TIME AND PRICE: THE LENNON AND McCARTNEY OF SWING TRADING

BY JEFF COOPER

I'm not smart. I try to observe. Millions saw the apple fall but Newton was the only one who asked why.
-Bernard Baruch, financier, stock-market speculator, statesman

By the time a participant figures out why the market has adopted a particular thesis, it may be too late… it is better to anticipate the fluctuations by studying market patterns. This is what technical analysts do.
-George Soros, billionaire hedge-fund operator, "The Man Who Broke the Bank of England"

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My calculations are based on the cycle theory and on mathematical sequences.
-W.D. Gann, market scientist, author

What Is Trading?

Trading is not about control. It is about going with the flow.

Trading is not about knowing the future. It is about allowing the future to take place.

Trading is the glass half-empty and the glass half-full, alternating without rhyme or reason by the minute.

Trading is an alluring distraction from life or a life raft on the stormy search for self.

Trading is people offering up their most precious ideas to the clueless.

Trading is your best friend who steals your spouse, and your house.

Trading can send us to hell or to paradise, but it always takes us somewhere we have never been.

Trading is a blessing that, ignored, becomes a curse.

Trading is taking a knife to a gunfight.

Knives and guns leave traces of blood, but the idea of logic in the market is the weapon that manages to destroy without leaving clues.

The mountain of trading is in the mind as the lake is level.

Trading is more about knowing when not to trade than it is about trading.

Trading can be excruciatingly exciting when done wrong and tauntingly tedious when done right.

Trading is the mirror and the pendulum playing hide and seek.

* * *

Even **Facebook** (FB) founder Mark Zuckerberg says he has no idea what a company is worth.

I'm not saying fundamentals aren't important. I just want to make two things crystal clear:

1. Fundamentals change but price doesn't necessarily correlate with those changes, and

2. Valuations go to extremes in both directions.

To rationalize the market can be fatal: Thinking that **Cisco** (CSCO) will have good numbers or that there's no inflation is missing the point. The market is an irrational creature.

One year, a P/E for a particular company could be at 15. Next year, it could be 80.

In the final analysis, it is the state of mind of the masses that determines the value of the fundamentals -- not the other way around.

Valuation is in the eye of the beholder, and when the eye of the beholder blinks, stocks can turn on a dime like a school of fish.

Most traders cannot.

In the financial markets, perception trumps reality, and when the market turns, beauty is only skin deep.

Buying value will grind you down if technicals aren't in gear, which is fine, as long as you have all the time in the world to wait. Few of us do.

Popular consensus is that news and social events dictate social mood.

The old cliché is that the news makes the market, but there is much evidence to suggest that mood makes the market.

From my perspective, it is social mood that determines the news and social events, and extrapolates them to stock prices -- not the other way around.

If it is true that social mood is the cause and social events are the effect, then the sentiment for speculation and risk ebbs and flows with changes in mood: Sentiment precedes price.

Scientific studies show that mood follows pattern, which indicates repetition, and therefore a degree of predictability and probability.

Markets are patterned. Whatever causes that pattern to be so very well-defined is probably also pattern.
-H. Cortes Douglas, Luksic Scholar, Harvard University

Why do these patterns exist in human behavior? It may be a reflection of the great *spiritus mundi*, or mass subconscious that relates to an unconscious impulse called herding. People act differently in crowds and are more comfortable in crowds. People tend to think in images because of the reptilian, primal part of the brain that controls our survival.

Patterns of behavior that are found to repeat in historical chart patterns are mirrored in nature, in fractals of branching found in trees, mountain ranges, and even in blood vessels.

Patterns in nature are mirrored in spirals of logarithmic growth found in the nautilus, sunflowers, and hurricanes.

Apparent in these spirals are simultaneous contracting and expanding forms which mimic the breathing of the market and its simultaneous primary and secondary trends.

Studies show that extreme emotion can drown out logical thought. Our fight and flight responses are extremely fast and can easily overwhelm the analytical areas of our brain.

This brings us to time.

Why and when beliefs change appears to be cyclical, and probably relates to pre-rational, subconscious impulses from the brain. Whether these impulses are affected by solar flares, gravitational changes, or lunar cycles is a topic for another time.

The markets often give clues about events, whether they are financial or geopolitical events, or even natural disasters.

Jesse Livermore, renowned early-twentieth century speculator and one of the greatest traders of all time, used to tell the story of having a big short position on prior to the great San Francisco earthquake in 1906. Afterward, many of his fellow traders called him to ask how he knew an earthquake would hit.

This is the nature of cycles in the spirit of mass psychology: Cycles are the DNA of these mindful clues. That does not mean that cycles are infallible crystal balls, but they often "sense" and reflect change underneath the surface before that change is full-blown and widely recognized. The market will oftentimes trade heavy prior to a waterfall decline that marks a climax.

For example, the market seemed heavy and traded like there was a weight around its neck for the month going into September 11, 2001. On the 60-year cycle, the U.S. got another surprise attack on its territory following the Pearl Harbor attack in 1941.

Sixty years prior to the bear market low in 1974, the stock exchange was closed for months due to World War I.

In June 1949, the Great Bull Run into 1966 began. The market reacted to that cycle 60 years later in the spring of 2009, which marked a dramatic bottom that led to a 100%+ advance in the subsequent two years.

Price confirmation is a powerful and persuasive instrument of one's opinion of the fundamental case.

Price is the final arbiter, but time is the judge.

TIME is the most important factor in determining market movements, and by studying the past records of the averages or individual stocks you will be able to prove for yourself that history does repeat and that by knowing the past you can tell the future. There is a definite relationship between TIME and PRICE. Now, by a study of the TIME PERIODS and TIME CYCLES you will learn why tops and bottoms are found at certain times and why Resistance Levels are so strong at certain times and bottoms and tops hold around them.
-W.D. Gann

When time is up, price turns.

Few market participants pay much attention to time.

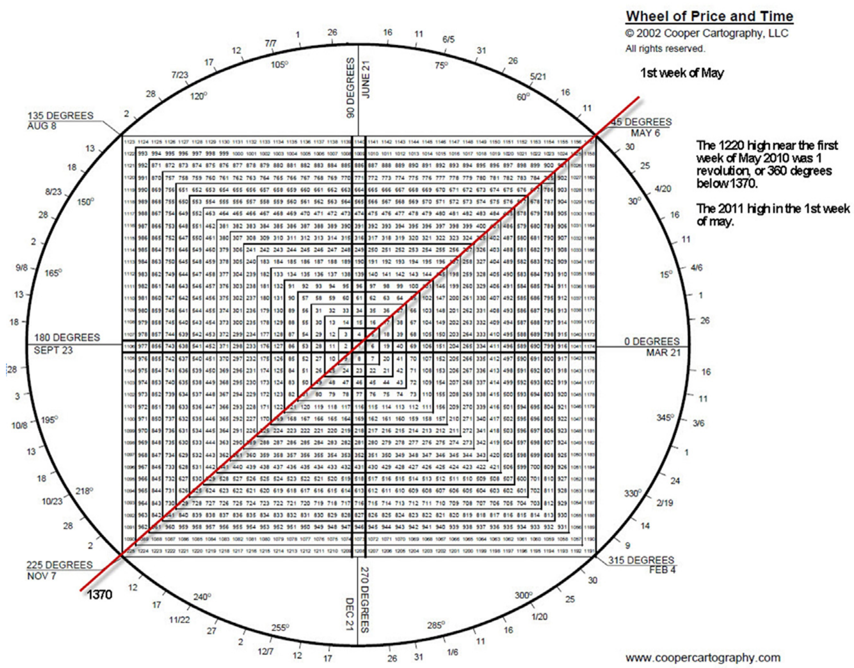
However, the methods employed in my Daily Market Report seek to marry time and price.

These methods include the New Swing Chart Method, a unified theory of market movement which keys off the weekly and monthly charts, and the famous Square of 9 Chart or Spiral Chart used by W.D. Gann to forecast price.

The New Swing Chart Method is a unified theory of market movement which studies the swings in the S&P from 1941 to 2005.

The strategies and tactics employed in the morning Daily Market Report and the swing trading and day trading picks presented in my evening report key off price, the principle of squares, and the law of vibration.

W.D. Gann, the legendary market scientist and trader stated: "Everything in existence is based on exact proportion and perfect relationship. There is no chance in nature, because mathematical principles of the highest order lie at the foundation of all things. Faraday said: There is nothing in the universe but mathematical points of force."


Wheel of Price and Time
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1st week of May
The 1220 high near the first week of May 2010 was 1 revolution, or 360 degrees below 1370.
The 2011 high in the 1st week of may.
1370
90 DEGREES
JUNE 21
45 DEGREES
MAY 6
0 DEGREES
MAR 21
315 DEGREES
FEB 4
270 DEGREES
DEC 21
225 DEGREES
NOV 7
180 DEGREES
SEPT 23
135 DEGREES
AUG 8
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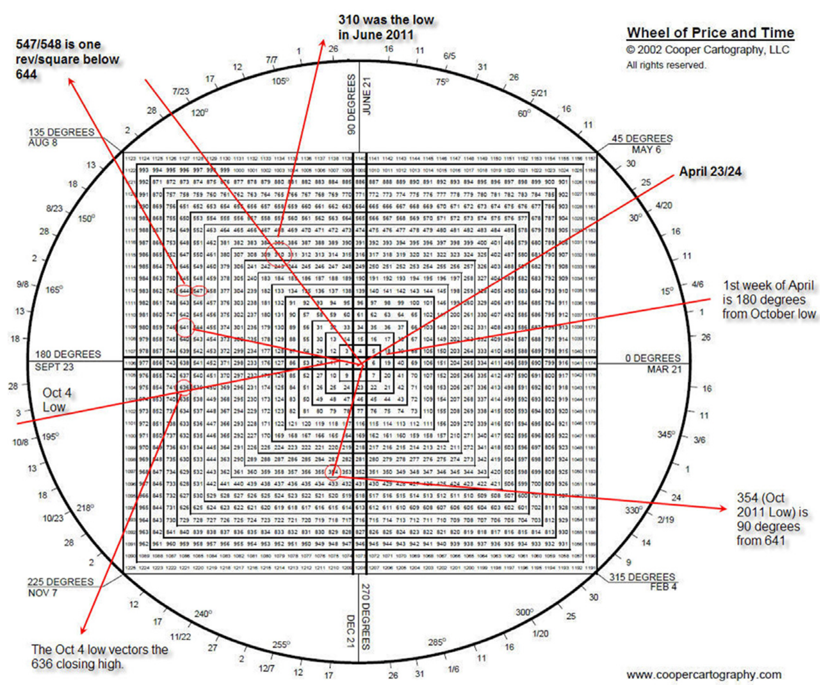
310 was the low in June 2011
547/548 is one rev/square below 644
Wheel of Price and Time
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April 23/24
1st week of April is 180 degrees from October low
Oct 4 Low
354 (Oct 2011 Low) is 90 degrees from 641
The Oct 4 low vectors the 636 closing high.
90 DEGREES
JUNE 21
45 DEGREES
MAY 6
0 DEGREES
MAR 21
315 DEGREES
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DEC 21
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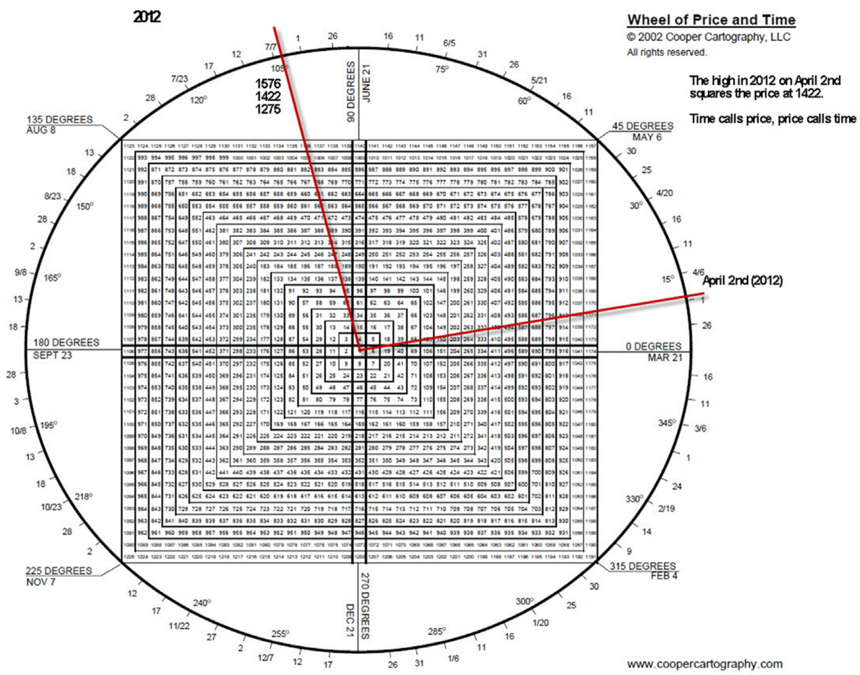


Since all indicators are created from price and/or a combination of price and volume, they are of second derivative nature.

Why not go right to the horse's mouth -- to price itself?

In addition, most all technical indicators are descriptive, not predictive.

Speculation is observation, pure and experiential. Thinking isn't necessary and often just gets us in trouble.

It is price that pays, but good price results from patience. This is the tug-of-war that dominates the trading landscape.

It IS price that pays.

And it pays to focus on patterns of accumulation and distribution, and where the buyers and sellers come in, and where the bodies are buried, but timing is everything. And, timing is more difficult to ascertain than obvious price points on a chart.

Observing when time and price “meet,” or square out, often is helpful in determining turning points and changes in trend.

“The trend is your friend” is a nice cliché, but what do you use to measure the trend?

There is always a primary and a secondary trend operating simultaneously. The market is a living, breathing organism, expanding and contracting, mirroring the logarithmic spirals found in many forms in nature, such as the nautilus or the sunflower or a hurricane.

How do you differentiate between them?

In other words, how do you determine when a selloff is a bullish correction or the beginning of something larger on the downside? How do you determine whether an upside retracement is a bearish snapback or the beginning of a new upleg?

These are the benefits of an approach that analyzes time and price and their interlocking harmonics.

Ultimately, the market will agree with fair value and the facts, but it won’t tell you when. Not only is timing everything, time is money.

Trader and market observer Art Cashin tells a great story about timing:

“Once upon a time there was this man who was so marvelous at presenting marvelous tales to children that the world scrambled to buy his work. The characters he invented were so popular people began calling them modern classics. Folks thought they might live forever. So far it looks like they were right -- the characters are as popular today as ever. Every new generation of kids loves the stories and clamor to buy the character dolls. The movie versions are shown again and again.

“So this very ingenious man decided to kick it up a notch. How about a theme park, built around the stories and characters. He solicited friends and associates to invest in the plan. It was a natural. But where to build? How about near Hollywood? Good weather and all those movie tourists. He bought up tons of land near Los Angeles and began working one more wonder.

“The result of course was a fantastic success… at least it was when Walt Disney did it several years later. But this wasn’t Disneyland and it was surely no success.

"This financially-failed fiasco was the creation of an early genius -- L. Frank Baum, who created the Wonderful Wizard of Oz. The failure of the theme park broke Baum and he died in May 1919, perhaps of a broken heart.

"The financial fiasco may have indirectly led to one of the great odd coincidences in movie making. When the filming of the Wizard began in the late 1930s, the costume people couldn't find just the right design for the shabby great coat worn by Professor Marvel when he and his horse, Sylvester, are visited by Dorothy.

"Then one of the costume crew noticed 'just the right coat' in a second-hand clothing store in Los Angeles. He bought it and brought it to the set. Everyone thought it was perfect, and with minor alterations, it fit Frank, who played the Professor. One day, as Morgan was examining the coat he noticed a label on the inner pocket. It said Baum.

"Could it be? Yes Dorothy, all you have to do is believe!

"By checking old tailor markings they discovered that the ratty old coat accidentally bought in the secondhand store belonged to the late L. Frank Baum.

"The Wizard would have liked that."

Sometimes in the market all you have to do is believe, or should I say, suspend disbelief. But when you pray at the altar of fundamentals, you are at a shrine of futility because you are never going to have an edge on the accounting (honest or otherwise) more than analysts, and most of the time even they are wrong, as evidenced by the fact that they tend to upgrade stocks as they're about to top and downgrade them after they've fallen out of bed.

They say the market is always right. Well, it's only right twice -- at the very bottom and the very top.

Sometimes what the market knows isn't worth knowing. Sometimes the market knows everything, sometimes it knows nothing.

It's difficult to know the message of the market unequivocally: Mr. Market is the incestuous offspring of two cousins: Greed and Fear.

There is much truth but little logic on the tape. The market trades on perception: Who has a toehold on reality?

My job is to flesh out methods to approach the market. There are no gurus. Think for yourself.

According to a report in *Forbes*, forecasts made by leading economists have consistently been inaccurate since the 1970s. The study included forecasts by the consulting firm Townsend-Greenspan. Yes, *that* Greenspan.

And this report came prior to 2001.

The two worst strategic mistakes to make are acting prematurely and letting an opportunity slip; to avoid this, the warrior treats each situation as if it were unique and never resorts to formulae, recipes or other people's opinions.
-Paulo Coehlo, Brazilian author of the best-selling book, *The Alchemist*

As traders, our advantage is that institutions don't pay much attention to the price action of a stock (versus the fundamentals) because they believe that in the long run, the market will recognize what they see.

Institutions have much more staying power than traders. Moreover, their mandate for the most part is to be fully invested. But when do they realize gains, especially in a market that bangs up and down for 12 years?

Analysts remain enamored until the story changes, and often times the realization that the story has changed is when the stock price has already tobogganed.

For example, Research In Motion's (RIMM) earnings peaked in fiscal 2011 which ended in February of 2011, but the stock had topped years before in 2008. Note that despite the bear phrase in the broad market since October 2007, Research In Motion continued to advance into June 2008, proving that it is a market of stocks and not a stock market.

Research In Motion did a great job of fooling many an investor with its show of false relative strength in the first half of 2008.

The monthlies on Research In Motion also do a good job of showing the Principle of Tests which we use on all time frames in my Daily Monthly Report. Stocks like to test at both highs and lows. Oftentimes, that test takes the form of a high, a test failure and what I call a Test of a Test which carves out three drives to a high. The market often plays out in technical patterns of threes, such as three drives or waves or moves to a high or a low.

This pattern occurs on multiple time frames, from 10-minute bars, to daily bars, to weekly and monthly bars.

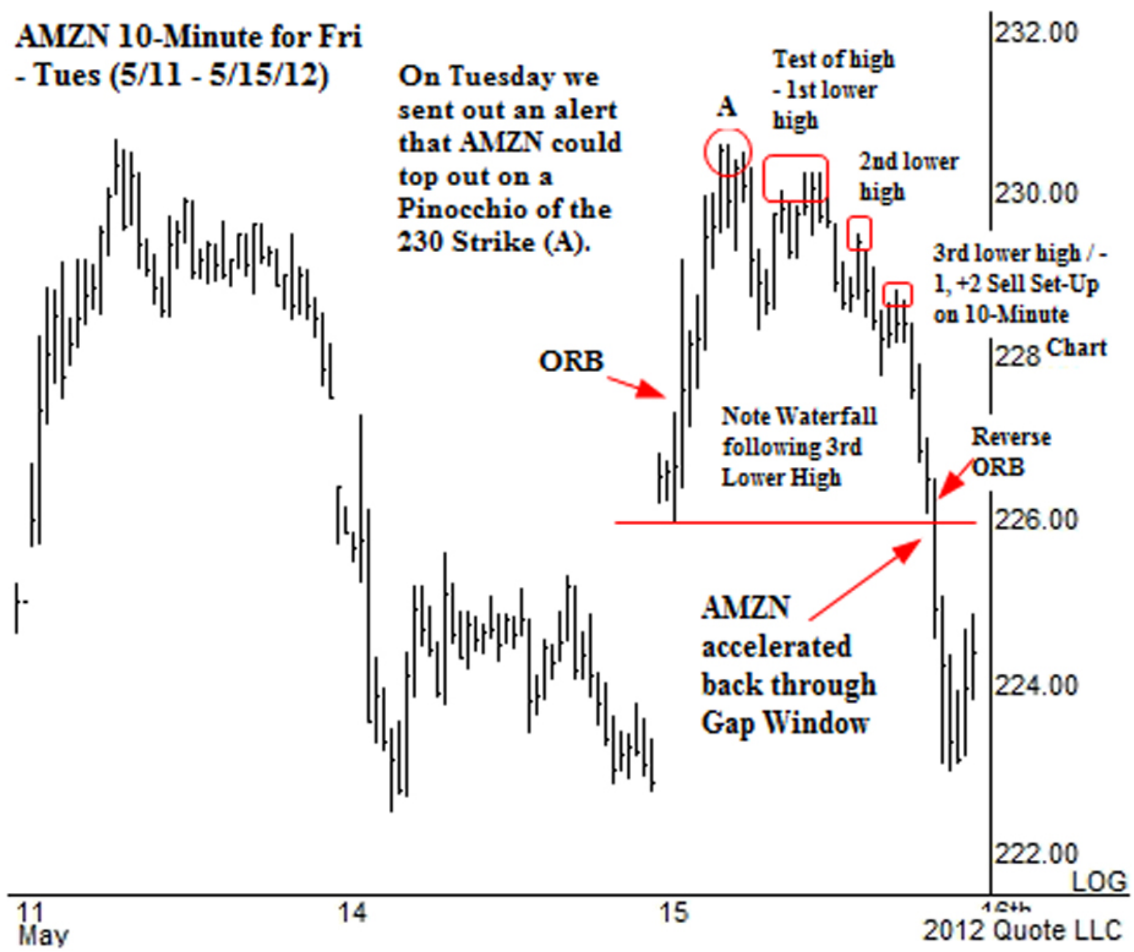
In battle, all appears to be turmoil an confusion. But the flags and banners have precise arrangements, the sounds of the cymbals, fixed rules.
-Sun Tzu

The players may change, and the "machines" may inject a new element, but human nature remains the same and so do the patterns.

Whether technical analysis works because it taps into a natural progression and rhythm (as I believe), or because many use it and it is self-fulfilling doesn't matter.

It works.

The market still plays out in threes, as in three drives to a high (like with Research In Motion) or a low.



Trying to identify patterns of distribution and accumulation that often play out in threes, works, I believe, because we are really identifying patterns of accumulation and distribution in emotion.

The usual bull market successfully weathers a number of tests until it is considered invulnerable, whereupon it is right for a bust.
-George Soros

Trading has gotten harder than it was when I wrote my *Hit & Run* book series in the late 1990s. The difference is that today the majority of the volume in the markets is program trading and ETFs.

I am told that in a good year like 1998, the specialists as a group profited to the tune of maybe $500 million. A good year for high-frequency traders is $10 billion.

As more and more algorithms and programs hit the market, old rules don't seem to work as well and there is a lot more noise. The "machines" have a tendency to elicit spike & reversal patterns.

But once you catch on to how they game the system intraday you can capitalize on these "flips" and slingshots as long as you adhere to your protective stops and use trailing stops on your positions.

In order to counter increased market distortions, my swing trading tactic is designed to take off half the position at a designated target and bring the stop on the balance up to break even.

Programs pushing around stocks have made day trading, and reading the tape and Level 2 quotes a very dangerous game that is more suited to experienced traders who know how to scalp and adhere to an "uncle point" if an abrupt reversal sees a stock knife through a stop without a graceful exit.

There are many games of "show and pull" related to bids and offers and dark pools to be able to confidently capitalize on reading the tape intraday. A big picture and intermediate-term view are required as is a sense of the probable tone for the day, which comes with the morning report I send out in the premarket.

The gaming of the system by the high frequency traders is why lately I have geared most of my trading to pattern analysis and swing trading. By swing trading, I mean typically two to five days.

One of the benefits of my Daily Market Report is that I am in front of the screen all day and sending intraday alerts for opportunistic setups.

In trading, the more you try to see, the less you see. This Pivot Point Method is a simple tool to stay on the right side of the trade.

Stocks have a memory. They remember past pivots. When buyers don't show up at the same place where they have in the past, it often means something is changing. And vice versa, when sellers don't show up at the same place they have in the past, something is probably changing. The Pivot Point Method does a good job of identifying these changes.

Risk management dictates that we must get out of a stock at a price rather than waiting to find out if there is an underlying change, and rather than waiting for some "news."

The news breaks with the cycles. By the time we find out what the reason is, the effect will have played out.

My method of pattern analysis married with cyclical analysis attempts to anticipate the "reason" and capitalize on the "effect."

Using a unified method revolving around the Three Day Chart and the Plus One/Minus Two buy setups and Minus One/Plus Two sell setups, my strategy is to take a lot of the emotion out of a very emotional game.

In the context of identifying patterns and price and working with cycles it must be said that the market is not a fine Swiss watch; quantitative variability means the most important trading weapons you own lie not in any course or any book, but within you.

If there is any Holy Grail of trading, it is simply this:

1. The power to refuse to allow small losses to turn into large losses,

2. The understanding that setups often "stutter-step" -- you have to be willing to be stopped out and re-enter a perfectly good setup if it reconfirms itself. Oftentimes, the first mouse gets the squeeze and the second mouse gets the cheese, and

3. The ability to ascertain where you may be wrong and know where your stop is before you enter a trade. It's easy to get into trouble; it's difficult to get out.

As I offered above, fundamental rationalizations are meaningless to a true understanding of the psychological nature of the trading game. One week **Salesforce.com** (CRM) is emperor, the next it has no clothes.

The Three Cornerstones

1. Never confuse your position with your best interest.

2. It's OK to guess wrong, but it's a sin to stay wrong.

3. When in doubt, get out. That also means that when you put the trade on, you expected it was ready to move in one direction sooner rather than later; use time stops as well as price stops.

The plains are covered with the bodies of pioneers. It doesn't mean they weren't right. Let the big elephants clear a path through the trading jungle and follow it.

Do you want to be "right" or you want to make money?

Sometimes risk is just risk. If you don't believe me, ask Jamie Dimon.

You have to take risks. We will only understand the miracle of life fully when we allow the unexpected to happen.
-Paulo Coehlo

Ready to cash in on Jeff Cooper's prolific analysis and cutting-edge day and swing trading techniques?

Try Jeff Cooper's Daily Market Report today, and let this legendary trader show you how his analysis of time and price can equate to huge profits for you!

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