Impulsive Pattern End – Diagnosis, Kinetics & Management speaks for itself. The Confidence of the trader is greatly enhanced by using these tools, in the quest for low-risk high-probability trades. Thus, one can easily prosper by performing only the most profitable trades like, trading the wave 3 or wave 5.*

- *The little known technique of Channelling – Pathways in the Sand – Market Move Projections, efficiently assist the trader in locating the most probable target, trails or stop loss levels. Their channelling, objectives determination and around-the-clock kinetics will create time-price dependent market relations. These advanced tools will reveal the optimal market description, so indispensable for finding the low-risk high-probability trades. Some very original subjects were treated here.*
- *The eighth and the ninth chapters – Variable Time/Price Location of Pitchfork's Anchor describe author's original research used on everyday trading, concerning the sophisticated use of traditional and Schiff pitchforks.*
- *The Momentum and Fibonacci Bar Counts are little known topics by most of the traders. The momentum mapping will easily divulge the strength or the weakness of the current market. The Fibonacci bar count is frequently used by the experienced traders to consider an eventual termination of a trend. The synergy of both bar counts is obvious when they are used together. What else will better reveal the trend's exhaustion?*
- *The author particularly studied in detail several indicators such as: False Stochastics, RSI and OSC(5, 35), in order to better pinpoint the entries or the exits, among other profitable tasks. Our preference goes to False Stochastics (an Advanced GET proprietary indicator of eSignal), which is a dual characteristic tool for determining the trending and at the same time, the trade-opportunities sideways moving markets.*

4. Reinforce the Risk & Money Management Concept

After all these tools have been described, the author developed the *Risk and Money Management* concept, first theoretically presented with the *Three Pawn Technique* and then applied through the *filter of multiple case studies*. It unveils numerous professional edges, far away from the crowd's reach. Among others, we will mention: *the pre-arranged entries, the parsimony of stop loss sizes, the logical objective targets, the reward/risk ratios, the hidden and non-randomly chosen trailing stops, the scale in/out concepts which may increase with at least 50% your results, the exits, the nibbling and the single/multiple trading units.*

5. Knowledge & Confidence as Conclusion

For a trader, two things are primordial: *Knowledge* and *Confidence*.

Knowledge explains how the market works, and *Confidence* is the trader's ability to use it, over and over again. The more you use it, the more you will see the market react to *your proposed strategy*. The more you will believe in it, the faster you will become a self-confident trader.

We should never, ever forget that trading with *Confidence* is the most profitable way around! The *Knowledge* builds the *Confidence*, and together they will really ensure your *peace of mind*, without any *visceral fear nor paralysing pain*, throughout the entire trading process!

The *Integrated Pitchfork Analysis* advanced concept, described for the first time in this book, will not only build the trader's *Confidence*, but it will also offer a global and unique *real trading professional edge*, to be used by the trader, in his every day practice.

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June 21st, 2007

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Please read below a current disclaimer that the Federal Trade Commission (FTC) has proposed to be prominently displayed by anyone offering an investment course to the public.

Disclaimer

The purpose of this material is to provide you with a very powerful trading technique, named “Integrated Pitchfork Analysis “, a valuable tool in financial markets. The text, the chart examples, or any part of this material are not to be taken as “investment advice”. They are purely and strictly for educational purposes. Ultimately, you are responsible for all of your investment decisions. The data used in this material is believed to be from reliable sources but cannot be guaranteed.

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Excerpts *from the Book II randomly taken*

Chapter 1

Context of the Trade

The darkness of the *unknown* has always intrigued me!

This sentence began the first chapter of volume one, talking about the mechanism of an *intuitive approach*, true as ever, in the practice of profitable trading. It will catapult the trader's efficiency, well ahead of the crowd's, due to the approach's global discernment or perception. The resulting *acumen* will give the trader the power to see what is not obvious to the average mind. It goes even further, enhancing the implementation of the local action, due to the general observation. It is like an expert guide unlocking the wisdom of the subconscious mind.

The hard task is to elaborate an adequate learning module that could effortlessly and efficiently implement this approach in trader's conscious mind. Useless to say, that this approach is hardly found in any other trading literature. We will propose solutions for this complex and ubiquitous task, carrying in our mind the three main *building blocks* of the *intuitive approach* applied to trading:

- the *context of the trade*,
- the *pre-open preparation* and
- the *inter-market analysis*.

Some of the readers might wonder why should the *intuitive approach* be applied to trading or investing. Well, for me, it is really beneficial, to have acquired this quality because it greatly improved not only the trading results but also the way I see the trading process. To be clear, it "*really ensures the peace of mind, without any visceral fear, nor paralysing pain, throughout the entire trading process*".

Grasping and understanding this *intuitive approach*, began when I read for the first time Lee Iacocca's autobiographical book, in 1985. Then, later on, I have read, his second book, in a few hours: *Where have all the leaders gone?*

Like one of his readers said "*If Business Executives had a Hall of Fame, Iacocca probably have a floor dedicated to him*". And I should add that the former president of Ford and Chrysler, is still well, creative and very much alive...! He came out, in both books, with guns blazing from page one, and never stopped until the last one. As the CEO of Chrysler Corporation, his great merit was to bring the firm back from the brink of bankruptcy, in the difficult times of 1970s oil crisis. With his "*straight shooter*" reputation he "*formatted*" a whole generation of business managers by unveiling the pressing need for real leadership not only in United States but also all over the world. When I said *business managers*, I also meant the trading and investing professionals. We should never forget that we are in a special, or should I say a peculiar type of business where losing money is a way of our professional life.

What really intrigued me and also triggered my envy to know more about the *intuitive trading approach* was Iacocca's following sentence: "*Thing global, but act local*".

First, I thought of the *usual trading plan concept* but later I realized that is much more than that. And suddenly it all came out. The trader must integrate intuition in his everyday practice. One should kind of *cultivate the intuition*, day-after-day.

I wouldn't completely agree with Einstein's quote "*Imagination is more important than knowledge*" without bringing around the hard task of practising experience. How can a trader imagine anything with a "*raw*" *un-cultivated knowledge*? I remember, one of my

Now that we are convinced of an implied high-powered momentum, which will “spill-over” the entire European market, let us observe the pre-open charts of German Dax 30, EuroStoxx 50 and Euro/US dollar.



Figure 5 - The Asian markets didn't yet influence the EuroStoxx 50 index. Remember, the time is expressed in Central European Time units (CET). The 8:00hrs CET opening hour, coincides with 16:00hrs Tokyo time when Nikkei 225 closes. The trend line n° 1 (TL-01) is our landmark informing us of an eventual up sloping, under the “heavy weight of evidence” of the trend line's breakout. One thing before we go further... This trading vehicle is well known as “the father” of German Dax 30: it moves slower, it's more reliable in its changes, and is mostly followed by Dax 30. As a positive leading indicator it tries to calm down the volatile German Dax 30, as much as it can!



Figure 6 - The Euro/US dollar Futures were slightly influenced by the high-powered momentum of the Asian markets. However, on the above chart, it is only 07:50hrs CET, still in European pre-open market time. Most of the Exchanges in European capitals will open in ten minutes at exactly 08:00hrs. The elements of our toolbox are applied and the chart landmarks are drawn: the height of an eventual incentive rectangle [H(0)] very convenient for future extensions, the two trend lines (TL-01a & T-01b),

4 Specific Contexts: Time-of-the-Day

The answers to the two questions in the legend of *Figure 11* strongly suggest the importance of this temporal context. We have already seen the importance of the *earlier opening period*, from 08:00hrs to 9:00hrs CET, which establishes the day's opening gap and the first market movements. We have also seen the expanded volume supported by the bulk of traders, just after 9:00hrs and the bursting activity of the fund managers around 10:00hrs.

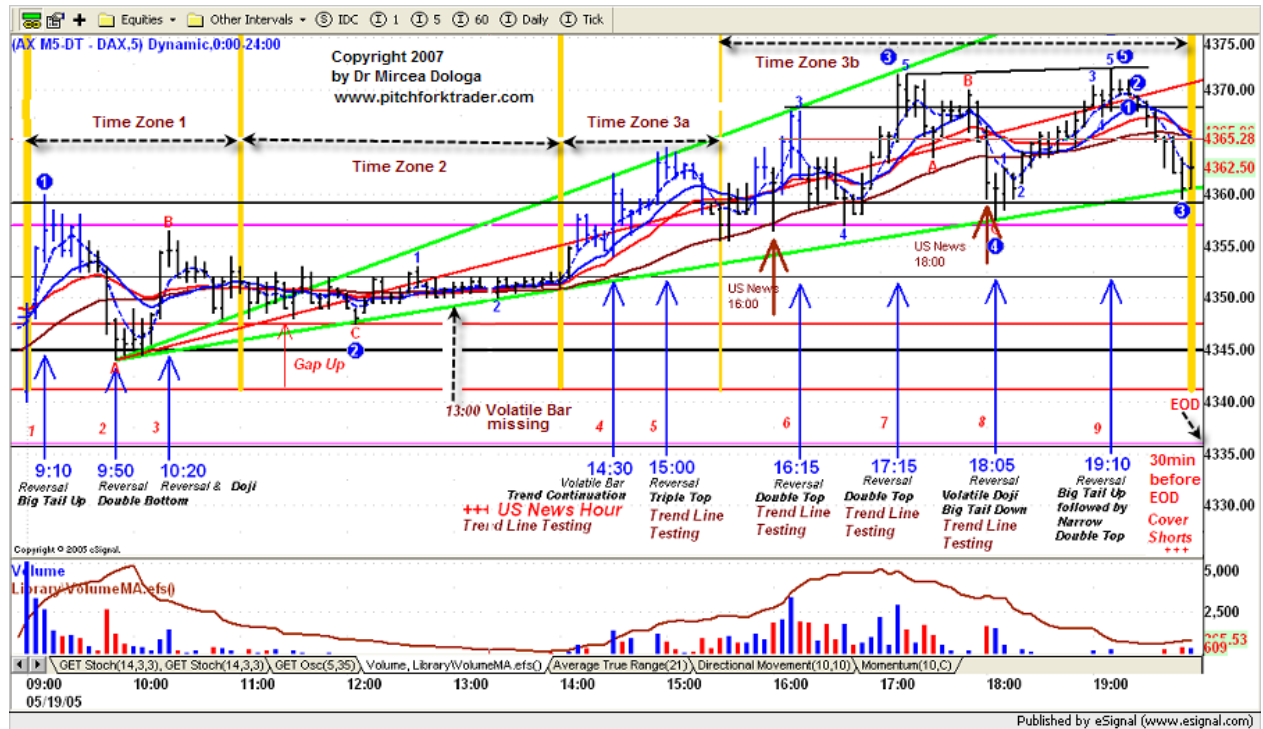


Figure 13 - The above German Dax 30 chart faithfully reveals the importance of the time-of-the-day context!

A detailed study of the above chart will reveal the different time zones with their internal events; so useful for trading when they are properly interpreted:

- *Time Zone n° 1* embeds the first 90 to 120 minutes. The most important are the exact and half hours like 9:00hrs, 9:30hrs, 10:00hrs and 10:30hrs. However one should be aware that a lapse of 10 minutes period could apply before or after, like 9:10hrs, 9:50hrs or 10:20hrs in *Figure 13*. As one can see the volume is maximal at the German Dax 30 opening but not at the S&P 500 opening.
- *Time Zone n° 2* encompasses the 11 :00hrs to 14 :00hrs period. The volume is minimal, with the exception of a volatile bar or bars that can happen at 13:00hrs CET, or sometimes 12:00hrs CET. This is a nice, quick and juicy trade.
- *Time Zone n° 3a* includes 14:00hrs to 15:30hrs time period. Its first half an hour may contain FED reports with chairman's speech (refer to *Figure 14*) and its last 30 minutes culminate with the S&P 500 opening (refer to *Figure 15*). The trading volume might seem to be mostly at its apogee at 15:30hrs, but surely not always.
- *Time Zone n° 3b* contains the remaining time-interval from 15:30hrs to market's close at 22:00hrs CET. This period contains some prolific trading opportunities at:
 - 15:45 and 16:00 hrs CET when frequent news reports are announced (*Figure 14*),
 - 18:00 hrs which represents the midday of the S&P 500 market (12:00hrs US-ET),
 - Closing time minus 20 to 40 minutes is usually the entry of the day's last trade, especially when the market was dropping in the after-noon or during the whole day – the *covering shorts'* time.



Figure 21 – The pattern context meets the time-of-the-day concept. The symmetrical triangle's fall began at exactly 17:20hrs CET. In less than an hour, the market dropped 200% of the thrust!

All the charts illustrated in Figures n° 5, 16, 17, 18, 19 and 20, underline the power of the chart patterns (the *descending trend line*, the *down-sloping channels*, the *ascending wedge* and *symmetrical triangle* in these examples), in forming the building blocks of the *intuitive approach*.

The outcome is there to speak!

CONCLUSION of the Chapter - As we have seen in these eighteen pages, the Context of the Trade can really assist the trader to improve his performance on his way to select highly profitable low-risk trades. In order to build the complex and ubiquitous task of the *intuitive approach* we will further study the other two building blocks: the *pre-open preparation* and the *inter-market analysis*. Don't be surprised if you'll find an intricacy of the internal elements of each block, or among these three building blocks! It is only normal, in our fractal environment!

Key Points to Remember:

- It is the most simple concept, that can become the most powerful and most efficient.
- The *Intuitive Approach* is like an expert guide unlocking the wisdom of the sub-conscious mind.
- Before you take any decisions, mark out your market's *spatial* and *temporal* cardinal orientations.

Chapter 2

Pre-Open Preparation

We will begin this chapter with the words of Karl Popper, the great Austrian philosopher born in 1902 who opened, in a way, the gate towards an unconventional thinking. He published in 1984, in Paris *“The irresolute Universe”*:

“Any event is caused by a preceding event, letting us to believe in a possible forecast or explanation of any event...”

The *unconventional* is the attribute of a highly informed and educated person. The pre-open preparation is a well-kept secret of the professional trader. I let the reader imagine the reasons! As for us, we consider that *“sharing”* is one of the most exalting sentiments that a colleague trader could have, especially when the mentor sees the terrific results with his own eyes!

We have mentioned in the previous chapter (page 12) the following:

The bulk of traders start their trading activity around 09:00hrs CET, and some German fund managers start taking decisions only at 10:00hrs CET, after they have fully analysed yesterday’s after-market, the night’s markets, today’s pre-open and the early opening...!

We are talking in the above paragraph about the European markets. Most of them open at 08:00 hrs CET but the majority of traders come in, one or even two hours later!

We started to explain that the importance of pre-open preparation is growing, year-after-year, due to its beneficial effect on trader’s pocket. Some traders even say that more than 70% of the profitable trades are due to this factor. We completely agree with it!

We will try below to systematize a learning module, embracing this concept, which isn’t an easy task. Thus, we will not only enhance the teaching of our *intuitive approach*, but we will also describe the various factors with their different levels of difficulties!

1. Defining the Influences of the External Fundamentals on the Traded Market(s)

Opening prices are a complex reaction to raft of news and market information. An understanding of what happened overnight will give us a clue as to the probable direction and strength of the opening gap, the morning bias and sometimes the direction of the whole day. Before taking any trading decisions, the conscientious trader has already done his *home work* concerning the *after market*, the *overnight markets*, the *pre-open* and the *early opening period* of the first 60 or even 120 minutes.

Even if it might seem weird to some traders; the operated market fully depends on the conditions of the other markets, indispensable for its own well-being.

1.1 S&P 500 and ES e-mini

The interaction of the US markets and European markets is deeply reciprocal even if, from time to time, the latter or the former will take the initiative, and lead the other. Over several years, our statistics couldn’t prove which one really leads.

Normally, as the S&P 500 cash market closes, during the weekdays, at 22:00hrs CET (16:00hrs US ET), the same time as the German Dax 30 Futures, we can say that they are somewhat synchronous and concomitant. However the night ES (*S&P 500 e-mini*) will continue, but it will close a quarter of an hour later, at 22:15hrs CET. After a 15 minutes pause, the ES will re-open, at 22:30hrs CET, until next evening at 22:15hrs CET. On the weekends the ES will stay close from Friday night at 22:15hrs CET until Monday at 0:00hrs CET.

Speaking about trading the Dax 30, a pre-open watch on the conversion rates between the two currencies, will certainly ease up or, on the contrary, tighten the smooth development of the Dax 30 trading during that specific day.

There is a strong interrelation between the Euro/US dollar pair and the German Bunds. If a country has a strong currency it will attract flows of investment funds, which in turn will have a tendency to lower the interest rates. It is not excluded that the weakening of the currency will produce the perverse effect of pulling-out of the foreign investments with an increase in interest rates. As for the impact of this currency pair on Dax 30 behaviour, it will act as a leading indicator having an *inverse relationship*.

Once again, we will consider the currency pair's daily fluctuations for our intra-day German Dax 30 trading but rather as a confirming factor.

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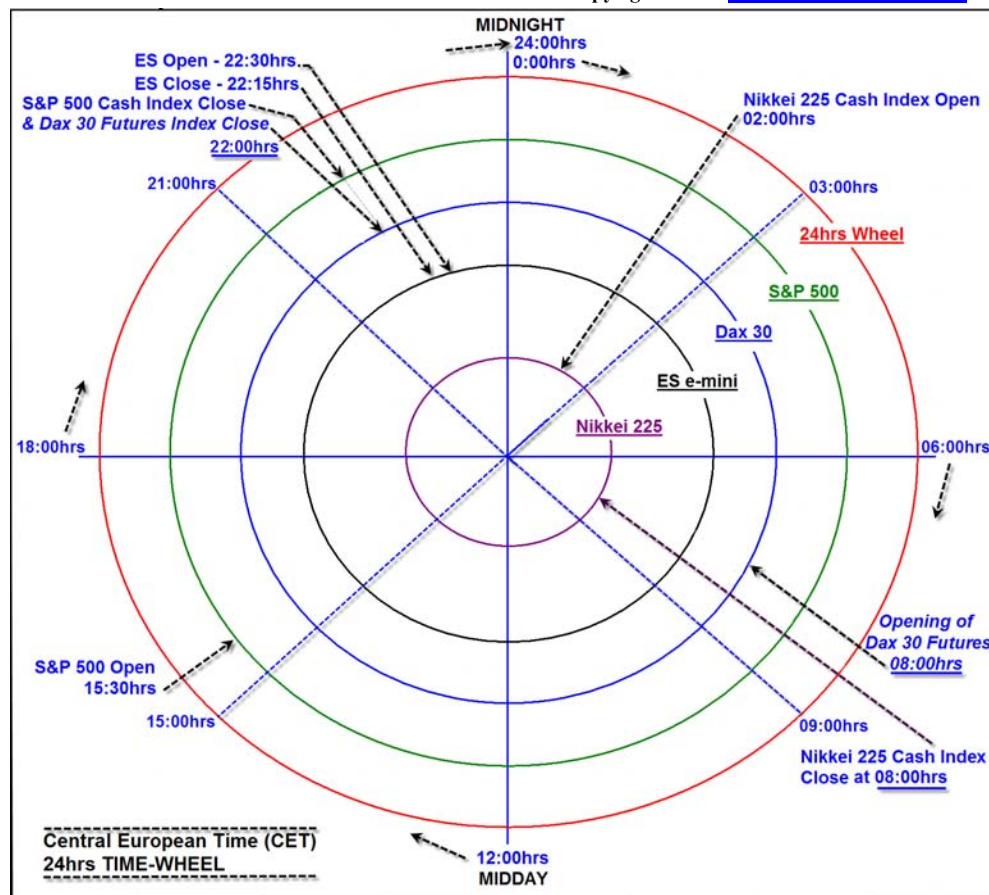


Figure 22 – The above 24 hrs Time-Wheel illustration shows the inter-relationships between the Opens and the Closes of the implied markets that will really influence the opening of the traded instrument, which in this case is the German Dax 30. We underline the fact that the Euro/US dollar currency pair behaves almost the same as the German Bunds, as of this period of the year (Fall of 2007). Therefore we didn't illustrate the pair on the above drawing.

1.6 Overnight News

We will only mention the important role of the overnight news over the traded market(s), because given its importance we will consecrate a whole chapter to this. However, we would like to say that we distinct three categories of news:

- The *Events*, which will have the front page, thus having the power to drop or rally any type of markets, at least for the day,
- The common *News*, which will take their habitual place within the informational support, but which will only scratch the market movements,

The trader can see that the chart on *Figure 30* gives more detailed information than the one of *Figure 28* in regard to: the characteristics of the noon drop, the 11:15hrs and 13:00hrs CET reversals, the individual behavior of one of the stocks compared with that of the others, or an individual comparison with group's behavior, etc.

The raw data table and its graphical illustrations (refer to *Figures 25* and *30*) will suffice to closely follow the predominant number of trending stocks, in real-time (*therefore their predominant colour*), in order to observe the trend. Even more, we will ensure a very high continuation probability of the up/ down trend by considering at least 25 one-colour (green/red) plotted stocks, having the same direction.

2.2 Key Level Mapping of the Operational Time-Frame Chart

Most of the novice traders neglect the importance of the key levels. For us, it is a very important pre-open preparation phase. Not only we take into consideration the most recent past's key levels, usually the after-noon of the previous day, but also the key levels of the daily, weekly and monthly charts.

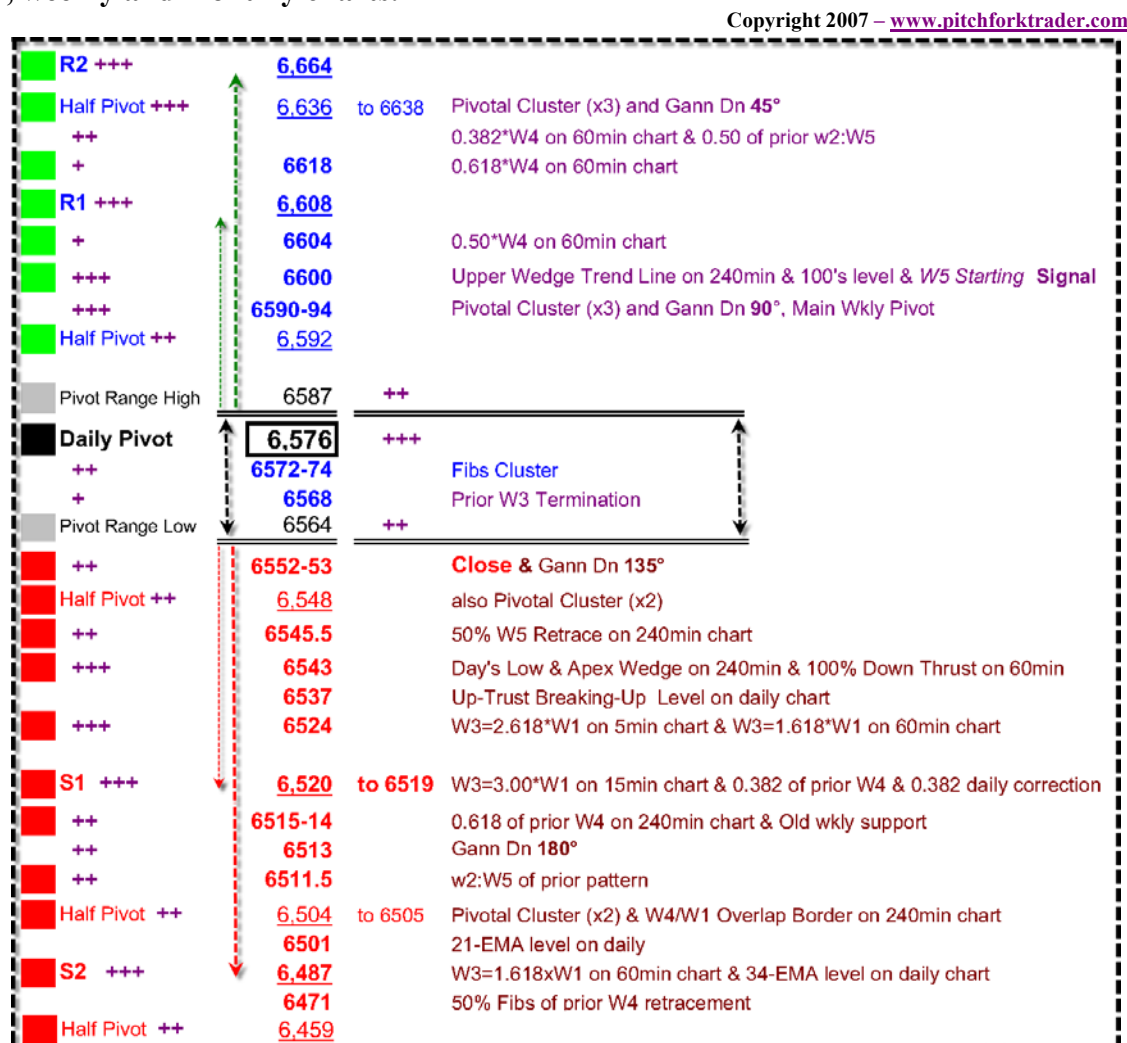


Figure 31 – The above key level table of Dax 30, on December 27th, 2006, is one of the most important factor in preparing the pre-open. The market flow will surely stumble, reverse or, on the contrary, will zoom through many of the above key levels, during the intra-day activity.

We have calibrated the importance of the halting power of most of the key levels, using as criteria the signs + to +++. Thus, we took into consideration a whole range of the key levels' strength: Average – the common price level (+), Strong – Fibonacci levels (++) and the strongest level – the pivotal cluster (+++) composed of multiple time floor pivots. We didn't neglect the daily floor pivot (strength +++) which usually delineates the up from the down day's bias.

2.6 Pre-Open Main Points

Main Data			
High	6631.50		
Low	6543.00		
Close	6552.50		
Daily Pivot	6575.7		
I. Market Direction			
1 Rule 80% to 20%			
Higher Border	89%		
Lower Border	11%		
2 Close versus DP	-23		
3 Close vs Pivot Range			
Higher Border	-35		
Lower Border	-12		
II. Market Volatility			
4 Pivot Range Value < 3	23		
5 Opening Gap - pts	7.5	Up/Dn	
6 Daily Range over ATR	133%	Expansion / Contraction	
7 Bollinger Bands & Price			
7.1 - Daily 21-MA Level	6501		
7.2 - Close versus daily 21-MA	52		
7.3 - % Bollinger Bands	61%	Upper / Lower Half % Price Location within Boundaries	
7.4 - Bollinger Bands Width			
Hyper-Expansion Value	7.93	Sideways Market	
Blow Out Value	2.51	Imminent Price Blow Out	
		Count the Narrow Bars (NR4 or NR7)	
50% Value	5.22		
Current Value	6.74	Un-Defined Opportunity	
III. Market Trends			
8 Long Term Trend	----->	Monthly & Weekly Up-Sloping	
9 Intermediate Trend	----->	Daily & 240min Up-Sloping	
10 Short Term	----->	60-min & 15-min & 5-min Down Corrections	
IV. Main Points to watch closely on Charts			
11 Monthly Charts	----->	Up-Close monthly bar between 66% & 75% - Previous 5 bars are Up	
12 Weekly Charts	----->	Down-Close wklly bar in lower 10% above the low of prior huge up-bar	
		W3=2.786*W1 trending strong - already 3 pullbacks - w5:W3 in progress	
		w5 next to 1.38*w4:W3 & Bar's low halted by lower boundary of up-channel	
13 Daily Charts	----->	Down-Close daily bar in its lower 10% below the low of prior bar	
		Prior impulsive pattern correction in progress, next to 0.382 of prior W4	
		Price halted at lower border of current Pattern: down Broadening Formation	
		Price above EMAs & prior W5 at 0.786*W1 & 0.382*W1-3	
		RSI Divergence even if Close location within Up-Trend at 54.2 (>40)	
14 240-min Charts	----->	Close bar forming a doji & price in down-sloping channel	
		Price halted by: LML & Triangle's Apex at 6543 just above Breaking point	
		Down W4 in progress at 50% approaching W4/W1 overlap border at 6504.5	
		CCI in down-sloping channel forming Divergence deep in OS zone (-187)	
15 60-min Charts	----->	Close bar forming a mini-consolidation & price in dn-sloping channel	
		Down W3=1.382*W1 in progress & 100% Thrust - Price Halt at Half Pivot	
		CCI down channelling - Halt under Trend Line	
16 15-min Charts	----->	Close bar forming a mini-consolidation & price in dn-sloping channel	
		Price testing 3 times the ML, closing underneath within consolidation	
		Down W3=2.5*W1 in progress - Price Halt at Half Pivot	
		RSI Divergence - Close location within a narrow range between 60 & 80	
17 5-min Charts	----->	Close bar forming a mini-consolidation & price in dn-sloping channel	
		Down W3=2.236*W1 in progress forming a 5hrs narrow consolidation	
		Price closed right under down-sloping ML	
		W3 Time Fibs at 2.272*W1 & Close right under ML on 50% Consolidation	
		CCI just bounced on 300 level - steep upward move in OS zone (-162)	
V. Inter-Market Analysis			
	----->	Short-Term charts of Bund, EurUsd, S&P 500 and Dow Jones Industrial	
		are all downwards oriented.	
		Double Top on weekly chart of S&P 500 Cash Index.	
VI. General Conclusion			
Morning Bias	----->	Continuation of the down-sloping dominant trend if no Positive Fundamentals	
		Small counter move if Positive Morning News	
Day's Bias	----->	Very Probable continuation of the down-sloping dominant trend	
		Hypo-Volatile day - market moves in smaller range, under daily ATR = 40 pts.	

Figure 32 – The above The Pre-Open Main Points table of German Dax 30, on December 27th, 2006, is the fruit of several years of research. Its outcome will really give an edge to the educated trader.

3.2 Trade Management: Inter-Market Context

The inter-market analysis will play a vital role for every aspect of trade management. We have already explained the details of this context (*refer to Chapter 1/3*). In the below sub-chapter we will concomitantly study the *impact* of the behaviour of EuroStoxx 50 and German Bunds *over* the German Dax 30 charts. Please compare the below charts with those of the Dax 30 *already* illustrated in *Figure 47* and *48* and also those of *Figures 52* and *53*.

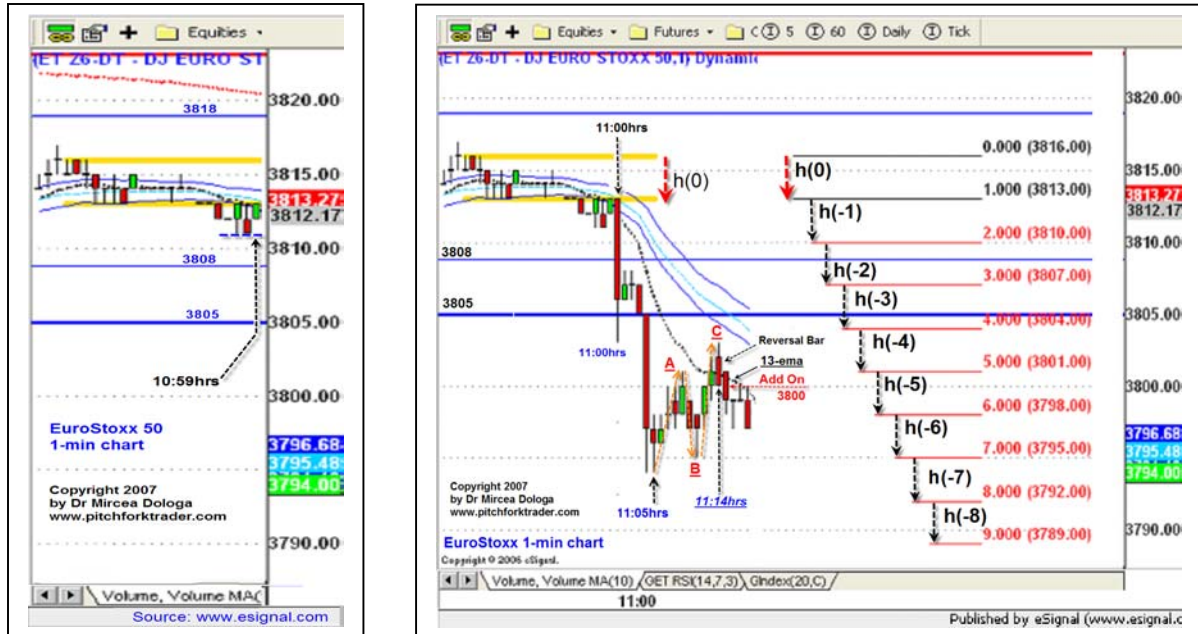


Figure 49a & 49b – We have laid out, on the above two 1-min EuroStoxx 50 charts, the optimal elements of the toolbox. The left chart (Figure 49a) is a 10:59hrs snapshot and the right chart (Figure 49b) has the same time frame, but 20 minutes later. We are interested in the latter chart because it is an excellent teaching example of an add-on EuroStoxx 50 decision at 3800 level, for trading the Dax 30, due to: the ABC zigzag where C=A; the reversal bar; the price dodges under the 13-ema ready to drop and of course, the inertia of the 11:00hrs high ZEW momentum.



Figure 50 – The ZEW momentum has waned at 11:31hrs on the above one-min EuroStoxx 50 chart.

4.4 Trade Management: Unwinding the Trade of a Misfired Breakout

The above two charts illustrated in *Figures 54 and 55* set-up the scene for IFO news trading. In our experience the *breakout strategy* is the most adapted for this type of trading. The breaking of the horizontal, slant and curvilinear trend lines will start the process of trade management. However, the trader will perform first, the *pre-trade preparatory phase*.



Figure 56 – The above 5-min Dax chart shows the trading scene, after the IFO news release. A 25-minute delayed breakout is trying to shape up a long trade, towards entry at 6943 level.



Figure 57 – The above 5-min Dax chart shows the trading scene, 48 minutes after the IFO news release. We observe that the breakout trade has misfired it won't take off. The price is still in rectangle.



Figure 58 – The breakout misfired – NO DAMAGE to the Trader: Ninety-two minutes, after the IFO news release, we don't consider the chart's context as belonging to the news impact. The market just broke-down the daily floor pivot at 6921 level and will probably evolves south.

5.2 Description of Multiple Days Volatile Markets

The several days volatile markets are markets that rotate in a wide range, price jumps to price jumps, only briefly interrupted by small bars that function as artificial breathing devices. The small bar pauses are used to quickly restore the bars' dispensed energy.

We should also mention: the *steep slopes*, the *sharp spikes* and the *TYPICAL variation of the price ranges between main supports & resistances*, which is the *Key Volatility Visualisation*.

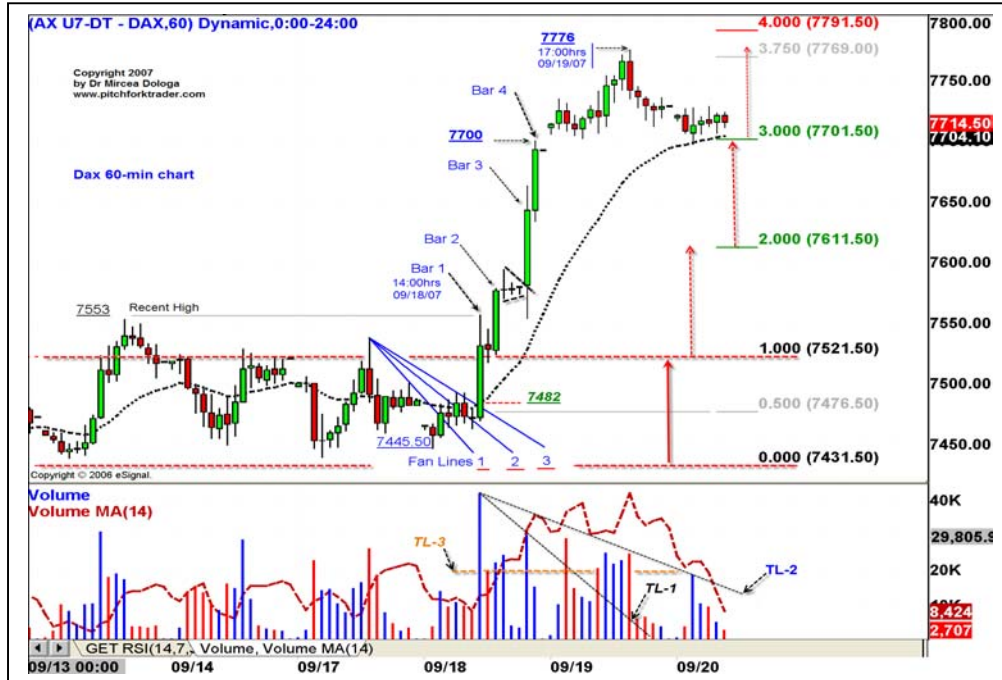


Figure 60 – The above 60-min Dax chart illustrates a six days market: the first four days constitute a trading range and the last two days picture a high-volatile activity. The trade was triggered at the rectangle's outburst at 7521.50 level due to a conservative approach. In an aggressive approach, the trade could have been triggered earlier when the market broke the reliable third fan line at 7482 level.

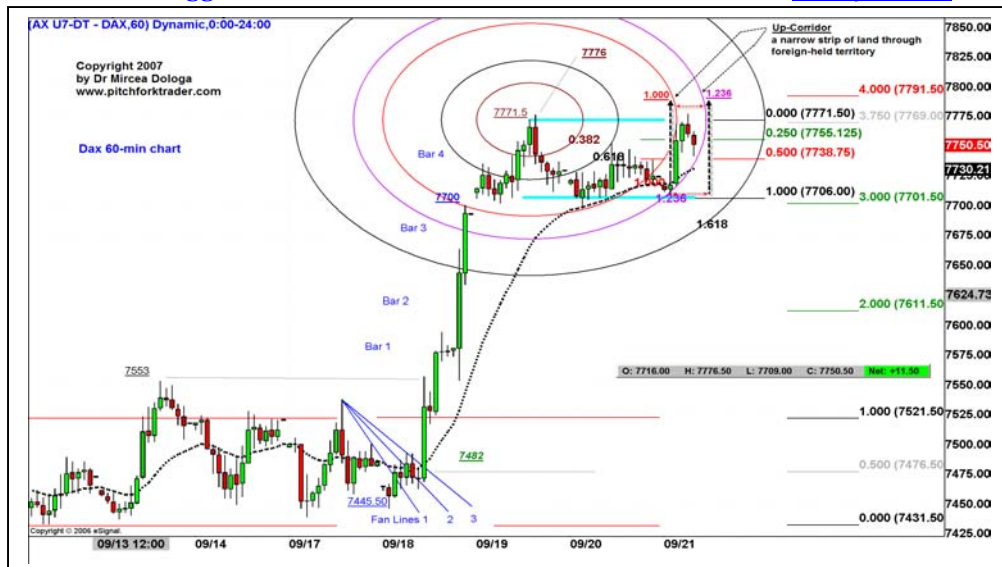


Figure 61 – The above 60-min Dax chart better illustrates the high-volatile market. As we can see the market still keeps its volatile aspect three days after it started on September 18th, 2007. After the first three huge volatile up-bars, the market has entered in a trading range as predicted. As usually, we have chosen the most adequate elements of the toolbox: the inception rectangle between 7431.5 & 7521.5 borders, its three positive extensions reaching the 400% level, the moving average and upper rectangle. The local market beautifully strides along the up-corridor between the 1.00 and 1.236 Fibonacci arcs... The market flow strides along this up-corridor, a narrow strip of land through foreign-held territory !

- The height of the pre-close trading range,
(1.382, 1.618, 2.236, 2.618, 4.236)

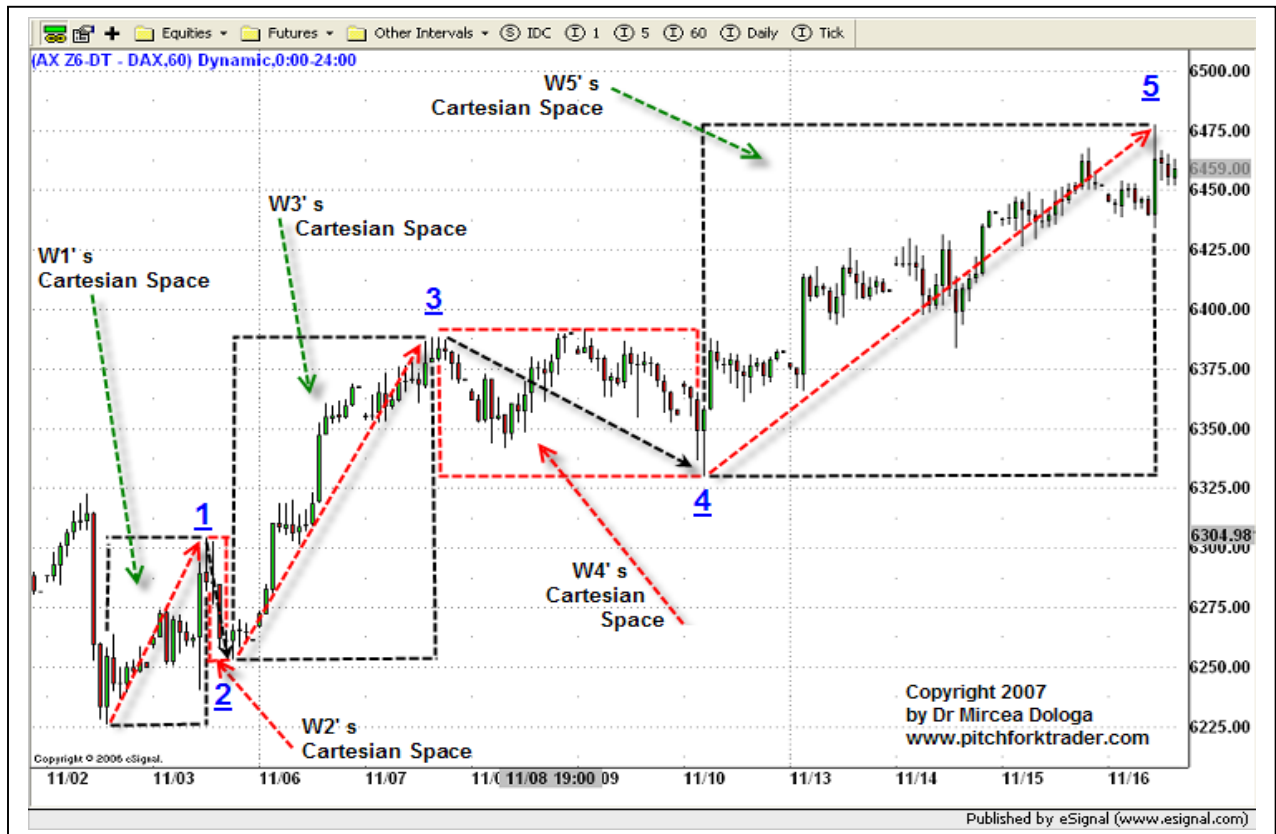


Figure 103 - The above rectangles of the 60-min German Dax 30 chart illustrate the up-sloping impulsive pattern containing the price/time Cartesian space of the five Elliott waves: three impulsive waves (W1, W3 & W5) and two corrective waves (W2 & W4). The trader can easily observe that the impulsive waves are progressing in the direction of the up-sloping trend and that the corrective waves counter the main trend.

- The use of the 21-ema: a multitude of counter-trends is the *anti-chamber* of trend's termination.
- The prior pattern correction using the Fibonacci ratios: 38.2%, 50%, 61.8%, 78.6%, 88.6% or the whole correction (100% level). The best level signal will be given by the existence or absence of the W5 failure.
- The coincidental cross-over of 21-ema alone or together with 50-ema, with Gann levels, trend lines or Fib levels signals a key reversal level.
- Daily pivots alone, or together with weekly or/and monthly pivots, form a very strong key reversal level.
- *Parabolic indicator* gives a "change of trend" earlier than the *ema*.
(can be used for Money Management)

7.8.2 Channelling Tools (refer to Chapter 7 for explicative charts):

- 2-4 base line, W1-parallel & W3-parallel trend lines,
- 0-1 trend line, which could halt the progression of an elongated W5.

7.8.3 Dr Andrews' Pitchfork & Median Lines:

- There is at least one choice of constructing this ascending pitchfork:
 - The P0 anchor pivot labelled at the start of W3 level and the P1 and P2 at the W3's termination and W4's end levels, respectively. This choice might involve less warning lines.
- The best pitchfork choice will be the one that optimally describes the local market flow.

3.9 W3's Termination Level Calculated with Miner Fibonacci Ratios

The chart of *Figure 122* illustrates that the W3 is in progress but it didn't yet terminate. Will it be an extended W3? Which will be the highest high of W3? The answer at these two questions can be obtained by using W3 projected level technique, calculated with Miner or/and Fisher Fibonacci ratios.



Figure 122 – On the above chart, the last bar of the current local market flow has a strong up-sloping momentum, hurrying-up to reach the probable final W3 destination at the intersection with the WL-1 warning line of the ascending pitchfork, around 7600 level. In order to pinpoint the most probable W3 cluster zone, we will firstly use Miner Fibonacci ratio, and then Fisher Fibonacci ratio calculations. The purpose of these calculations is to acquire the narrowest cluster zone!

Table A - Miner's Fibonacci Calculations of End-of-Wave W3

This Excel file, can be obtained from the author

IMPORTANT: Before use, please read carefully the Notes!

at : mircdloga@yahoo.com

60-min Gold Futures Chart - Oct. 15th - 20c

End of W3 & w5:W3

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W3 Projections		w5:W3 Projections					CLUSTER*** ZONE		w5:W3 Projections		
Primary Wave Use		Lesser Degree W3 Wave Use					Calculated Value		Mixing Basis Wave Use		
Extension Basis	W1**	W2**	w1	w2	w3	w0-3	w4***	w5	W3	W1***	W2***
Value at 0%	7322.0	7465.0	7431.0	7468.0	7458.0	7431.0	7534.0	7496.0	7431.0	7322.0	7465.0
Value at 100%	7465.0	7431.0	7468.0	7458.0	7534.0	7534.0	7496.0	Cluster***	Cluster***	7465.0	7431.0
End of W3 & w5								7593.0	7593.0		
CLUSTER - Median Zone Value											
4 Layers Zone from 7592.7 to 7595.5											
CLUSTER Width 2.8 % Market Price 0.037%											
Length in pts	143.0	34.0	37.0	10.0	76.0	103.0	38.0	97.0	162.0		
Ratios	0.382	-	7510.1	7499.8	7525.0	7535.3	7510.5	-	-	7550.6	7509.0
	0.500	-	7514.5	7501.0	7534.0	7547.5	7515.0	-	-	7567.5	7513.0
	0.618	-	7518.9	7502.2	7543.0	7559.7	7519.5	-	-	7584.4	7517.0
	0.786	-	7525.1	7503.9	7555.7	7577.0	7525.9	-	-	7608.4	7522.7
	0.886	-	7528.8	7504.9	7563.3	7587.3	7529.7	-	-	7622.7	7526.1
	1.000	7574.0	7533.0	7506.0	7572.0	7599.0	7534.0	-	-	7639.0	7530.0
1.00+10%	7588.3										
1.146	7594.9										
1.272	7612.9	7474.2	7543.1	7508.7	7592.7	7627.0	7544.3	-	-	7677.9	7539.2
1.618	7662.4	7486.0	7555.9	7512.2	7619.0	7662.7	7557.5	-	-	7727.4	7551.0
2.618	7805.4	7520.0	7592.9	7522.2	7695.0	7765.7	7595.5	-	-	7870.4	7585.0
4.236	8036.7	7575.0	7652.7	7538.4	7817.9	7932.3	7657.0	-	-	8101.7	7640.0
6.850	8410.6	7663.9	7749.5	7564.5	8016.6	8201.6	7756.3	-	-	8475.6	7728.9

Inter-waves Ratios W3=w1,146*W1

w5=2,62*w1

w5=1,272*w3

w5=2,6*w4

w5=w5

W3=W3

Note: * Bordered cells represent the inter-waves ratio projected levels pertaining to the calculated 7593.0 CLUSTER with 4 layers

** W1 & W2 can be used as extension basis of W3, ONLY at the end of W2 at 7431.0 level

*** Lesser degree & mixing wave extension basis of W3 (w1 to w4:W3, W1 & W2 respectively) can be used ONLY when w4:W3 ended at 7496.0 level

**** Cluster Target Zone at 7593.0 level is formed of 4 layers. The exact W3 price location is at 11.66% of the Cluster Zone.

Figure 123 - The trader fills in, only the extremity levels of Elliott waves in darken cells, on the above Table A, with the exception of W3's cell. Once the cells are filled in, cluster's multiple levels will appear on the Excel sheet. Find visually the most adequate cluster zone ahead of the market and border its cells. When the market will reverse at a level located within the cluster zone, then fill in the W3's end level in its darken cell. The table is now ready for study! As accepted criteria of the cluster zone we have: its number of levels, its width and its % market price.

1.1.2 First Volatile Bar Extensions

Figure 153 – The right-side chart illustrates the technique of the first volatile bar. When the beginning of a pattern starts with a volatile bar, but not necessarily the first bar, we can extend the size of this bar. More often than not, the first swing, usually the W1, will terminate in an extension guided by a Fibonacci ratio.

Most of the time, a volatile bar has its size at least twice the size of the Average True Range (ATR) on the traded time frame chart. It goes without saying that this technique is used only as confirmation, in the process of creating multi-level confluences.

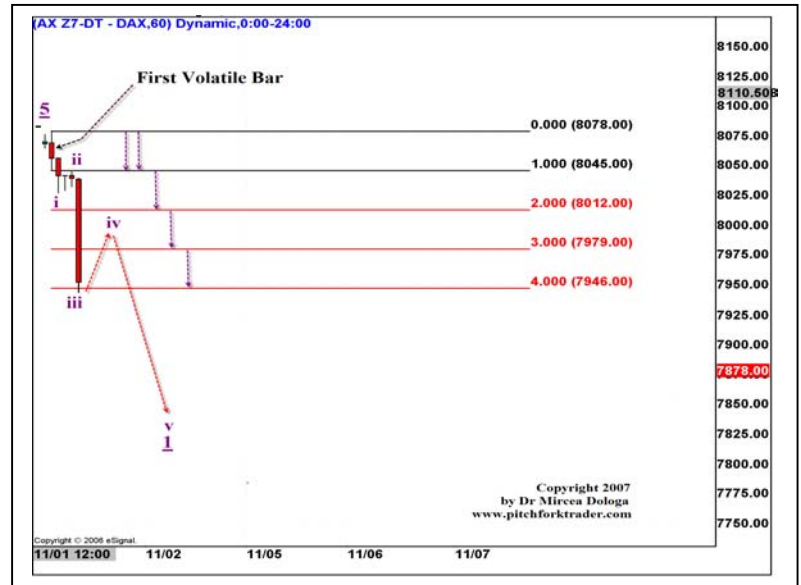


Figure 154 – The right-side chart shows the outcome of the chart in Figure 153. We can observe that the market flow has stumbled on the whole number extensions in the developing process of its sub-waves. We must confess that the number seven (the seventh extension) occurs very often. The market has so well memorized the extension levels of the first volatile bar that they dominate even the retracement levels.



1.1.3 Trading Range & Its Extensions – W1 Nest Inception

Figure 155 – The right-side chart illustrates the technique of the trading range and also its extensions. As most of us know, the longer the trading range the stronger the incoming expansion will be. By extending the size of the trading range, more often than not, the final extension will be located on a targeted-location guided by a Fibonacci ratio. The chart clearly shows the formation of A-wave or W1, the B-wave or W2 and an inceptive C-wave or W3. By using the channelling tools (0-2 trend line & W1-parallel trend line) the ascending channel scenario is ready to roll!

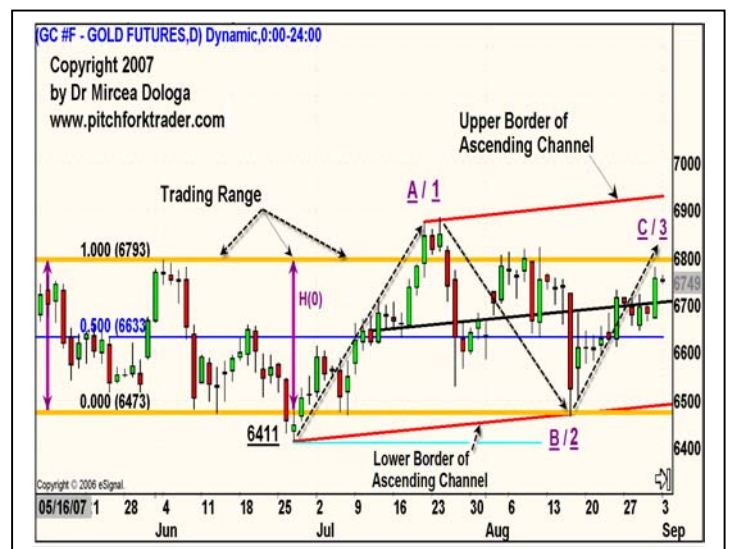


Figure 223 - The market dropped, in the right-side chart, all the way down to the lower border of the parallel trigger line channel. For now, it seems that our expected chart formation probability is enhanced and even vouched for, because it has already four touches and it has not only tested and re-tested the lower border but it has also reversed and started to climb. Anyway, the 7917 lowest low of the local market hasn't been yet touched, meaning that the probability of a rectangle choice is for the moment, close to zero.



Figure 224 - As we have anticipated the up-sloping parallel trigger channel is confirmed with a steep 45° slope, on the right-side chart. The channel is well established having three lower border channel touches and seven upper border channel touches. The local market seems to be inclined to reverse, but it was, for the moment, halted just on the midline of the channel.



Figure 225 - As we have taken into consideration, in the prior chart, the market flow not only reversed but it spilled down from the initial channel. It dropped all the way down to the 150% extension of the initial channel to the 7830 key level, being short of only 30 pts of the whole number 7800 key level, and at the same time, a strong old low level (P2). As one can see, the parallel trigger line channelling is a very advantageous edge for the professional trader, combined with its extensions and guided by the Fibonacci ratios.





Figure 229 - The above chart supplies the additional confirmation tool – the Fibonacci arcs – for enhancement of the reversal probability. The 147600 confluence zone is enhanced by the 3.125 Fibonacci ratio arc. The last four bars are embedded within a curvilinear channel formed by the 3.0 & 3.125 Fibonacci ratio arcs. Any trespassing of this channel will signal an enhanced reversal or, on the contrary, a trend continuation. In the latter case, the channelled portion will be considered as a pullback.

3.5 P1-P2 Fibonacci Ratio Trend Lines - The Ideal Follow-up Tool of the Trend

The use of the P1-P2 Fibonacci trend lines is usually optimal outside of the pitchfork's main body. However, we can start applying them as early as possible, when we closely follow the market flow breaking the main body's limits, the upper or the lower median line.



Figure 230 - The above chart illustrates the last bar's break-up of the upper median line (uml) pertaining to the minor down-sloping pitchfork. At the same time, the market flow is getting away from the major pitchfork's median line (ML) targeting its upper median line (UML). However, the separating distance is a multiple ATRs farther away. The trader would need a tool to assist him/her to immediately enter, in case of a precocious reversal. It will surely offer a small stop loss, which will optimise the trade. We have decided to use the P1-P2 75% Fibs trend line for this close follow-up task. For the moment this trend line has probably temporarily halted the market price, with the last bar just underneath it.



Figure 267 - The above 120-min chart is the same as the chart in Figure 266 on which we have labelled the Elliott waves, all within the T-pitchfork. We can easily see that the local market flow has built a small trading range, just above the median line, in order to restore the necessary kinetic energy to catapult the price all the way up to the upper median line. Watch out for the Fibonacci ratio arc confluences.

Key Points to Remember:

- The Schiff pitchfork is nothing else but a traditional pitchfork's substitute when the latter can't be constructed or it can't optimally describe the market flow.
- The Schiff pitchfork's optimization depends on multiple factors: the degree of market flow embedding by the main body, the enhancement role of the median line or any long lasting channel formed by the median lines and its acolytes.
- Keep in mind the two primordial roles of the Schiff pitchfork: a contextual function encasing as much as possible the overall market and also a local role. In spite of its apparently limited action on the local market flow, the corresponding minor Schiff pitchfork can strongly influence not only the context of the global market but also on the trade's outcome.
- Be aware that a vivacious shift-to-the-right tendency in an up-sloping trend may signal the prelude of a change in trend.
- The revealing power of the unseen non-pivotal P0 anchor will give the trader the chance of building a Schiff pitchfork, which couldn't be otherwise constructed. This will constitute a real edge, placing the trader well ahead of the crowd.
- The T-pitchfork can efficiently replace not only the classic pitchfork but also the Schiff pitchfork.

8. Bar Counts and the First Pullback Trade – W3 Trading

We couldn't close this very important chapter for the professional trader, without revealing the most efficient and profitable application – *the first pullback trade of the W3 trend*. As most of the experienced traders know, it is almost impossible to catch an early stage of a long trend without considering the *first pullback*. Most of the inexperienced traders enter when the crowd has already identified the trend. Let us see below how it is done!



Figure 298 - On the above chart, we have applied the Bar Count Grid tool just at the termination of the W2 or the B-wave. We are now expecting the formation of a classic, an extended or an elongated W3. This is the order of usual frequency of their occurrences.

We have used on the above chart, the *Successive Bar Count* technique, but the trader can also use the *Momentum Bar Count* technique, or both of them but on different charts. We have projected, not only the bar counts but also the classic price sizes of the Elliott incoming waves for the time/price confluences. At this stage of the trend's development we can observe several choices of entering the W3 trade: at the breakout of the TL-1/2 trend line, after the first reversal bar, which signals the termination of the wii:W3, or at the breakout of the wi:W3 level.

If we have entered at the first choice, the other two entry levels can be used as the “add-ons” levels.



Figure 299 - On the above chart, we can observe that the tool has performed very well with a bar count of 33 (34-1). The TL-1 trend line has here a confirmation role and it was drawn just after the W2 inception, even before the bar count tool was applied

10 Elliott Waves Labelling Confirmation by Stochastics Indicator

10.1 Impulsive Pattern - W1 to W5

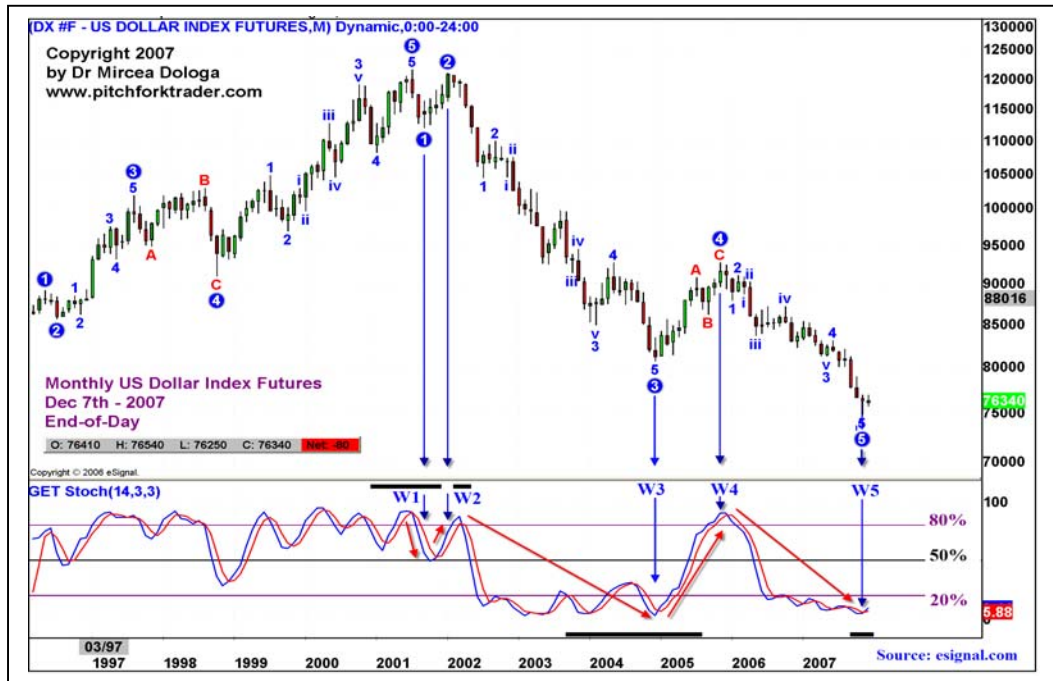


Figure 363 – The above chart illustrates the relationships that exist among the formation of the Elliott waves and their sub-waves and the corresponding support and resistance levels developed on the Stochastics chart. One can observe the almost perfect synchronism that is formed: the W1 is halted by the 50%-level line; the W2 can't retrace anymore due to the intervention of the 80%-level line, it bounces on it and starts the W3; the W3 gets exhausted in the oversold zone (again the “rubber band” effect); the short 33% W4 price retracement signals a very strong “would be” W5; the W5 takes off from the overbought zone and drops, all the way down to oversold zone.

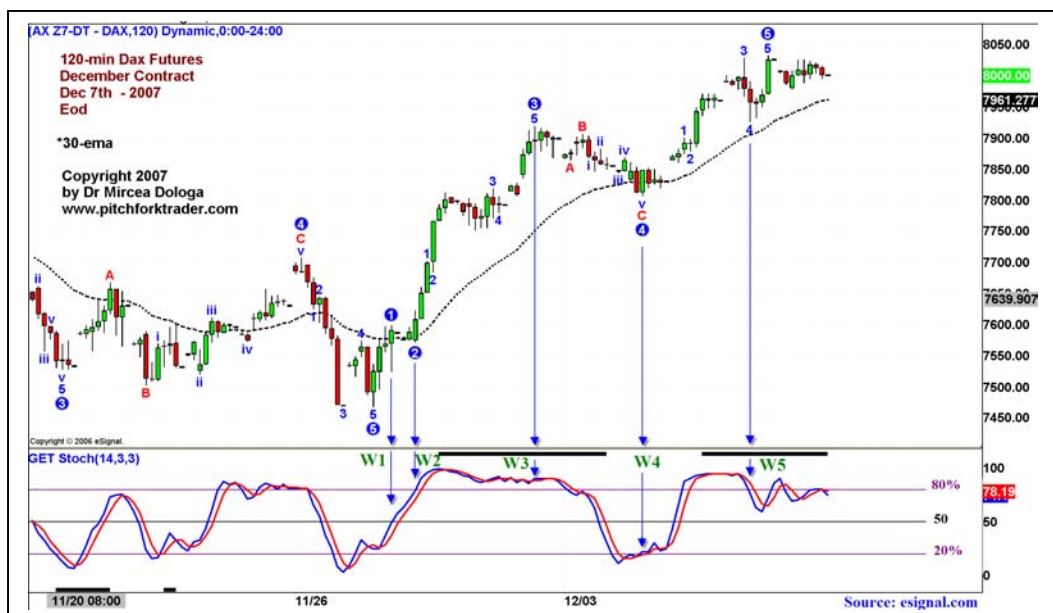


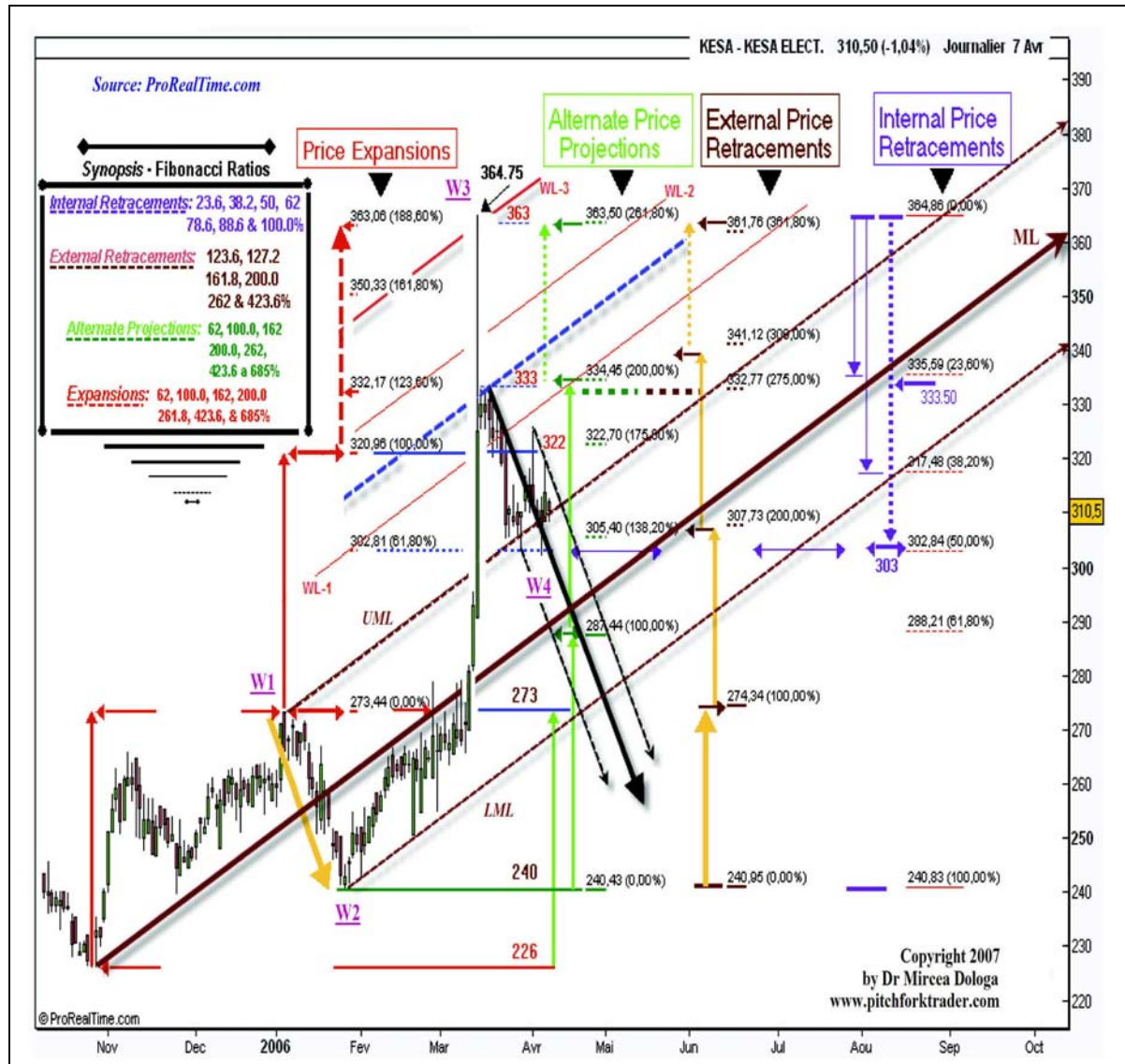
Figure 364 – The above chart illustrates the relationships that exist between the formation of the Elliott waves and Stochastics. We can observe not only the corresponding support & resistance levels but also the efficient up trend revealing by the two marking lines located above the 100%-level of the False Stochastics. The space between the two marking lines is consecrated to W4.

Appendixes

- Appendix n° 1 - Price Fibonacci Ratios Technique Applied to Elliott Waves**
- Appendix n° 2 - Reversal New Signals:**
 - 2a - Positive Reversals**
 - 2b - Negative Reversals**
- Appendix n° 3 - Key Level Mapping of the Operational Time-Frame Chart**
- Appendix n° 4 - Pre-Open Main Points**
- Appendix n° 5 - Dax Pre-Open Trading Study**
- Appendix n° 6 - Miner's & Fisher's Calculations of End-of-Wave 3**
- Appendix n° 7 - Miner's & Fisher's Calculations of End-of-Wave 5**
- Appendix n° 8 - Pivotal Bar Count Table**
- Appendix n° 9 - Types of Bar Count Numbers from 5 to 206**
- Appendix n° 10 - Bar Count Grid**
- Appendix n° 11 - Three Pawn Technique**

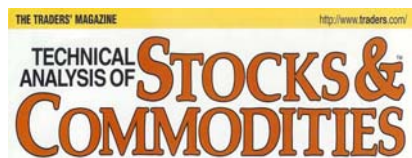
Appendix n° 1

Price FIBONACCI Ratios Technique Applied to ELLIOTT Waves



<u>W1</u>	<u>W2</u>	<u>W3</u>	<u>W4</u>	<u>W5</u>
INT RET applied on Prior Pattern 100% W4 & w4:W5	INT RET applied on Prior Pattern 100% w4:W5	INT RET applied on Prior Pattern 100%	INT RET W3 & ALT PROJ W2	ALT PROJ - W1 ALT PROJ - W0-3 ALT PROJ - W4 EXPAN - W1 INT RET of 100% Prior Pattern

*Abbreviations - INT RET (Internal Retracement), EXT RET (External Retracement), ALT PROJ (Alternate P. Projections) & EXPAN (P. Expansion).



- **The Third Wave – Crowd Behavior and Elliott Waves - Part I**
by Dr Mircea Dologa
Edition: May 2006
- **Trading The Trend In Wave 3 – Part II** – by Dr Mircea Dologa
Edition: June 2006
- **The Third Wave – Part III** – by Dr Mircea Dologa
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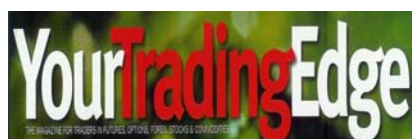
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- The "Key Points to Remember" section, located at the end of each chapter, has been designed to sharpen the comprehension of the just described theory and of the case studies and also to provide quick reference points for later quick revisions.
- The author's experience in medical field taught and warned him, that there is no positive outcome of any well accomplished tasks without the heavy load of clinical cases practice, once that the knowledge and confidence are at "*rendez-vous*". Thus he provided for almost every chapter, the *case studies*, which will not only emphasize the theoretical presentation, but will also comfort the trader's comprehension and confidence.

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