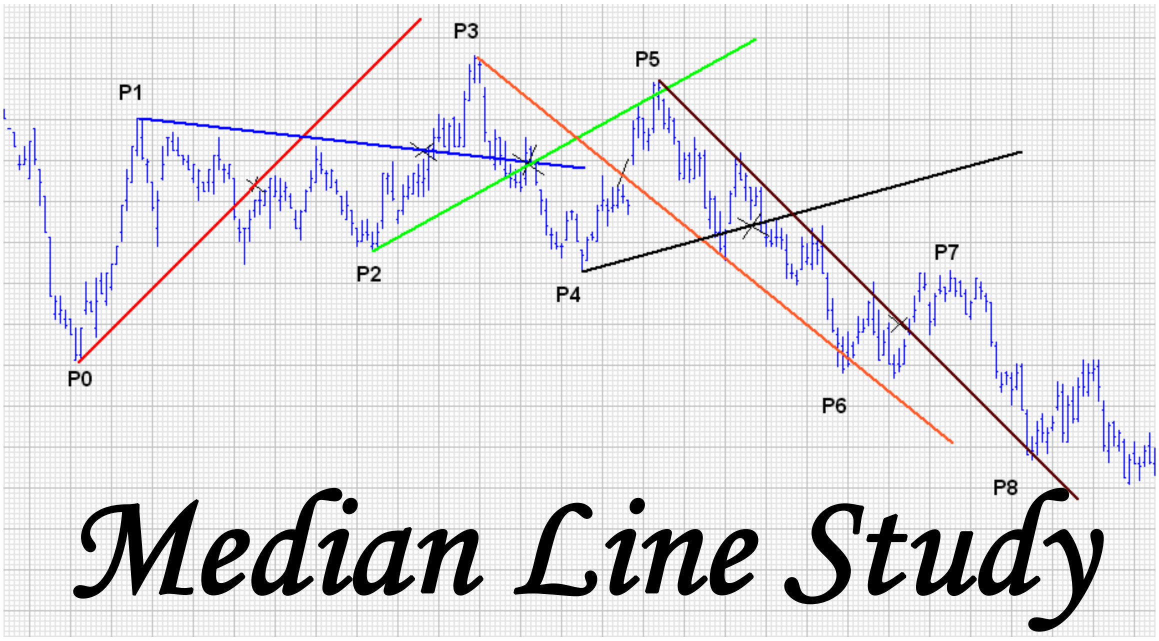

Price NEAR the Median Line
What are the Probabilities?

You are viewing the

FREE

Introduction
to the book.

Thank you for your interest!

By Greg Fisher

Median-Line-Study.com

TABLE OF CONTENTS

PART I
Introduction

History of the Median Line

Dr. Alan H. Andrews developed a trendline technical market analysis tool called the Median Line method, more commonly known today as "Andrews' pitchfork". Andrews reportedly made over a million dollars in a few years back in the 1920's trading commodity futures after graduating from MIT with a degree in engineering. Andrews credited Roger Babson with the idea of applying Newton's third law of motion to economics as the basis for much of his work. Babson graduated from MIT with a degree in engineering in the late 1800's. Babson soon began work on adapting Newton's law, "For every action, there is an equal and opposite reaction", to the financial markets.

Later in life, Andrews created a course entitled the "Action-Reaction Course". The Andrews course sold for $1,500 in the 1960's and 1970's. The course was 60 pages in length and used a case study approach. Andrews stated in his course:

> "…drawing a single line will enable you to know where the price of any stock or any future is now headed and the probable time it will reach there."
>
> *~ Dr. Alan Andrews, Action-Reaction Course*

Andrews called the line the Median Line – a line drawn on a price chart after three alternative pivots in price occur. The original course can be somewhat difficult to interpret, and not many who have encountered the method understand its application. However, tools for "Andrews' pitchfork" can be found in many of today's trading software. Several sources with basic information concerning the Median Line method can be found on the internet. But, what exactly is the method suppose to reveal? Andrews stated the method would:

> "…enable the user to be one of the few who can tell where the prices are headed, and the place they will reach about 80% of the time, and when approximately that place will be reached."
>
> *~ Dr. Alan Andrews, Action-Reaction Course*

Andrews also stated in his course that not only was there a high probability price would reach the line, but a change in trend often occurred at or near the line. Do prices always return to the Median Line with that kind of accuracy, or do different conditions affect its accuracy? What is the probability of prices reversing at or near the line and changing direction? Has market behavior changed since the 1960's? Is market behavior different now than it was in the 1920's? Wouldn't that be a powerful thing to know?!!!

Is the Median Line Method Outdated?

Traders such as Andrews in the "pre-computer" era hand charted many commodities or securities often receiving charts in the mail only once a week. Traders would update the charts by filling in the price bars and using simple techniques such as trendlines to get a feel for the market.

Today's computers have made a variety of indicators derived from complicated mathematics accessible to technical traders. The indicators are designed to give the trader an idea of where prices could be headed and when a trend will end or begin based on price history. Today, many traders watch live data streamed to their computer and evaluate market action as it unfolds.

With today's technological advances, are the trendline techniques of the old days outdated and no longer useful? Have the markets advanced beyond the ability to use trendline methods such as the Median Line to gage market movement?

Why Study the Median Line?

On the way to receiving an MBA, I read of the "random walks" of prices, and "efficient markets". The theories are based on the idea that the prices of securities reflect all information currently available, and prices adjust quickly and accurately. The theories, if correct, would effectively dismiss any sort of "edge" gained by technical analysis. Interestingly enough, the ideas became popular around the time Andrews offered his course. More recently, the idea of "behavioral finance" has risen to the scene, which suggests human emotions are factored into market behavior. Can you say "fear" and "greed"? Are investors and traders rational or irrational? I don't think that one will be answered for a while. Does it matter?

I was first introduced to the Median Line before learning of the theories listed above. Because the simplicity of the method intrigued me, I decided to write a basic research paper/empirical study on the Median Line method for an independent study course.

I decided to put the Median Line to the test. I wanted to know if today's markets behave similarly to the markets of 40 years ago. Do prices return to the Median Line 80% of the time? What did I find? Giving the results of my work does you no good. Why? Because the conditions placed on a particular issue must be understood BEFORE a logical conclusion can be reached.

> "When we speak of any scientific law, we mean a statement that a relationship has been observed among certain given conditions. We mean "if these conditions now, then those conditions follow, and can be expressed mathematically". We have "order" through which we can know the outcome from these conditions. We can therefore take advantage of this knowledge, and thereby progress and profit."
>
> *~ Dr. Alan Andrews, Action-Reaction Course*

What are the different conditions behind applying the Median Line to a price chart?

To name a few of the basic and more obvious conditions:

1. From which pivots on the chart is the Median Line drawn?
2. The different markets themselves – do all of today's markets act similarly?
3. The time frame being studied – monthly, weekly, daily, intra-day charts. Does it matter?

Good questions.

Let's find out!
at

Median-Line-Study.com

You now have an opportunity to prove to yourself the probabilities of prices acting according to the observations Andrews made concerning the Median Line!
Read on!

<u>The Study</u>

"I hear and I forget. I see and I remember. I do and I understand."
~ Chinese Proverb

Using the method I developed during my research, I created a simple Median Line study. The objective of the study is to provide a step-by-step process for you to determine the probabilities of price acting according to the basic observations set forth in Andrews' original course material concerning the Median Line. The objective is NOT to provide an in-depth analysis of all of Andrews' techniques, but a straight-forward study of the foundation of his work – the Median Line. The method can be applied to any of the financial markets such as individual stocks and futures. The markets are a game of probabilities. Thinking in terms of probabilities will enhance the trader's ability to play the game. Andrews definitely thought in terms of probability. In fact, in the chart-filled 60-page original course, the word "probability" shows up about 40 times! The following illustrates Andrews' view of probability and how it relates to the markets:

> "While it is true that few things are certain to happen in the future at a definite time such as the time that a certain person will die in the future, this mathematical probability has made tremendous profits for the insurance concerns that use it, as well as similar profits for investing individuals who employed it."
> *~ Dr. Alan Andrews, Action-Reaction Course*

Every trader has their own way of interpreting data. We are all unique in how we see things and how we process what we see. Only by DOING can we truly understand. You can read all the information you can find on the Median Line method, but until you put pencil to paper or finger to mouse (computer that is), you will not truly understand. I know - I have been there.

If you do not know what to believe –
believe in what you can prove to yourself!!!

Requirements

When I conducted the study, I decided to use the method as intended - SIMPLE. A few pencils, a straight-edge and quite a little time behind price charts were the inputs necessary.

To conduct the study, access to price charts either from charting software or free charts available on the internet or other sources can be used. Many charting software packages have “Andrews’ pitchfork” as a drawing tool. For those of you who are not familiar with the term, the pitchfork is so named because its three parallel lines resemble a farmer’s pitchfork. The Median Line is the center line of the “pitchfork”. If you have experimented with or use “Andrews’ pitchfork”, I recommend you put the “fork” aside and focus only on the Median Line.

All you need is access to price charts, a few pencils, a straight-edge, and a willingness to learn. If you have access to charting software, it will more than likely have all the tools you need to conduct the study. The beauty of the Median Line is its simplicity. You do not have to be an engineer or a mathematician to apply the Median Line to price charts. Andrews did not have access to the fancy software packages that are available today. He did it the old-fashioned way!

Remember to come back and visit us at:

[Median-Line-Study.com]

Where members can submit the results of the studies they conduct, as well as have access to the accumulated results of all members.

Ready?

Let’s get to work!