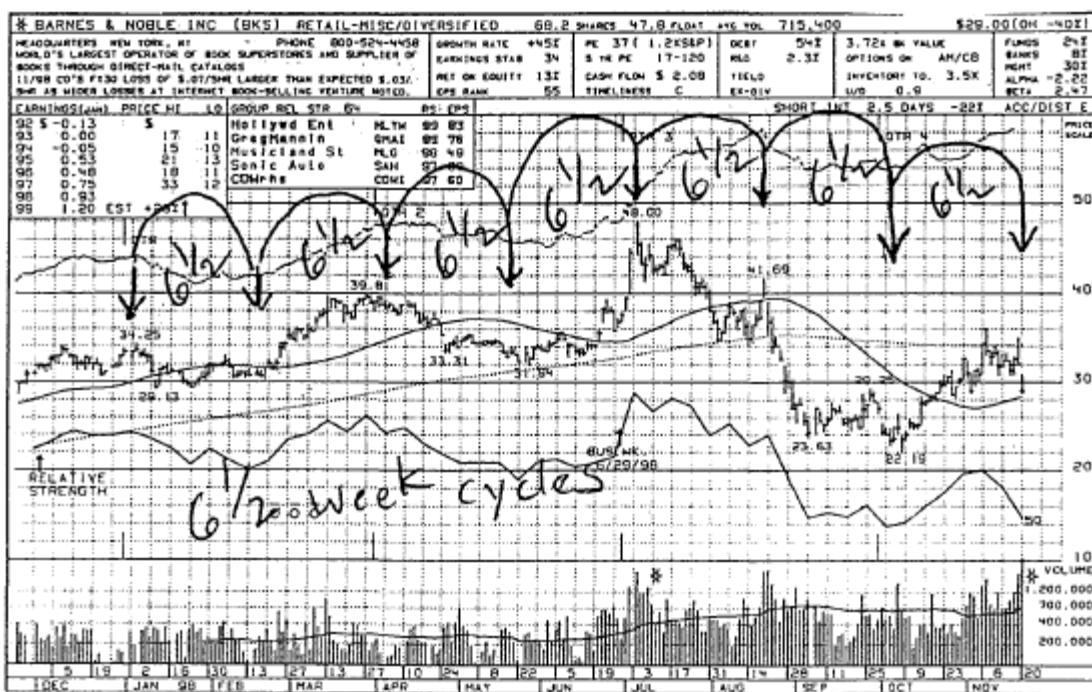


Michael S. Jenkins

Complete Stock Market Trading and Forecasting Course



1999

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Introduction

For the past several years many people who have read my two previous books, *Geometry of the Stock Market: A Guide to Professional Trading for a Living* and *Chart Reading for Professional Traders*, have written urging me to either write a course of instructions, or to put on more seminars to teach my methods of trading and stock market forecasting. This course of instruction is written to fulfill that need. By the time you finish reading this material, I expect you to have learned how to determine the true trend of any market, stock, or commodity on any world market, to forecast approximately how long a trend will persist and what the ultimate price targets are, and also to be able to successfully day trade the market. In short, this is a course of instruction on how to professionally take money out of the market and make a living doing so.

What this course is not designed to do is to teach you the basics of what a stock is, or how to open a brokerage account, or any other such rudimentary, basic endeavors. There are books available in any library on those subjects. This material is for the person who wishes to make a career of professionally trading the market, and has put in sufficient time and effort to begin serious study.

My perspective in this material is that of a technician and not a fundamentalist. Technical analysis is the study of the market with the underlying assumption that everything there is to know about the market or a stock is already reflected in the price and volume of the individual stock. No matter what the fundamentals are, or how they are changing, it takes buying and selling to move stock prices and without that, no investment will make money. Even if a company has a hidden gold mine on its property, the stock won't go up until the insiders secretly start buying. The price action will inform the astute technician that a purchase is suitable, and the fundamentalist will often not get wind of the real news for months, or until the stock has had a tremendous rise.

This course, and my whole trading experience, has been developed around the principles of technical analysis, which forecasts price trends and probabilities so that you

can anticipate the big moves long before the fundamentals really develop. Of course, investing this way doesn't exclude using fundamental research, but I only use it after the fact to better understand the true dynamics of the move. The price itself is the only real truth. If it goes up I want to buy; if it goes down I want to sell.

The art of speculation has often been likened to gambling, but there is a major difference between the two. In gambling, the house sets the rules and those rules favor the house. In speculation, like trading stocks, *you* set the rules. You decide *when* to buy or sell, *how much* to buy or sell, how much leverage to use and what your stop out point will be. You also have technical tools at your disposal, which will be covered in this course, and which can increase the odds of your being right in the trade by as much as 80 – 90%. This applies to both directions of the move and also the extent of the move. Speculation, then, is clearly different from gambling. Unlike gambling, speculation can be a profitable profession, and as with any business, you can professionally trade to make a living.

Fundamentalists are those who invest by looking at the economic facts and profit and loss statements of investment issues. Ninety percent of all the players in the market are fundamentalists – bank trust departments, mutual funds, pensions funds, and wealthy individuals. Wall Street caters exclusively to this crowd because of the huge commissions involved and as a result technical analysis is often derided as not being worthwhile. “Market Timers” are frequently criticized, but in fact, the fundamentalists simply don’t know how to forecast the market and would rather say it’s impossible to do than give business away. There are many wealthy individual investors who have had books written about their successes in the market, and they frequently say that they bought a good stock and held on without market timing. While this is true, these books do not mention the millions of investors who bought and held onto the wrong stock and broke even, lost money, or were wiped out. In short, it sounds good to see that Coca-Cola always went up, but I can

show you chart books from 10 – 20 years ago where 10% of the big winners have disappeared and are simply no longer mentioned. In 1966 the big name stocks were General Motors and AT&T. If you held onto these names you did not regain 1966 levels until the mid 1980's. You would have been much better off selling and going to the bank or buying something else. For me, the long term buy and hold idea only works if your stock is perpetually going up. It makes no sense to hold onto an asset that is in a long-term downtrend, no matter how good the name is. This course will inform you, with 100% certainty, what the trend is and what you should do. Whether you are disciplined enough to do what the charts tell you to is another matter. Some long-term investors made out very well because they held on through thick and thin, while some traders jumped out and were afraid to jump back in even though the trend was up. In theory, the trader who follows the rules or uses a mechanical system will always do better than the fundamental buy and hold investor.

I'm constantly asked the question as to whether someone can master day trading and make a business out of it. I always answer in two ways. First, I can teach you how. That's simple. The information for determining the trend and forecasting is readily available and not terribly difficult to learn. Second, I always say that trading is like dieting. Information on diets is plentiful and is a billion dollar business. But how many people go on a diet and keep the weight off? If you are disciplined enough to maintain a diet then you can easily become a successful stock trader.

In the final analysis there are four main driving factors in the human condition. These are Money, Sex, Power, Religion, and perhaps a fifth, Art. These are what motivate people. To some extent all of these motivators can be found in the U. S. Congress, but in the area of money, the brightest minds in the world are either on Wall Street or Las Vegas. Note however, that all these bright-minded individuals aren't all rich. Wall Street routinely pays millions of dollars a year in salaries to individuals, but most of that is for sales, not

trading skills. You see the market is fueled by the *emotions* of greed and fear. People who are attracted to the market are attracted out of an emotional base of greed, and they use their rational mind to justify what they do. Since it's an emotional basis, however, they will always respond in an emotional way at precisely the wrong time and therefore lose money. This is why trading is like dieting. The principles in this course have been developed to strengthen your rational mind and teach you to control your emotions. You will be taught how to wait at emotional times to counter-trade the market against the emotional public and how to know when the trend is reversing, even though it looks emotionally scary. Technical analysis tools are objective measures that tell us without emotional involvement just what is to be expected. It has nothing to do with reading the newspaper or watching TV, thinking that news will make our stock go up or down. Perhaps for one day it might, but most of the time it's just random noise. In the cycle business we say "the news breaks with the cycle," which means it is the cycle that causes the news and not the other way around. This is simple enough to prove by just looking at the three or four big cycles that repeat all the time. These are 10 years, 20 years, 60 years and 100 years. The Kennedy-Lincoln 100-year cycle is well known, as is the decennial pattern. The 60-year cycle however, is critical. When the days of the week were named for the seven visible planets, astronomers discovered that they returned to these positions each 60 years. For example, today we are replaying the late 1930's as to currencies, dictators, threats of world war and the rise of conservative governments and dictators (in a sense Churchill and Roosevelt *were* dictators relatively speaking). I'll discuss cycles more in detail in the following chapters, but for now bear in mind that if cyclic influences exist, and the evidence is overwhelming that they do, then fundamental cycles will return and will be reflected in the prices. Technical analysis of historical patterns will be of great value to the professional trader.

Who Was W. D. Gann?

Much of my perspective in this material comes from the great master W. D. Gann, who died in the mid 1950's, but continues to be a major influence in forecasting and trading. Perhaps no one before or since has been able to forecast as accurately or trade as well. While there are many Gann courses around, most are incomplete, as Gann wrote only a few that were not deliberately encrypted. Gann was a Mason and studied numerology, the planets, the Bible and other esoterica, and believed that the student must put in the time and effort to prove himself worthy before he could obtain the key. His thinking was similar to the Pythagorean school, which made new initiates prove themselves by taking a vow of absolute silence, for a period of three years. In the Gann material there are deliberate smoke screens set up to distract the casual reader, but after years of study the more advanced student will find esoteric and astrological truths hidden in his papers. I teach some of his methods in this course but most are too advanced for the general public. Gann basically used angles, numbers and astrology to forecast and he developed dozens of number squares that were used for trading individual stocks and commodities. The Square of Nine is the most famous, and is used by as much as 20% of the pit in Chicago every day, so Gann still does exert a great influence. Most computer programs now routinely include Gann angles and cardinal cross numbers for the Square of Nine. I will mention these in the following chapters. You should at some point study Gann independently from my works, but be advised that most of the available courses and books in print tell only half the story. I have been privileged to have spent nearly thirty years working in the market, with over twenty years studying Gann, and I have come to know well perhaps a dozen of the world's finest practitioner's of Gann's methods. I mention this only to warn you about the charlatans in the Gann business these days (and it is a real business!). The truth is subtler and is not yet in print to my knowledge, although several recent books point in the right direction. My advice is to first master the basic principles of angles, cycles, numerology, chart-

ing, and then spend a good ten years on basic astrology. Then you can attempt some of the Gann Bible interpretations as they relate to stock trading. Conversion of planetary longitudes into stock prices, and Biblical stories and age longevities converted into longitudes on the globe for commodity conditions are part of the key. There is much more, but none of that is needed to trade effectively and to make a living doing so. It's more of a spiritual discipline for later life. Suffice it to say Gann was an eccentric genius that went to the grave with his secrets, but his writings offer clues as to how precise forecasting can actually be. Much of my perspective in this work is the same as Gann's and I will try to explain it as we go along. One final interesting note is perhaps in order. Gann became famous in the 1920's and 1930's when he accurately forecasted the 1929 top almost to the day and the ensuing Great Depression. Looking back with what we know about his methods utilizing astrology, numbers and cycles, it's easy to replicate that forecast, but Gann said he did it by another means. He said he read about it in the Bible. He often remarked that the Bible was the greatest book ever written and he read it over and over again and urged others to do the same. Perhaps this was his religion speaking, but a recent N. Y. Time's bestseller *The Bible Code* perhaps provides an answer that shows Gann's true genius. *The Bible Code* is based on a fantastic and ingenious idea that God encrypted all knowledge and future events in the Bible. The original Hebrew version of the Old Testament that has been hand copied down through the ages, with not one letter altered, has been tested in a high-speed, super computer, with regards to trying to identify letter sequences that might spell out words or sentences. Every letter in the Bible was strung out in a long sequence of hundreds of thousands of letters and then the computer compared every 2nd, every 3rd, every 4th, every 5th, etc. letter combination until it found crossword puzzle-like sequences of phrases and names. Now, any big book will sooner or later come up with random sequences of famous names like J. F. Kennedy or the like. However, significant, non-

random sequences would prove that the Bible contains an encrypted code with an infinite amount of data, if these sequences were laid out in multi-directions and different dimensions. Indeed, the Bible, when comparing every nth letter, is large enough to include the names and relevant events of every person on the earth today. To crack the Bible code, huge military computers were used because of the enormity of the task. It was found that when 100 names and birthplaces of famous religious figures that were born after the Bible was written, were entered into the computer, all 100 came out in sequences that made complete reading sense as to their names and places of birth. Other names like Einstein being "brainy" or the Kennedy assassination and the names of Ruby and Oswald were also discovered. The purpose of this paragraph, however, concerns the computer discovery of a phrase similar to "1929 stock market crash and Great Depression." That's a paraphrase since I read the book briefly, long ago, but it stuck in my mind because of some study I was doing on Gann at the time. The essence of the Bible Code book is that it is only now, in the current generation, with high-speed, super computers that we can "crack" this Bible code and find the key to the coming purported, final millennium conflagration before it's too late. This was not available in prior ages since the technology wasn't developed. Only by having preserved the original Bible for four thousand years has this project been possible. Anyway, getting back to Gann, he didn't have access to a high-speed computer, but he was a master numerologist and Mason. He also said he liked Isaiah the most of all the Bible chapters and religious scholars have told me that Isaiah is a miniature Bible in and of itself, mirroring each chapter in the Bible in its structure. My guess is that Gann found a master key in Isaiah that allowed him to interpret portions of text and come up with many of his prophetic forecasts. Perhaps a little Bible study could help us all.

Basics

Trading, as opposed to investing, consists of buying and selling the same stock many times in an effort to capture more price fluctuations than just holding on for the long term. Many stocks appreciate 20 to 50% or more each year, but these same stocks can often swing through these ranges several times over the year. Just catching one or two complete swings will usually double the return of the trader over the simple buy and hold investor. Technical analysis tools like charts and trendlines combined with timing methods are what allow us to exploit these daily and weekly fluctuations to our advantage. But before we start using charts to examine price action, let's review the typical investment cycle and discover the players that make the market move.

The big money in the market comes from institutional investors like pension funds and mutual funds, or bank trust departments. Some wealthy individuals affect some stock prices, but it usually takes the 10-million share institutional buyers to make stocks move. Without institutional support most stocks languish in long-term flats with little significant price movement. In the past, economic cycle swings in the economy greatly affected companies' earnings and the price of these issues was quite volatile. Over the past ten to fifteen years however, the massive amounts of money going into institutional coffers has created an environment where there are consistent buyers almost every day, regardless of fundamentals. Price earnings ratios have climbed from 12 – 14 times to over 30 times. Some "go-go" stocks have P. E. ratios of 70 or more. This is more a sign of popularity and anticipated growth than actual economic prowess. Just before the Japanese bubble imploded in 1990, typical stocks had P. E. ratios of 70 or as much as 125! Even today with that market still down 50% for the past eight years, the P. E.'s remain near 30 times. In these times of somewhat irrational fundamental valuations, technical analysis of price movement is even more important than ever before. One day these P. E.'s will start to shrink for years and years and people will buy into such declines believing that they are

bargains. Only an objective analysis of the price action at that time will save investors and traders. Because the money flows into the large institutions have been so big, the mutual funds industry has grown from some 700 funds in 1980 to over 8,000 at present. Keeping in mind that the entire N.Y.S.E. has only 3,000 listed issues you can see the effect on stock prices of the growth of these investing behemoths. Their strategy has simply been to buy and keep buying the fastest growing companies and never sell. Because they have perpetual cash inflows, they have bought dips each year as the market had corrections, and as a result always showed performance figures twice that of the general market appreciation during the year. If the Dow Jones went up 10% during the year, but had three dips of 5% along the way, and they added on every dip, their average cost would be such that if the market closed at the high of the year (and it always did) their return would usually be 20-30% or more. This is not due to any great investment philosophy or method, but simply the fact that if a market goes straight up and closes at the high each year and you add money, you will out-perform that average. The shock will be great the first year that the market closes at the low and the funds have added all year long.

Another “strategy” the funds have used is the diversified portfolio idea of buying at least 200 individual issues that were growing at great rates and to just keep buying. That way no one issue would account for more than $\frac{1}{2}$ of a percent of the portfolio and even if that stock went to zero, the hit to the fund would only be $\frac{1}{2}\%$. The result of this strategy is that when earning expectations disappoint, there is the wholesale dumping of entire investment positions of millions of shares and individual issues can and do drop 50% or more in a single day! This is insanity from an investment point of view, since no earnings fluctuation should have that kind of effect, but nevertheless that is the current strategy and one must adapt a trading plan around such outcomes, like avoiding stocks about to release earnings, or “piling on” once the break starts.

Institutional investors sell in an eye blink on bad news, but they often buy quietly at limit prices over very great periods of time. To accumulate a 10-million share position or more in a stock that trades 300,000 shares a day might take six months. The rule of thumb has been that for every institutional order on the floor, that order will generate 3 times that volume by others “front running” the order and trying to jump in first. This is illegal, but it is a fact of life, and most day traders make much of their income by jumping in front of big orders and making the institution pay up. The beauty of charts, however, is that these big orders show up in chart patterns as higher bottom patterns, where a level is held for several days and the volume increases, and then the stock moves up to another level slightly higher. The fund will often wait there for a few weeks and then if not satisfied will move up yet again. This is a sign of accumulation and is a sure sign of higher prices. As long as the price is creeping higher week after week, and each correction only goes back to a prior support level without breaking, then this indicates the big money is not finished buying and is still there to catch the stock. A good strategy for day traders is to identify such long-term uptrending patterns and buy into dips back to those known support levels. This can only be done through the use of a chart or log of stock prices over time, to record the various levels of price and volume transactions.

A declining phase will show a similar pattern only in reverse. The funds will start selling a few thousand shares every day using a limit order, and after a few hours to days of not being able to sell, they lower the price to another slightly lower limit for a few days. These walk down stair steps show downtrends and are used to sell short and only cover if the stock regains a prior high. Individual institutional positions can usually affect a stock’s price for months at a time. At the end of an economic cycle, as the economy turns down into a recession, numerous institutions need money as investors pull out, and the massive liquidations create a bear market that can last for two to five years at a time. Individual

stocks often go down for five years and can frequently stay out of favor for ten years before coming back. Only charts will help you decide at what point in the cycle a given stock finds itself and whether it should be bought or sold. So we begin our course in trading stocks with the study of price patterns, as seen on charts, in order to quickly identify trends to decide whether the stock in question should be bought or sold.

Chapter 1

CHARTS

There are many types of charts that traders have used over the years, such as *line charts* which connect the dots of hourly or daily closes, *bar charts* which show a vertical line to represent the open, high, low, and close for each time period, and *point and figure* charts, which only record reversals in trends, such as every \$3 movement in a direction. These point and figure charts are very good at showing long term swings and trend but they do not have a time element, so they can often show potential, but it may lie dormant for months or years. *Japanese candlesticks* are more visual and attempt to show reversals and volume by visually changing the size and shape of the daily bar. Thicker bars can show more volume, reversal bars have “tails” pointing in up or down directions, and colored bars (black or white) show the current trend compared with the prior bar. These visual bars are probably the best ones to use, but require much study and most chart services in this country don’t always support them. *Logarithmic* bar charts show percentage moves on the vertical price scale, while the standard bar chart shows unadjusted time and price scales. Each of the various chart styles have something to say and can be used, but to start in a simple manner and demonstrate the beauty of price and volume patterns, we will start with the standard bar chart in this course. Later you may want to switch to other charts, but the principles will always remain the same no matter what chart we use. Basically, we just need a price history that easily shows us whether or not the price is going up, and enables us to overlay some trendlines and time cycle counts.

Charts

Chart #1 is a typical bar chart on a daily basis (one bar for each day) for an individual stock. The price is shown on the vertical scale and along the bottom are bars representing volume for each day and the time axis in days. We clearly see that this is an uptrend, with few breaks to the downside that lasted more than a couple of days. Volume has been relatively consistent and low, so that nothing appears to be happening here to change the present forces in play. If we were bullish on the outlook for the market we would make up a list of such issues and buy them on pullbacks to past support levels.

Chart 1

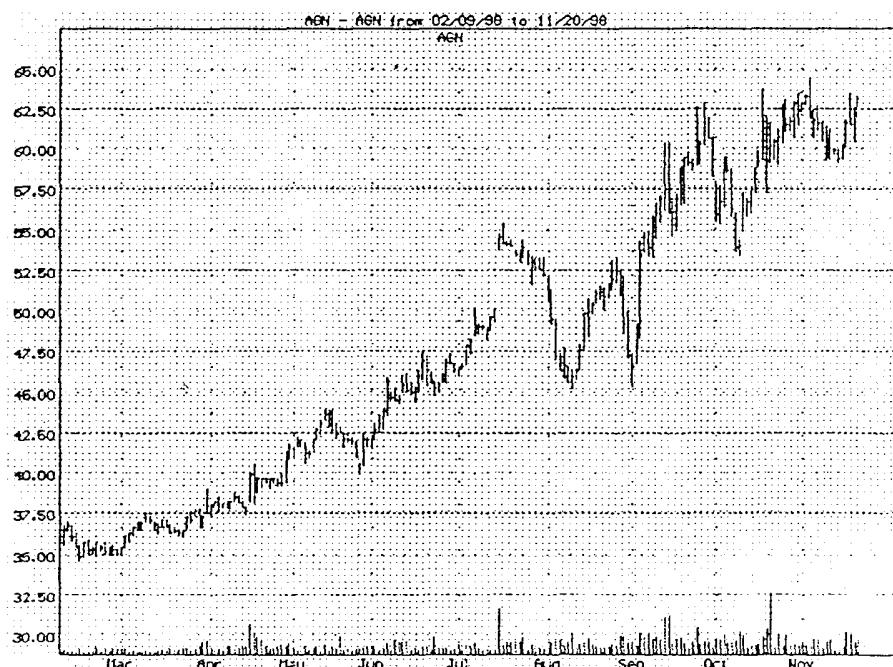


Chart 2

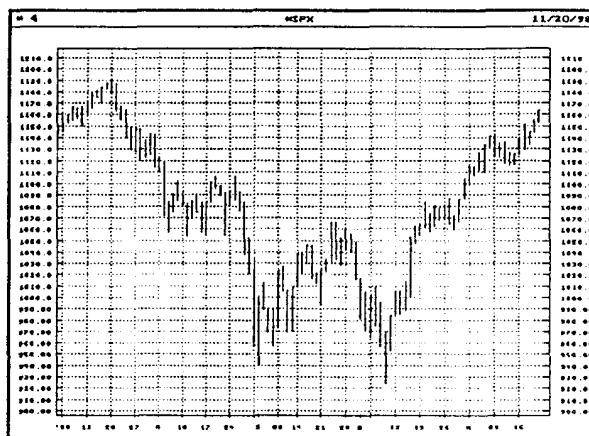
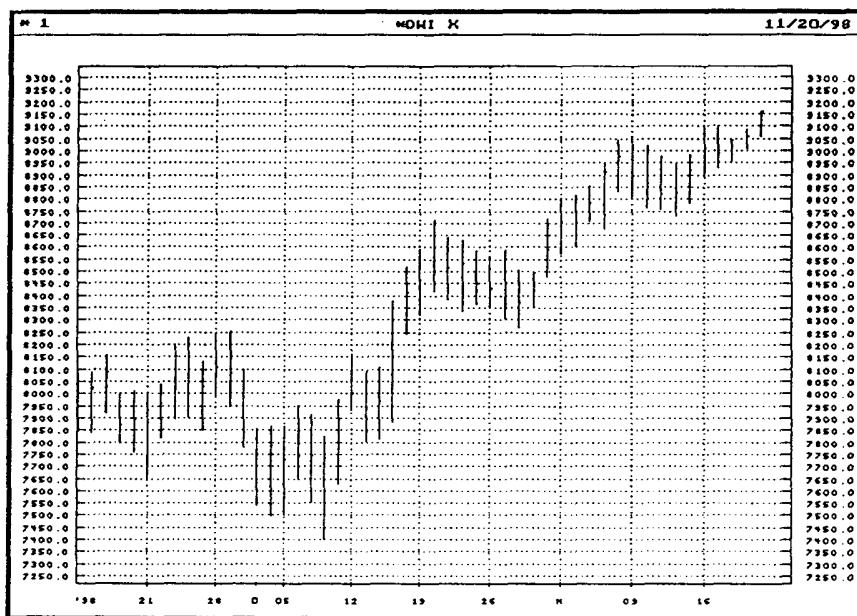


Chart #2 is a daily chart of the S&P 500 Index showing a downtrend into the October '98 low and an uptrend coming out. If you were to draw parallel channels around the highs and lows you could clearly see the directions of the trends. The width of the daily bars is usually fairly constant, or when it's not, it usually is a multiple of the average move, so if the normal day's movement is 10 to 15 points, a big day would be twice that, or three times that amount. Later we'll learn about "measured moves," which are standard fluctuations that most patterns exhibit and are very useful for forecasting price targets.

On the following page, Chart #3 of the Dow Jones shows individual bars of about the same magnitude, but also note that the highs and lows of each day don't greatly exceed the highs and lows of surrounding days except during times of "runaway" momentum moves. Most bars overlap the prior day's high or low by slight amounts and then fall back into the trading range. The most common error in all of trading comes from the tendency to buy or sell the "breakouts" thinking a big move is underway only to see it fail and later fall back into the middle of the range. Many day trading mechanical systems use this idea to scalp trades going against the move in the first 30 minutes of each day if

Charts

Chart 3



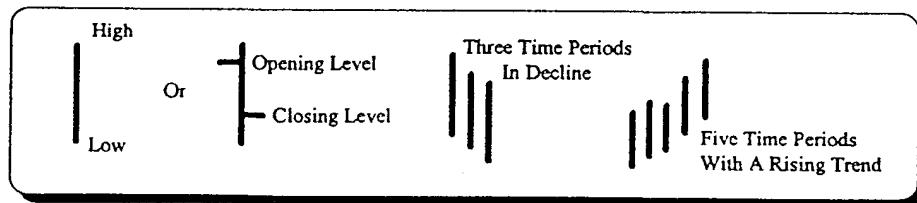
there's a small overlap without much momentum. The ideal buying strategy is to wait to buy at a pullback point near the prior day's low, plus or minus a small percent and buy with a stop. Ninety percent of the time if you are disciplined enough to do this you will have a very good trade going for the next day. The emotional difficulty here is that usually the market opens up overlapping the prior day's high slightly and gradually trades down to the low of the day, which is the perfect buy point, but traders are so emotionally afraid that the trend is reversing, that they won't make the trade at the end of the day and carry it overnight. When that happens the buyer of last resort is of course the specialist, and he buys cheap stock and marks it up the next morning. Sometimes the best trades are ones we put in to buy with stop orders, or limit orders at a set price determined the night before, in the calmness of looking over the charts at the end of the trading day. If the charts truly don't lie, then those objective decisions made with careful calculations and protective stops, are the best ones and our emotions shouldn't override those decisions. Here again it's like dieting. If you're afraid to trade because you might lose money, you're trading

Charts

with the emotion of fear and similarly you probably only buy out of greed to make money. This is not the way to beat an emotionally driven creature like the stock market. We must buy when we feel we must sell, and vice versa. We just can't be stupid and buy into a panic free fall or avalanche of sell orders on a bad earnings report. Interpreting the bar chart can help us determine the trend and the support and resistance levels we should trade near.

Let's start with the simple trend. The trend is up if the low of the daily bar on our chart makes a higher bottom than the previous low on the preceding bar. This trend can extend for long periods of time depending on how it is defined on a longer-term chart. For instance, an hourly bar that's higher than a prior hour is up for that hour, but says nothing about the day or week's trend. Whereas a weekly bar on a chart composed of 5 days activity compressed into a single bar, will show trends lasting a week to three weeks at a minimum. When a market reverses it is similar to a series of Chinese nested boxes that fit one within the other. In other words, a turn on a 15-minute chart as it extends, usually turns the hourly chart, and after a few hours the hourly chart turns the daily chart and finally, after a few days the daily chart can turn the weekly chart. Big moves come when all these time frames cluster tightly together and all turn simultaneously. Often this is just after a very narrow flat with little price movement.

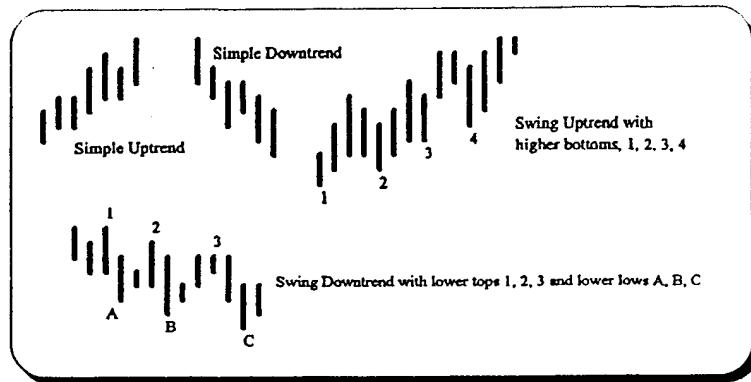
Chart 4



Traders love to jump aboard a flat breakout, since a big move comes very fast.

Charts

Chart 5



Trends usually persist or else they wouldn't be of help in trading. The persistence of trend is usually at least *three bars at a minimum*. This is the rule of three, or three-day rule, or three-week trend, or three-month trend. If the trend lasts more than three consecutive bars then it will usually go a Fibonacci number of bars such as 3, 5, 8, 13, 21, 34, 55 etc. The Fibonacci ratio 1.618 is achieved by an additive series of adding each number to its neighbor to get the next and is found in all aspects of nature. Here we have 1 plus 1 to get 2, 2 plus 1 to get 3, 3 plus 2 to get 5, 5 plus 3 to get 8, etc. On hourly charts a five-hour advance is usually a sign of an uptrend, and we then look at 8 hours, 13 hours and 21 hours for reversal points.

The bar chart examples, charts #4 and #5, show simple trends and we need to know more about the volume traded each day and some long-term perspective, but before we can do that, we need to examine reversals in trend and define just what that is. Since trends manifest to greater or lesser degrees, such as hourly, daily, weekly, and monthly, we will often get reversals of a *minor* nature that will not change the main trend. In the final analysis, this confusion of which trend is the dominant one is the key that separates good traders from everyone else. For instance, over the past decade each time the Dow Jones Averages dropped a few hundred points, it looked like the long-term trend had turned down. Certainly the hourly, daily and even weekly bar charts showed lower bottoms and

Charts

lower tops, but the yearly chart never broke a low from the prior bar (year) and neither did the quarterly chart (3 months to a bar). In most cases the monthly bar chart only broke the low of one bar and not three months, to show a persistent trend that would define a long-term decline. For traders, the trade turned bearish with the hourly chart breakdown and the daily chart breakdown, but when the bottom was made the hourly chart and daily turned up before the monthly turned down again. Long term investors like mutual funds never sold since the breaks were so short lived, but it was scary to hold positions through 200 to 500 point Dow Jones drops if you didn't really know what the trend was. At the end of this lesson you will know.

The *uptrend* is defined as a bar chart that makes *higher bottoms*, or the lows on each bar are higher than the prior bar's low price. Note that this definition says nothing about the *highs* on the bars. Uptrends are caused by accumulation when big institutions buy at the bid side of the market on limit orders and don't chase prices. As long as the bid side holds and goes up it shows unsatisfied buyers in competition with each other, so they keep raising prices to higher levels thus creating the higher bottoms pattern. Day traders and the inexperienced public often chase stocks up on good news, creating the high tick on the daily bar chart and are forced out at a loss as soon as the price drifts down. Usually the low they sell out at is slightly higher than the last low, and the perfect place to buy, not sell. This points out the emotionalism of the market. When people buy out of greed, they chase stocks and buy high to later sell low. We want to buy low to sell high. That's impossible if you buy when everyone else is doing so and the stock *looks* good. We want to make note of the prior day's low, or better yet the prior week's low, and be prepared to buy at that point with a trailing sell stop if we're wrong. To summarize again, the rising trend shows a series of higher bottoms on bars on each of the various time periods trade.

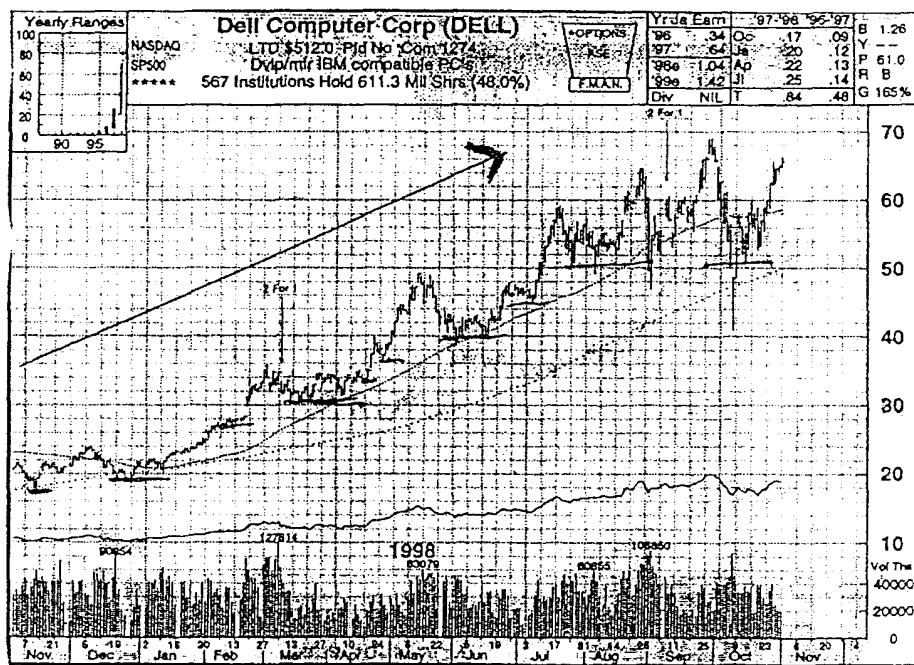
The downtrend needs *two* criteria to validate the trend. It needs *a series of lower*

Charts

lows or bottoms, and a series of lower tops or highs. Each low should be lower than the prior low and each high should also be lower than the preceding high. Note that this is a pattern. The most important idea in all of the discussion about trend is that *trends are defined by patterns.* In uptrends it's simply higher bottoms. In downtrends it's both lower highs and lower lows.

Keep in mind the process of selling or liquidation. Investors are in competition with each other to sell out because of bad news, or need for funds, and if the volume doesn't support the selling they must lower their prices to get out. The only buyers are usually bargain hunters, who only show up at new lows for a scalp, or the buyers are shorts that are covering at a profit. This creates the pattern of lower lows and lower tops, as people continuously lower their expectations. Basic Uptrend:

Chart 6

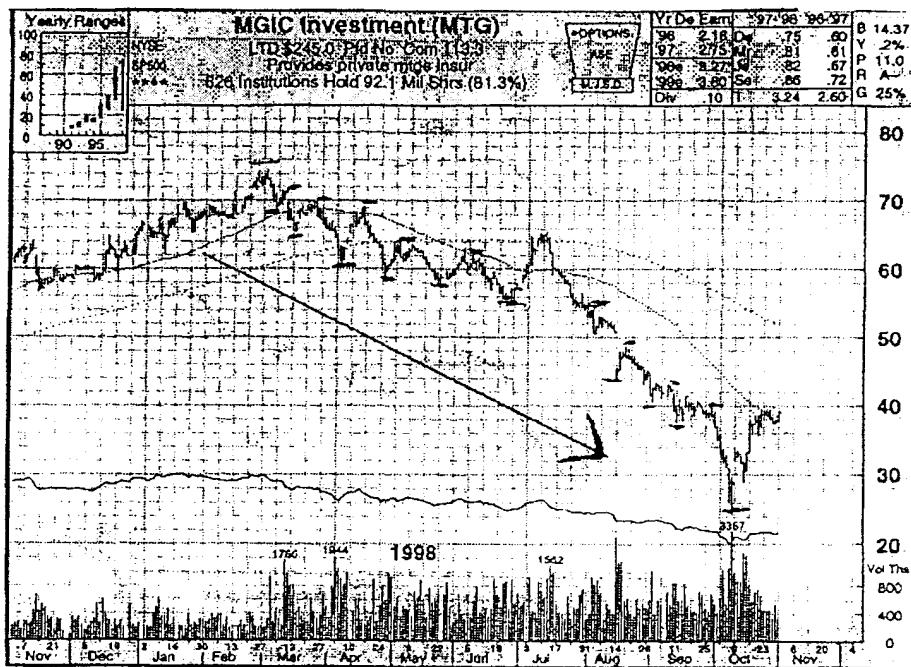


Trend is up in Chart #6. Bottoms are all higher or at the same level.

Charts

Small breakdown in October during crash, but lows are quickly regained which is a classic sign of another buy signal.

Chart 7



Trend is down in Chart #7. There is a series of lower tops and lower bottoms. Only one small exception of lower tops in entire move and that is quickly erased. Also note that this is an identical time period to previous chart, demonstrating two very different investments.

Charts #6 and #7 are two examples of trend and clearly demonstrate the importance of trading each stock individually and not as part of a general market theme. Usually stocks will follow the main trend of the market averages, but there are many exceptions, and if you just held onto this declining example you could have lost a lot of money waiting for it to turn around. Trends persist, and I have seen past leaders turn sickly and go continuously down for three to five years before attempting a comeback. You must therefore be objective and trade the patterns and not use guesses.

MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Chapter 2

REVERSAL OF TREND

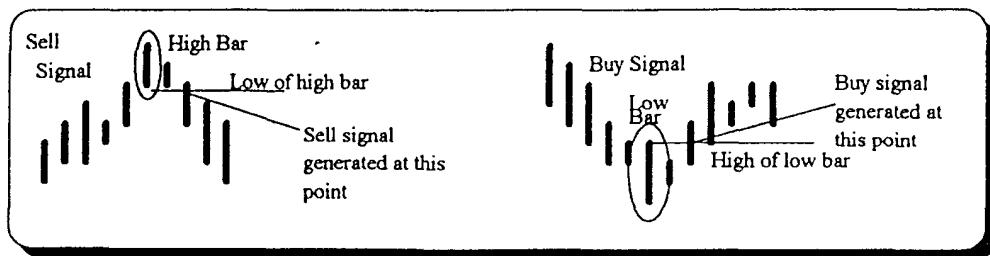
We know that an uptrend is a series of higher bottoms and a downtrend is a series of both lower tops and lower bottoms, but what indicates a reversal? In its simplest form a reversal on a bar chart occurs when the extreme bar is identified as being the prior bar and the opposite extreme of that bar is exceeded on the next bar. In other words, in an uptrend you find the high day bar where the high was the highest price for the move and you note the *low* of that bar, not the high. Most technicians will tell you to watch the high, but that's not what happens in real time. At the high, the reversal is made when exhaustion sets in, and since the big buyers are always on the bid side of the market, the penetration of the low is the sign that the buyers are gone. Sometimes the penetration of that high bar low won't occur for several days and the price will be in a narrow range, neither taking out the high nor the low, but once the low is taken out, the sell signal is given.

The reversal of a downtrend occurs the same way. You identify the low bar of the move and note the *high* of that bar. When that high is subsequently exceeded, the trend turns up and you can go long with a stop at the low of the move, which would negate the buy signal if it went back down to that low. Again, keep in mind that the sellers use

Reversal of Trend

REVERSAL BAR SIGNAL PATTERN

Chart 8



limits and are working the offer side of the bar, so that when that is exceeded the sellers are gone, at least for the time being. Chart #8 illustrates examples of both signals.

These are simple buy and sell reversals and if taken indiscriminately will lead to swift and sure bankruptcy. Good judgment can determine how long a trend has been in effect and whether a normal measured move in some direction has occurred, which usually ends the move. Trendlines breaking, combined with time cycle counts coming to an end, are usually helpful. High volume is usually indicative of reversals and price reversal momentum is also often a key. In big moves like the endings of bull markets, the first few weeks can often reverse the entire gains of the past year or two. But no matter what happens, the first sign will be a reversal of an individual bar and that should be noted for reversals on all next larger size time scales, like hourly turning to daily, weekly, etc. Charts #9 and #10 show two examples of several simple buy/sell signals. Not all of them are shown, but as you can see, the ones that came at the end of extended moves were good for several points at a minimum and often went weeks before reversing out.

I've used the term "measured move" before and we'll see examples of it later on, but the concept is basically that over a given time period like six months to three years, the players in the market are the same. Over long time periods their composition may vary, but for the intermediate term they exhibit the same buy and sell habits and their reactions to extremes don't change very much. If we examine a chart over a few months to a couple

Reversal of Trend

of years and note the extremes, we will notice that each stock or commodity has an extreme bullish and an extreme bearish phase. These can be "measured" with a ruler, compass, or even our fingers on the chart. The idea is simply that once a trading move has reached this usual extreme, a reversal in trend is expected. Looking for reversal bars can be beneficial if they fall at one of these normal extremes or "measured moves."

SIMPLE BUY AND SELL SIGNALS

Chart 9

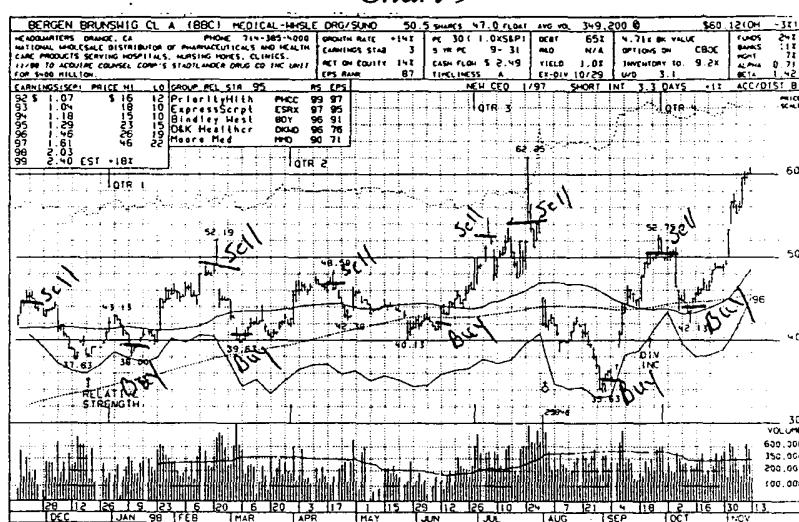
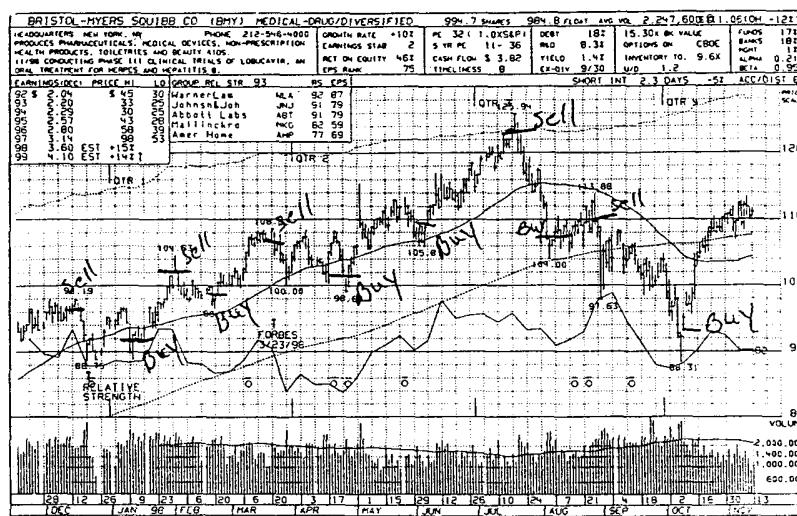


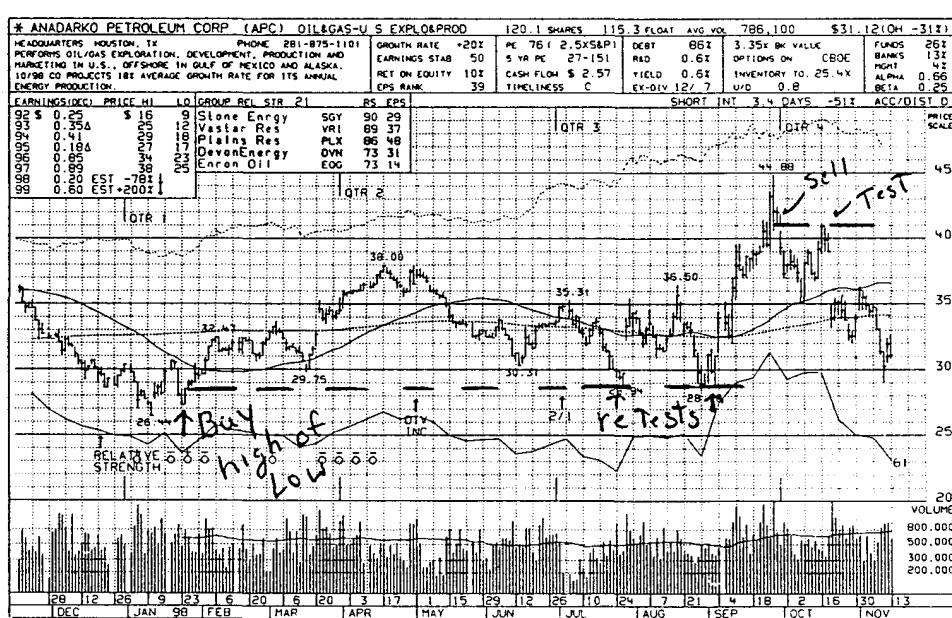
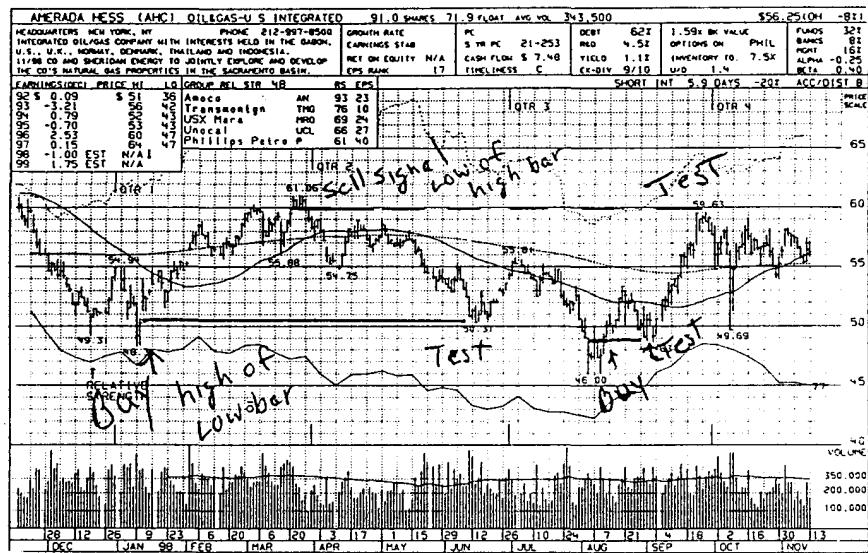
Chart 10



Reversal of Trend

Tests of prior buy or sell reversal bars usually come at the point the original signal was generated.

Chart 11



An adjunct to the simple buy/sell reversal bar idea is that once the signal has been generated and you later get a counter-trend movement back to where the signal was given, that movement will usually fail exactly at the

Reversal of Trend

point of the original signal. Ninety-nine percent of all other books on technical analysis erroneously tell you to expect a test of the high or low and that's what all traders watch for. It hardly ever happens, however, as indicated in Charts #11 and #12. The move will stop before the extreme, at the place where the buy or sell signal was given. In a long-term trend this is one way to validate that the long-term trend is still operative. For example, if you get a buy signal and six weeks later on a correction you go back down to the "test" area and then generate another buy signal, the second signal confirms the first as being long term valid. It's quite possible to see a string of such signals stretched over a year just pulling back to prior signals and confirming their initial ruling.

Chapter 3

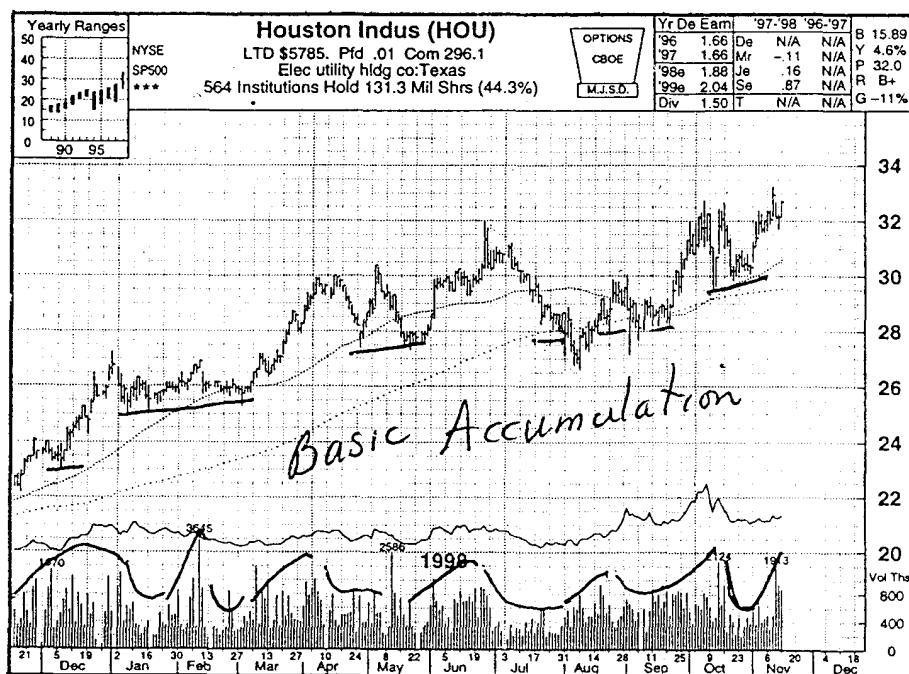
VOLUME

No basic discussion of chart patterns is complete without examining volume patterns. Unfortunately, little is written about volume, though it is one of the most important considerations to the trader. No significant move can ever take place without some heavy volume being done, but in the middle of most moves, volume dries up. It is imperative therefore, that in examining charts that you notice where the very heavy early accumulation took place. Big volume starts as the move is just beginning, because the big institutions take large positions and it may last several months to a year or more before it subsides. After that the stock may rise another year or two before seeing big volume again, this time on the sell side, as they start to get out. In general, it is said that volume is positively correlated, or that the heavy volume goes with the direction of the primary move and especially in the bull move, the volume goes up as the stock goes up. This is the only time that volume is really bullish – when the move is just getting started. Most of the time volume is negative, in that when it shows up, buying and selling are matched and a top is made. A decline then usually results until the volume dries up to the lowest reading of the move and then when it increases, the buyers are back and the advance starts again. Some technicians use a simple general market sell signal tied to three day or five day moving averages of the volume. After a high volume reading, as soon as the moving average turns down, the market tops out.

Volume

You must pay attention to the pattern of volume over a several week period. During that period you will note the normal spikes of volume that are usually found within a day or two of all the swing highs and lows. If an advance has been underway for three weeks, and then the biggest volume of the month is recorded, it is a certain sign of a coming correction. Likewise, when you are day trading and buying into a three-day dip, you are likely to see increasing volume with little price movement. That usually means the seller is getting "cleaned up" and the stock is about to reverse. I learned this from an old professional, who pointed out a stock that was doing about 6 million shares that day when the average volume was 1.2 million. I was bearish and the stock was down 50 cents on the day on that heavy volume, but he correctly inquired of me why it wasn't down a lot more if the volume was really selling and not scale buying. Of course he was right and the stock reversed up on the close and quickly ran about \$10 over the next three days. I now make it a point to match my predicted lows and highs with exceptional volume. Cycles also bring in the volume and in the general market you

Chart 13



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Volume

Chart 14

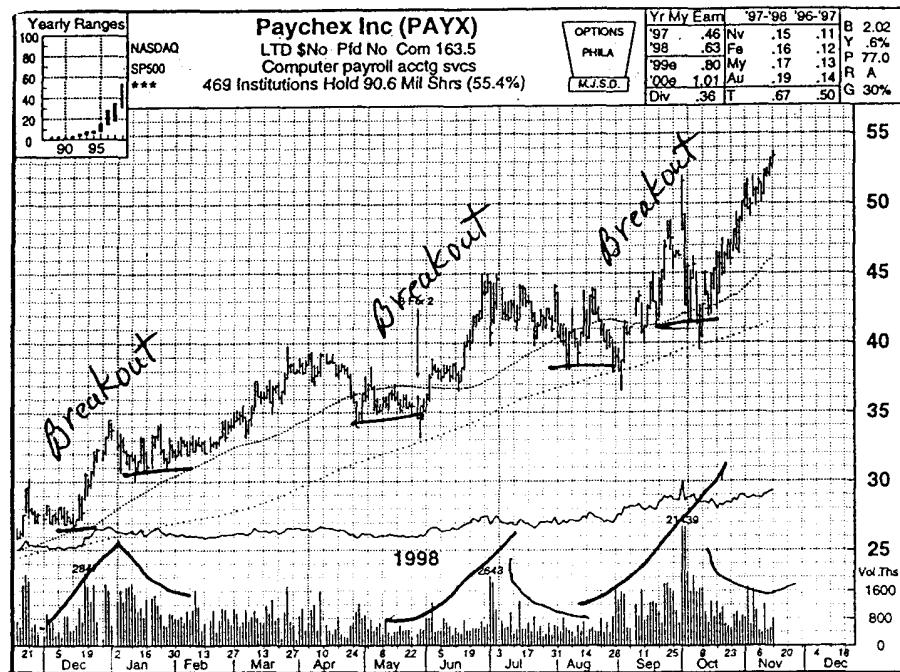
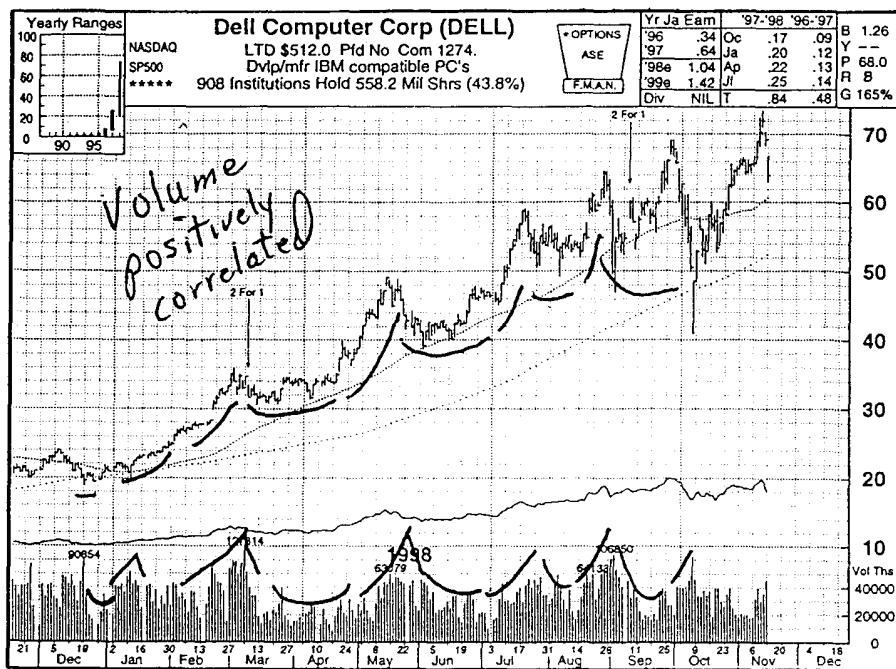


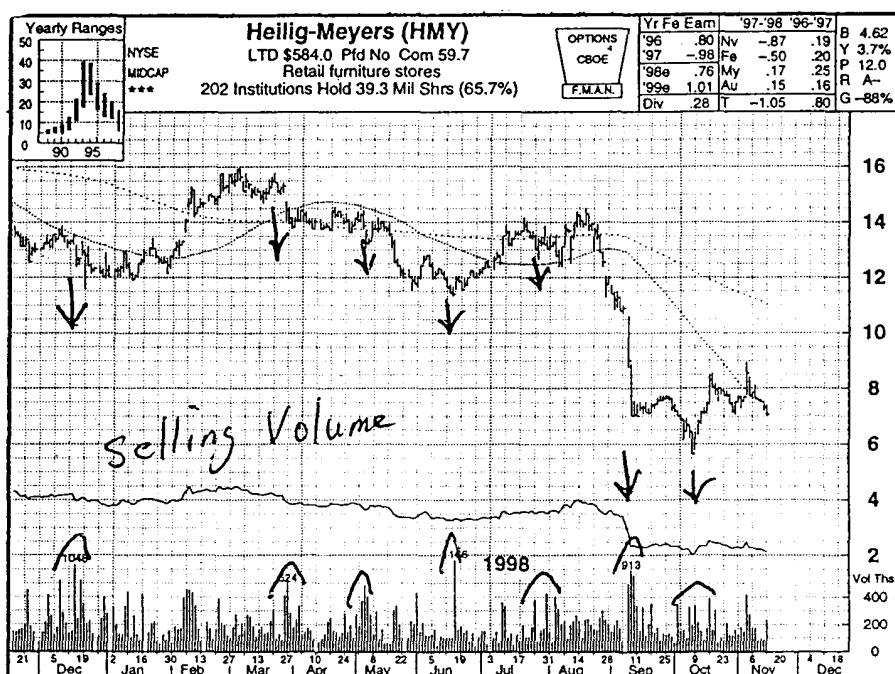
Chart 15



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Volume

Chart 16



can always tell when major long-term cycles are beginning to change. That's when the volume will set new records for several days to a few weeks, and then a new bull or bear trend will emerge.

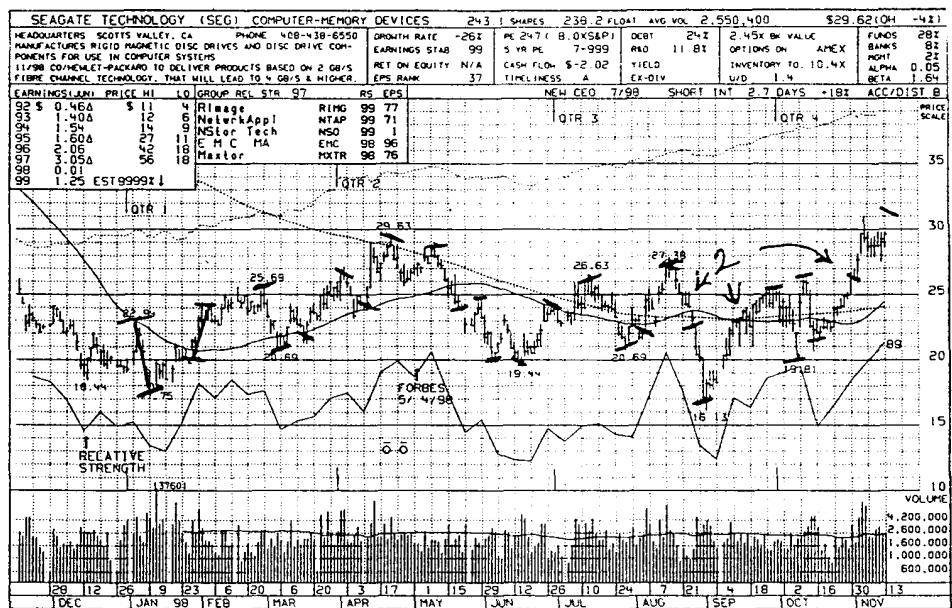
One significant observation I have made over the years in examining individual charts is that when you find a chart that is becoming a new and future leader, there will be huge volume spikes every several days for many months. Most people see those volume spikes, or read in the paper that the stock was the weekly volume leader for several months, but few realize how long and how significant that is. Quite often those early volume leaders will be just starting *five-year* bull runs that will quadruple their prices and it won't stop anytime soon. If you follow the stock and watch the chart, you can be very safely assured that no significant downside will come about until you again see those same

Volume

volume spikes to the downside for several weeks. If you don't see the volume, there is no change in long-term trend.

Another key concept is that all big moves are accompanied by a significant turnover in capitalization. If a stock has 200 million shares outstanding, no big change will come until a large proportionate part like 1/3 or ½ or more of that capitalization is turned over. Only after many new buyers have entered at new price levels can a real change take place. A basic corollary to this is that between each high and low you will find a key volume total. This is a closely held secret and one I don't care to elaborate on, but if you do such studies, you will find that given a length of time, once a given volume of shares changes hands a change in trend will come about. With light volume the change may take weeks, with heavy volume days, turnover is the key.

Chart 17



MEASURED MOVES/HOURLY CHARTS

In Chart #17 we see examples of “measured moves,” or equal time and price vectors that pinpoint changes in trend. In the chart, the handlebar ticks are a measured length (measure them yourself with a ruler or compass) and after each measured vector distance the trend reverses. When the trend does not reverse it usually goes a multiple of the basic distance, often 2 or 3 times the fundamental unit. Obviously, the very first thing you do when examining any chart is to look over the past few months and try to find this fundamental unit. If the stock has already moved in a direction of this fundamental measured move, it’s usually better to wait and look for the reversal, unless there are clear momentum signals that a more powerful move is developing that might go a multiple of the basic unit.

Chapter 4

HOURLY CHARTS

Serious students will always maintain an hourly chart and it is best to draw one by hand and not to rely on computer drawn graphics. For commodity traders this is a must, but stock traders can often get by with simply a daily chart. If you want really accurate forecasts and precise timing, there is nothing like an hourly chart. For a great many years I always maintained a Dow Jones Averages hourly chart and an S&P cash chart for S&P Futures trading.

The number of hours in a day has always been a tricky question, since it has varied over the years and the basic principle of charting is that you want a one to one correspondence of time and price, preferably one hour of trading and one point in price. Since there are now 6 ½ hours in a day, a more perfect fit is a 30-minute chart. I use a 6-hour day for numerological reasons with the first bar being 1½ hours and starting at 11 a.m.

Six is a magical number for a variety of reasons going back to the creation story in the Bible and the Pythagorean use of $10 \times 6 \times 6$ for the circle of 360. In any event, 6 hours seems to work very well and much better than seven, or six and a half. Another fit would be a bar chart consisting of 65 minutes per bar, since that time period creates exactly 6 bars per day and includes all the minutes in a day. Many computers allow you to create such charts that have a variable number of minutes per bar, and the 65-minute one works very well. You can also use half hour charts, since there too you have an exact correspon-

Hourly Charts

dence with the number of half hours in a day and the chart you are using in terms of full bars.

I prefer to use *line charts* instead of *bar charts* on my hourly charts since I use them for predictions, and the *close* each hour is much more important than the intra hour extreme. On a line chart you only need to put a “dot” at the price level that closes on the exact hour. You then connect the six dots that make up the day. The whole process can be done with the morning’s Wall Street Journal or any other paper that lists hourly readings for the prior day. If you keep it current you only need to watch the tape on the full hour and note the hourly reading. Many people don’t understand how a simple line chart with only six dots per day can show anything significant, but after a few weeks of charting you will usually have more than enough points to make some very significant forecasts into the future. Trendlines that connect the highs and lows on an hourly chart clearly point out reversals in trend, and very long term trendlines lasting over several weeks to months often pinpoint culminations that move the market averages hundreds of points within a few hours of the turn! Cycles applied to highs and lows come out perfectly. You have to see number counts like 100 hours, 500 hours, and 1,000 hours to believe them. The Gann idea of the “squareout” where the time period is equal to the past price is one that always amazes. For instance, if a top were 3,000 on the Dow Jones, then 3,000 trading hours later you would see a big turn in the market. These turns are almost always within an hour or two of accuracy if the chart is maintained properly, and that is truly amazing after 3,000 trading hours. Believe it or not, the August 1982 low at 770 created a top in August 1987 that was almost exactly 7,700 hours later!

The beauty of an hourly chart as opposed to a daily one is that the hourly pattern shows a series of waves that form within the single daily bar. You may have two daily bars the same size next to each other, but if the hourly bars showed an upward zigzag pattern

Hourly Charts

and a close at the high the second day, you would know a breakout would happen the third day.

The Fibonacci sequence mentioned previously of 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, 610 etc., lends itself very well to hourly chart interpretation. Once a trend goes 5 or more hours in the same direction it is usually a sign of longer-term persistence. With our trading strategy if we buy a low, how long do we know to stay in the trade? Usually, if we are in the trade for *five hours* and the market hasn't reversed, there's no need to worry about selling in hour number 6 or 7, since the number after 5 that a reversal is likely is 8 and if that long, 13. The tendency to persist for a Fibonacci number of hours is very reliable and can calm our nerves if we maintain a count. An hourly chart allows us to do just that and to keep track over several days of the actual hourly high or low and the time at which it occurred.

Using Gann squares, which will be explained in a subsequent section, we can make excellent predictions about when a turn in the market is going to take place. Angles coming down off hourly highs and up from hourly lows, time important turns at the intersection point. Likewise time counts off the all time high price, such as 50 hours from a high at \$50, are very important to maintain.

Another reason that we watch the hourly chart is for intra day turns and specialist openings. One of the most important day trading secrets is the "opening bulge." Traditionally, the N.Y.S.E. Specialist will look at his book to see whether there are more buyers or sellers and then open his stock at the extreme of the day. If there are sellers around he will often open at the high of the day and then slowly drift the price down all day. If there are buyers, he will often open down and then slowly bring the prices back up throughout the day. The trading rule is to never go against the extreme set in the first half hour. If the stock opens up \$2 and at 11 a.m. is up \$1, it may look bullish, but in reality it's been going down for an hour and will probably close weak. On the other hand, if a stock opens down

Hourly Charts

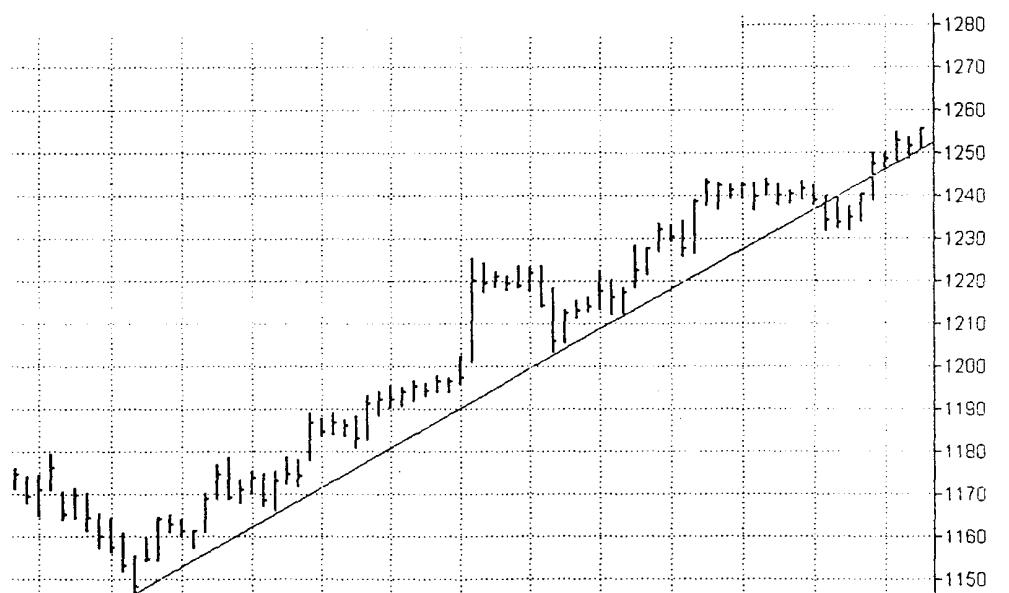
\$1 and a half hour later is down 50 cents, it is a sign of strength. Your strategy is basically to go in the direction of the trade after the extreme has been set in the first half hour to 40 minutes. This rule is extremely important in trading S&P futures and is rarely violated. Here the time period extends about 40 minutes from the opening. With all the "front running" of big orders these days and the advent of basket program trading, the daily opening bulge represents secret inside information about big programs in the street that probably haven't hit the tape as yet, but will do so sometime that day. The "big boys" who have guaranteed information, will leverage up with lots of S&P futures as soon as they can, and the big gap bulge is the sign. They like to misdirect you, so often the S&P's open down hard and then slowly and steadily go up all day long, but you're too scared to participate after you saw that frightening big down opening. The rule is to identify the extreme price by 10:30 a.m. and go in the trending direction after that time period with a stop at the extreme price. Any new high or low made after 10:30 a.m. is usually the legitimate trend.

Reversals in trend during a day usually happen at 1 p.m. or 3 p.m. and the hourly chart is helpful in defining the levels for knowing when a reversal is taking place. Usually a line connecting the 10 a.m. print with the 1 p.m. print shows a good daily trend, and if that line is broken after 1 p.m. then a reversal may be taking place. Most people draw trendlines connecting highs of bars to other highs, or lows to lows, but I have found a unique correspondence to the *time* of a bar and not necessarily its price. For instance, if on a five minute chart the high is made at 10 minutes to 10 a.m., and the 10 a.m. bar is actually much lower in price, a line drawn from the high of the 10 a.m. bar to the 1 p.m. bar and not necessarily to actual highs, will correctly define the true trendline. You must see this to believe it, but it really does work and lines connecting the hourly prints from one day to the next, such as 1 p.m. to 1 p.m., or 10 a.m. to 10 a.m., do show correctly a true daily trendline.

Hourly Charts

Interpretations of intra day bars are just like daily bars in that we look for a pattern of higher lows for an uptrend and a series of lower highs and lower lows for a downtrend. Chart #18 is a typical 60-minute chart of the S&P futures in a strong uptrend. Note the series of “swing” higher lows and the fact that each correction ends at a higher level than the one prior to that. The trendline demonstrates this, but you should notice where each correction ends, without having to resort to trendlines that can sometimes confuse the trend if the lows are way down and the trendline connects points that may have violated a

Chart 18



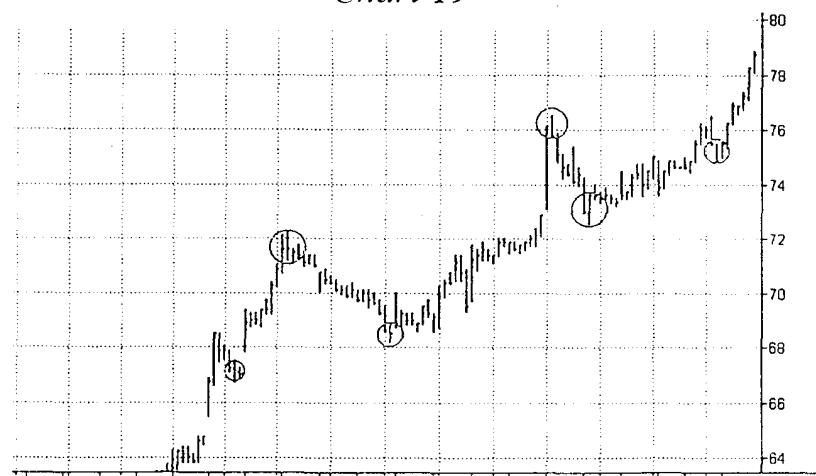
prior swing low, even though the long term trendline is still intact. You should also note on the chart that each bar that starts up from a correction bottom is a larger bar than the others and this shows the “impulse” nature of the move. Impulse moves *always go in the direction of the trend*, so that when you see a “big” bar, that’s usually the longer-term direction. Also note on the chart that at about the middle of the graph there is a very large impulse bar to the upside. Notice now the correction goes on for seven bars but stops just above the low price, where the impulse bar began. In strong trending markets the corrections are basically sideways and will never completely retrace a previous advance until the

Hourly Charts

trend has turned down. On daily charts, time corrections of 3.25 weeks to 6.5 weeks will often go sideways and the low day will be near, but above, the start of the move up. That's a sure sign to buy when another advance starts from that level. Also note that on Chart #18, the trendline was violated towards the ends of the graph. However, the correction low was a higher bottom than that last one, so the trendline break was a "false" one, and as long as a *horizontal support level* was not violated, you should stay in the trade. I can't emphasize enough that trendlines are timing lines that show momentum, and a break just shows a loss of upside momentum and not necessarily a downtrend. For that you need a *pattern* of lower lows and lower highs. Many traders lose money shorting stocks on a trendline break, only to have them yet advance to new all time highs because a horizontal support level was never broken.

An hourly chart of AT&T, Chart #19, shows simple reversal signal bars. I have circled those bars so that you can identify them clearly. Note how the buy signal bars always occurred at a higher low than the prior buy signal and that helps to validate the signal, but since these signals come frequently on intra day charts, reversals should be used in conjunction with trendline breaks, measured moves, and time counts. Note how a simple trendline used in conjunction with these reversal bars would have aided with the chart interpretation.

Chart 19



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Hourly Charts

Keeping count of time is important when using intra day charts. On my hand drawn charts I make a tape measure strip of Fibonacci numbers, with hourly counts like natural squares. I slide it back and forth across the chart to line up highs and lows, in order to find clusters in the future where past highs and lows would have important time counts. Fibonacci numbers are important and many computer programs have either cycle finders, or Fibonacci cycles on them and they can be of help. The general rule is that the cycle is more powerful the farther away it is from the origin, so that an 8-hour count is not as strong as a 21 or 34-hour count.

Chart 20

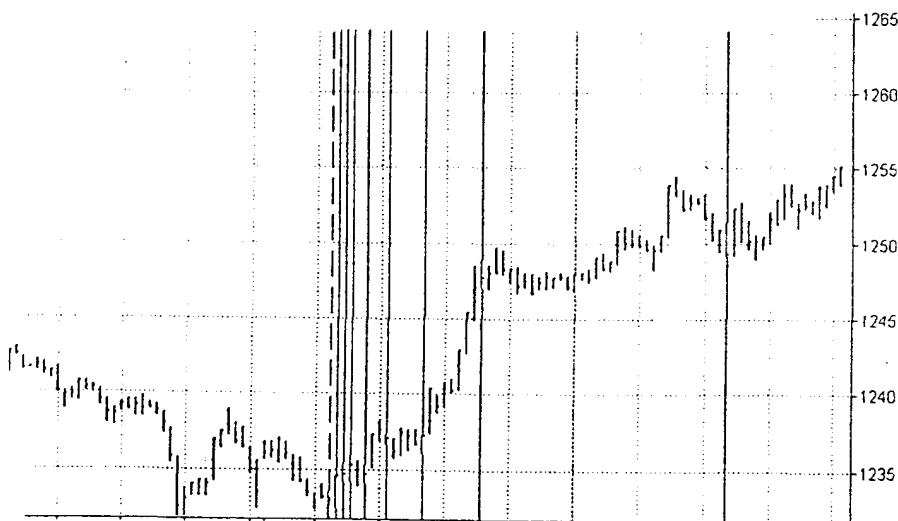
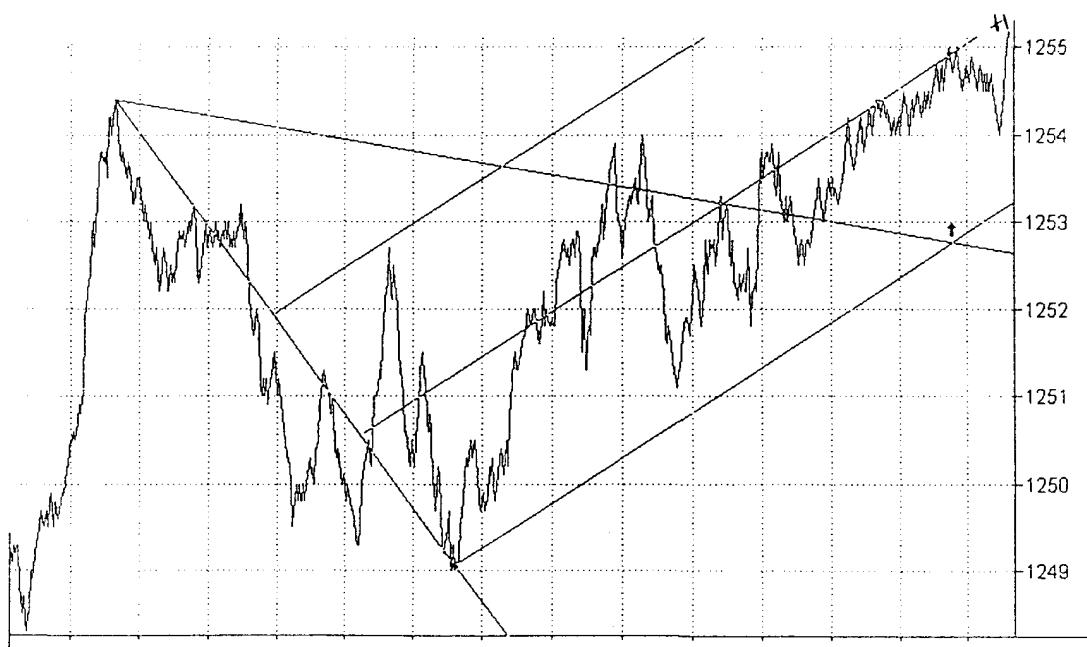


Chart #20 is a five minute chart of the S&P futures, with computer drawn Fibonacci time counts of 1, 2, 3, 5, 8, 13, 21, 34, 55 etc. As the time counts get further along, the swings get larger. You would not necessarily use these on your trading charts but they are helpful to find clusters to note for future time periods. You would also draw multiple starting points from various highs and lows and look for common clusters, such as 34 hours from a low, and 13 or 89 hours from a high, that come out together at the same hour in the future.

Hourly Charts

You see that Chart #21 is a “tick” chart of every single trade in the S&P futures during a day. These types of charts are useful for counting waves and making measured moves. Note that all tick charts are “line” charts instead of “bar” charts. In this particular chart I point out a technique I use of making an “adjusted angle” by running a line from the high to the low to find the *true axis* of the decline, and then running 90-degree angles up to form support angles. The main axis is also subdivided to draw other parallel angles and as you can see, this forms a nice fit to the data. The 90-degree angle from an adjusted axis is usually the greatest support you can draw, and when that angle breaks it’s a sure sign of a reversal in trend to the downside. Also note the 45-degree adjusted angle coming down from the high to show resistance, and the fact that prices broke above this angle suggests

Chart 21



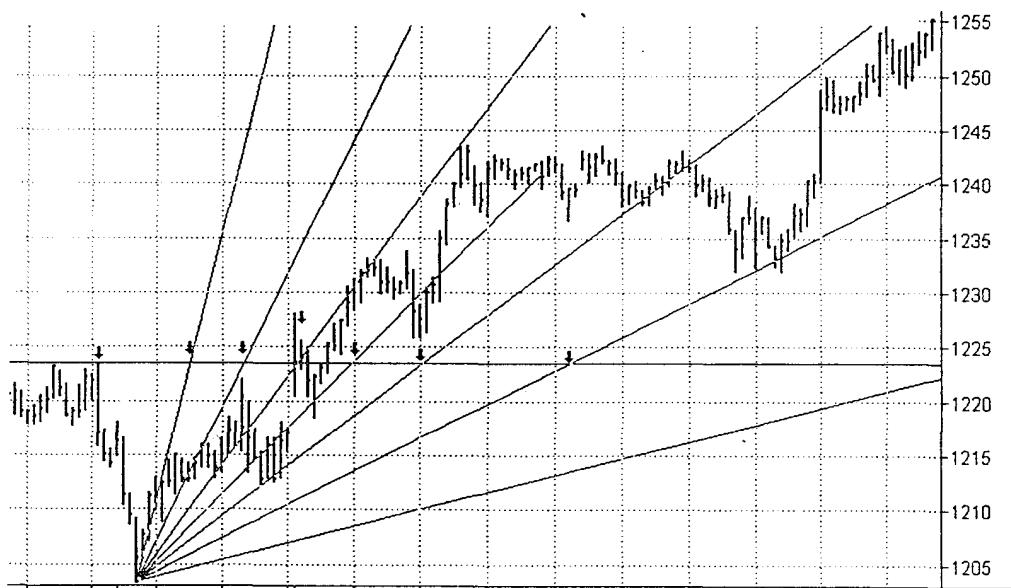
great strength and a new high just ahead. Also notice as well the arrow where the two angles from the high and the low intersect. A top was made on that squareout at an angle, so it was a short, even if in this case it didn't last long.

Hourly Charts

Chart #22 is a five-minute chart demonstrating Gann geometric angles from a low intersecting a horizontal line from the last high before the low. At each intersecting point a reversal of some type occurred, demonstrating how angles and resistance numbers combine at cycle points. You would watch for these turns and look for reversal bars to buy or sell. This is only a five-minute chart so the moves aren't large, but on an hourly or daily chart the moves could be very significant.

Also note the rule with fan angles that "when you break one, you must fall to the next one."

Chart 22



I discuss arcs at length in another section, but they are very useful for intra day charting, particularly for S&P or Bond futures traders.

Chart #23 demonstrates the principle that a circle drawn about a high to low will create support and resistance levels at the 12 o'clock and 6 o'clock positions on the circle, while the 9 o'clock and 3 o'clock positions define cycle turns in time. Note the high at the 3 o'clock point and the pull back to support on the top of the circle.

Hourly Charts

Chart 23

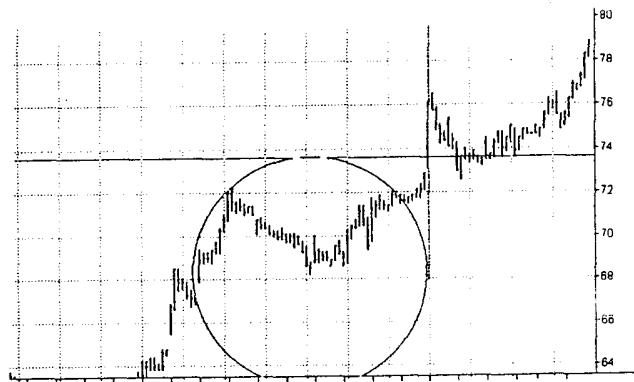
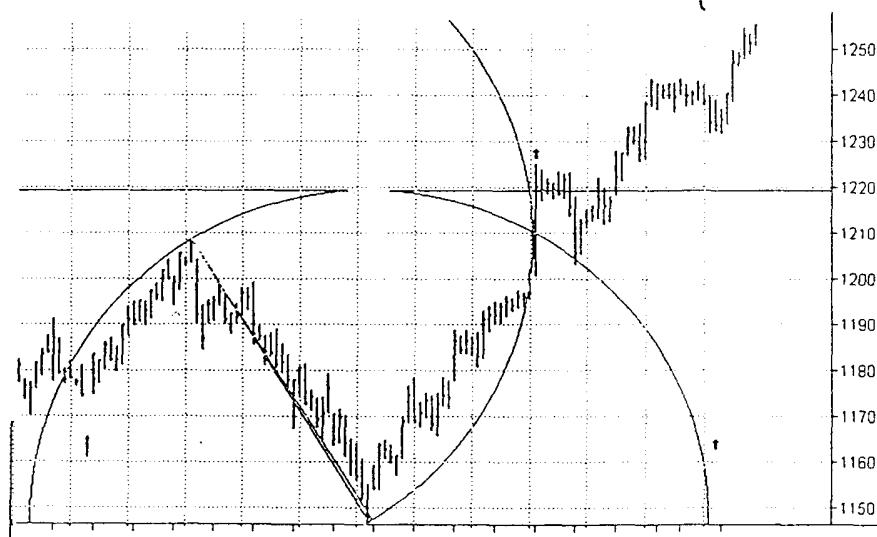


Chart #24 demonstrates how an arc swung up defines a top, while an arc swung down defines a low.

Chart 24



In the case of this low, it was minor because of the strong move, but most times it will be a crash low climax as the arc goes the maximum vertically down.

Chapter 5

TIME AND PRICE SQUARED

One of the key concepts in all of technical analysis, and specifically the Gann material, is the concept that time and price are the same thing. The fact that price levels are described on pieces of paper for charting purposes on a vertical scale, and the time correspondence along the horizontal axis, doesn't mean that the two aren't more directly connected. Gann believed, as I do, that cycles recur in nature and it is the cyclic manifestation of energy that is transferred into price patterns when people buy and sell. It's not hard to prove that price cycles repeat. You see them everywhere and exact proportionate correspondences from cycles such as 10 years ago, or 20, or 60, or 100 years, are so similar as to be almost mystical. On an unconscious level the mass of human emotions follow rhythms that recur with exact mathematical precision. Somehow the subconscious keeps track of time and translates that movement through space as numbers and these numbers recur when the cycle returns. This can readily be seen on any chart and has never been disproved. It's just that the establishment doesn't know what to do with the facts since they fly in the face of standard fundamental analysis and would put most of Wall Street out of work if they were more widely known. For instance, if you take the first time the Dow Jones hit 1,000 in February 1966, and went forward 1,000 *days* to the end of 1968, you would see that that was the second time the Dow hit 1,000. One thousand days and a price of 1,000! If you keep that cycle active by going forward 1,000 days you get most of the

Time and Price Squared

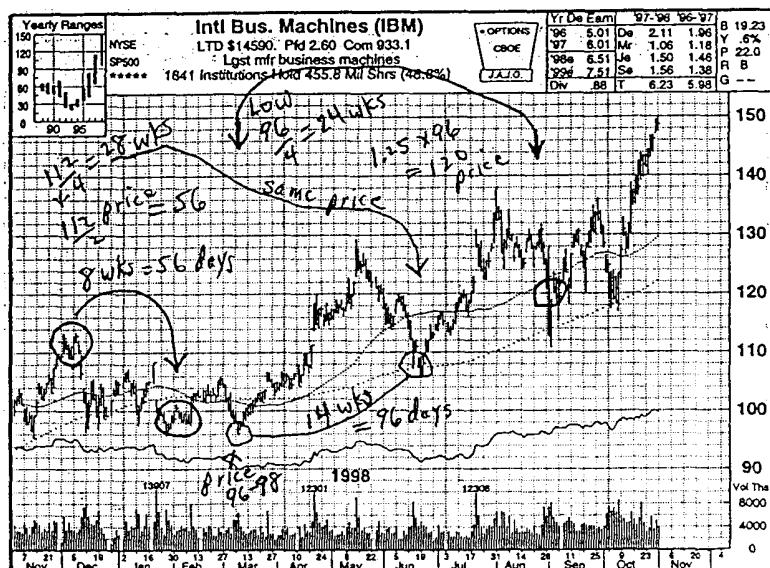
next major highs and lows in market history. Similarly if you took the 1929 top of 386, and went forward 386 *months*, you get the 1961 market top just prior to the 1962 biggest waterfall drop since 1929.

These time and price equivalents are everywhere and indeed are the basis of all fluctuations in the stock market on all levels. The theory goes like this. If a stock's high is \$50, then that price is related to a time cycle at work relating to 50 time periods. These periods can be hours, days, weeks, months and years and are usually all of them. Fifty days after that high at \$50 will result in a big turn in that particular stock. Turns will also be evident at harmonics or proportions of fifty, such as 25 or 75. It only takes a minute to test this on any chart and you will see it demonstrated for yourself. The key of course, and the difficult part is keeping track of all these turns. Each and every high and low in a stock's history spins out price cycles, and as they come out each day in the future, you will experience a little price blip in the stock. The major highs and lows and the culmination's of bull and bear markets are nothing more than clusters of these cycles all coming due at the same time. For instance, if a high were made at 50, then cycles of fifty would spin out, but also cycles of 25. If 25 days later a low came in at 30, then a new cycle of 30 would be spun out along with the current one of 50. At the common denominator of 150 (5×30 and 3×50) a big turn would be seen. In my work I keep tickler files on averages and individual stocks, to keep track of these highs and lows and when big turns come, it's usually because many different harmonics are all coming out at the same time. Keeping track is the key and there are several ways to do so, but the easiest is with *timing angles*. However, let's look at the theory again. If the subconscious minds of the masses are keeping track of these time cycles, how is that accomplished? What will be a final high or low, as opposed to just another big daily movement? How do we know the beginnings and endings of the cycle at work and not just the harmonics, such as quarter cycles?

Time and Price Squared

IBM CHART SHOWING TIME & PRICE CYCLES IN DAYS AND WEEKS WITH PRICE CONVERSIONS INTO TIME HARMONICS.

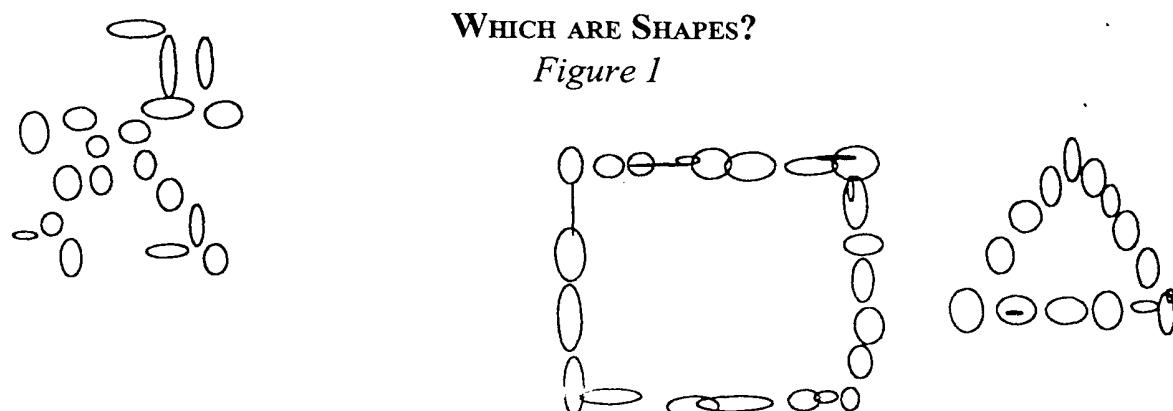
Chart 25



If you think all of this is strange, just think for a minute about how humans see shapes. The fact that we see shapes is strange in and of itself. That is, we must be genetically programmed to innately recognize shapes like circles, triangles, spheres, squares etc., as opposed to some multi-angular mush pattern. We know all children can recognize shapes and all can picture the perfect shape in their mind's eye even if they can't draw it. These are "a priori" experiences and somehow time must be one of those skills. We must have a time cycle facility to keep track of the passage of time in order for these observations to work, or it must be an external timekeeper like planetary movement that does it for us.

WHICH ARE SHAPES?

Figure 1



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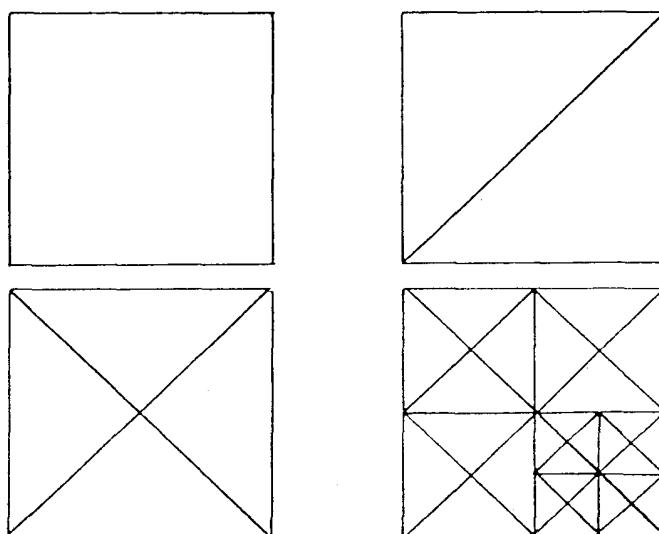
Time and Price Squared

Clearly everyone can see in Figure #1 that the first object on the left is not a shape, but all can see a square and a triangle in the other two. Indeed, I asked my 5-year-old son about this chart and he clearly saw a triangle and a square but said the other object was not any shape. And yet what differentiates an orderly arrangement of squiggles from a disorderly one, or for that matter what's order? If your answer is that's the way it is, then I say that's how stocks work. Time must form shapes that angles define and keep track of. Somehow people know when a stock is finishing a time cycle, and when the time is up, the stock moves. In retrospect, it's always easy to back track and find all the origin points, but we need to find them ahead of time, and that's where Gann's idea of "squareouts" comes in.

Gann thought in geometric terms and especially used the square as illustrated in Figure #2. What divides the square perfectly is the diagonal and the diagonal is always an angle of 45 degrees. This angle serves as a timing line to keep track of the passage of time from past highs and lows. Visually one could draw a square around the high price and box it in to show the time cycle box. The next cycle would be another box and the 45 degree angles coming down and going up from the sides of the boxes would be support and resistance lines, but would also indicate time periods of equilibrium. The important key to

TIME AND PRICE SQUARES

Figure 2

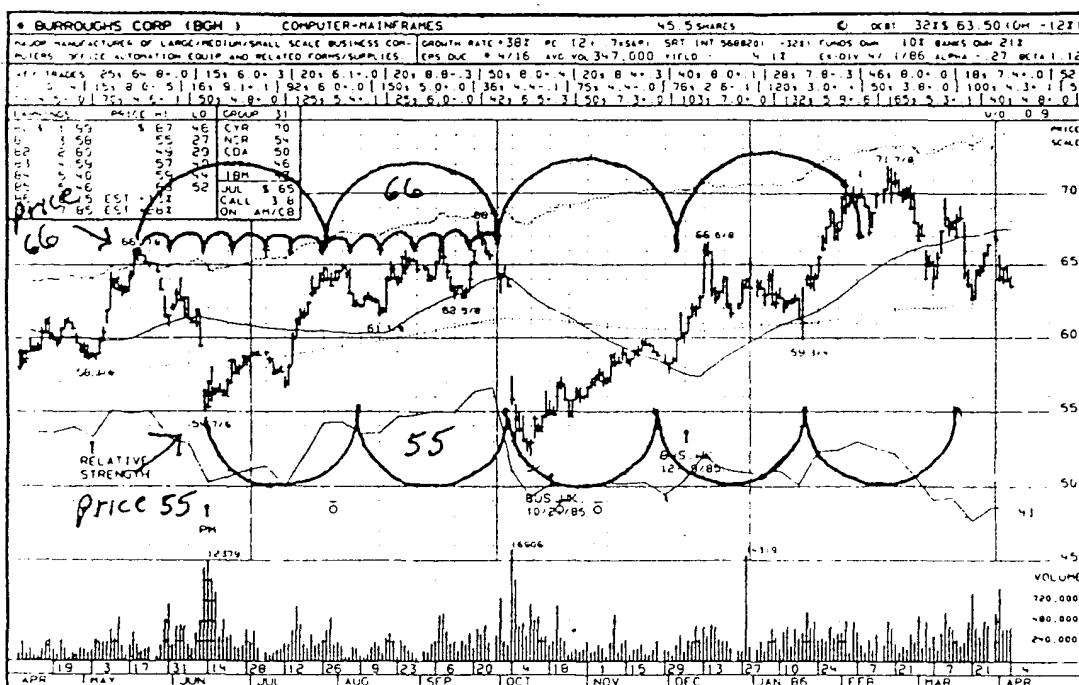


MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time and Price Squared

remember is that *all along an angle, time and price are in equilibrium* or equal if it's a 45-degree angle. The 45-degree angle equally divides a square, so that all along that axis there is exactly one unit of time and one unit of price. If we go back to our shape exhibit, Figure #1, and remember that orderly arranged objects are easily discernible, then we perhaps can see that along an angle coming from a high or low, at each and every point along that angle, the time and price are at equilibrium and it is at these equilibrium points that changes can take place. This is the whole point behind trendlines. That is, when price hits a trendline it is again at equilibrium in terms of time and price, from the high or low that spawned the trendline, and only at that time can a new cycle manifest and change the direction of the stock. It doesn't have to change the trend, but the change can only occur when the trendline has been hit. This is why Gann called these angles "timing lines" instead of trendlines.

Chart 26



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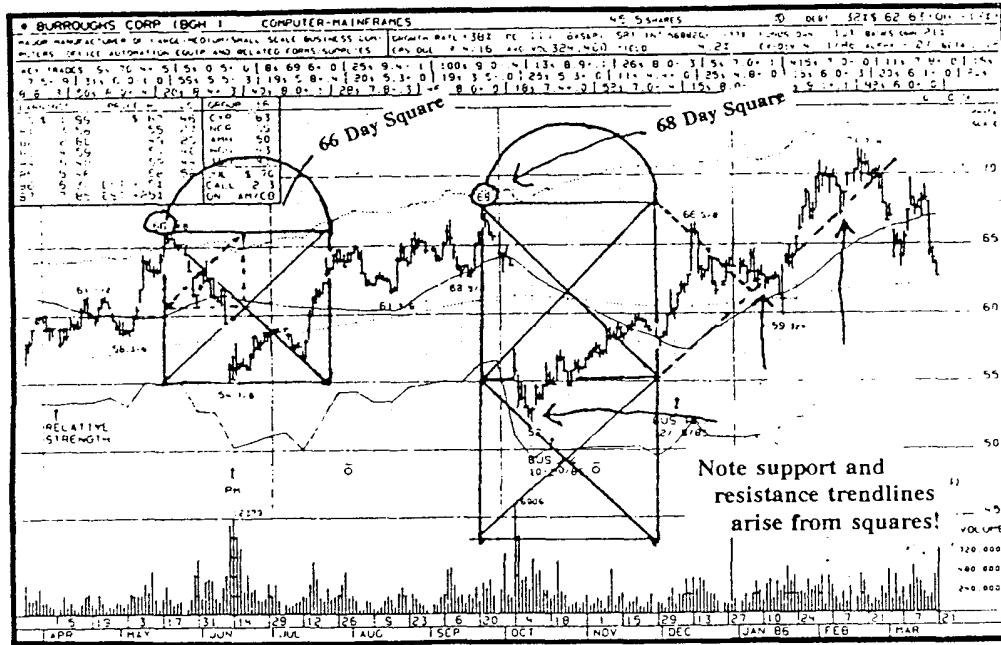
Time and Price Squared

Chart #26 shows the time cycles of 66 coming from a top at 66 as similar to ripples in a pond. Each cycle of 66 minutes, hours, days, weeks, months and years will now come out at the appropriate time period related to the number 66. In this chart we can see the effect on the price at each 66th day. We also can see another cycle of 55 days that came about when the stock suddenly broke and stopped at the price of \$55. Now we can see the interplay of each of these cycles as the 66th day tries to get the price up to a high and the 55th day down to a low. When they both come out near to each other, we see a big climatic move. Do not think that this is a strange or unique example. All stocks behave this way, it's just that some are operating on harmonics from tops or bottoms made long ago in the past and we can't see them directly, only indirectly, when one of their harmonic cycles hits.

Our next step is to convert the raw time cycle count of 66 to a timing angle and this is done through the use of a square of 66 units drawn about the high of 66. This part can be

ORIGIN OF TREND LINES

Chart 27



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Time and Price Squared

tricky because to get consistent results the graph itself should be a one to one correspondence, like one day to one point of price. This rarely happens with commercial charts, so that most 66-day squares won't look like a square, but more like a rectangle. The same thing applies if we use \$66 as the price. Then the time is distorted. One method that usually works, is to take a ruler and measure the amount of \$66 on the vertical price scale and draw that horizontal measured line across for the 66-day top count. Then complete the square, even though it may not have a perfect time correspondence. If the fit seems to work, use it! Sometimes experimentation is needed to find a good fit, but once you have one, it will work for many years, making it well worth the effort. From the initial square we extend the 45-degree trendlines and we can now see the origin of all trendlines. These *trendlines come from the timing lines connecting highs and lows*, and on most charts when a new high is made it was because some angle from the past caught up with the price on that date and price. To prove this after the fact, or to confirm that a high was just made, you can draw a *backwards* timing line of 45 degrees (and others to be described shortly), and as you extend them backwards you will find an origin point where they came from. If there was a higher high many years ago, you extend those trendlines backwards and at an upward angle. Note that in using rectangles, as opposed to true squares in the example shown, because of the lack of a one to one correspondence of the time and price scales on the chart, the diagonal lines that represent 45-degree bisecting angles in a real square are angles of a differing degree on these charts. Nonetheless, they are the timing angles that relate one to one in this example and they become our real 45-degree substitutes no matter what their actual degree. We must extend these exact angles up and down into the future, as long as we use this distorted chart.

Extending angles up and down has as its effect the bisecting of the original square, and the construction of that square's harmonics and subdivisions. Each square is bisected

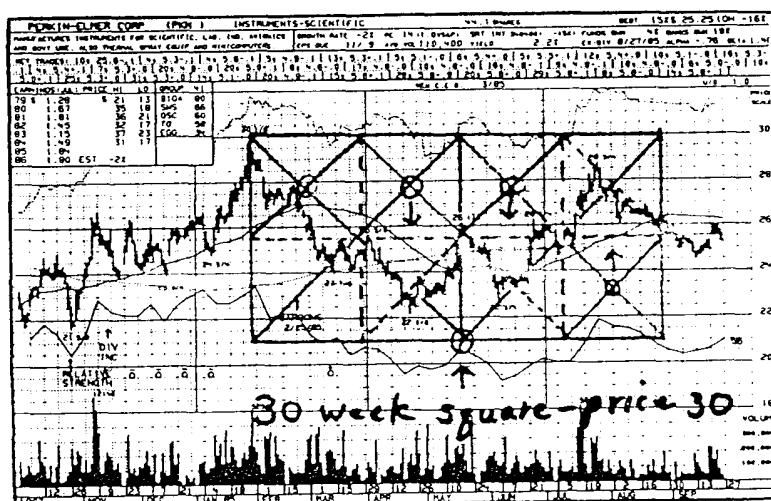
Time and Price Squared

with the diagonal and then a new smaller square is made. That smaller square is bisected again and the process goes on and on as far as we want to take it. In the case of the Dow Jones with a 1,000 price we could derive smaller cycles of 500, 250, 125, 62.5, 31.25 and 15-16 days. The principle is that at each of these cyclic turns in time we would most likely find the Dow Jones selling at a price that would be one of these harmonics added to, or subtracted from 1,000. The key is that time and price always trade together and at the point of the major harmonics, changes in trend occur.

If angles are timing lines and price harmonics, and if a change in trend comes about when time and price come together, then it *stands to reason that when timing lines cross, cyclic change will reverse the stock's price*. Charts #28 and #29 showing intersecting lattices of the timing angles prove this point. Look at the intersecting nodes and notice what happened to the stock's price at those times. Many times the stock tried to sell at the exact price of the intersecting point. Also keep in mind that all these points of force into

INTERSECTING LATTICES CREATE CYCLICAL CHANGE

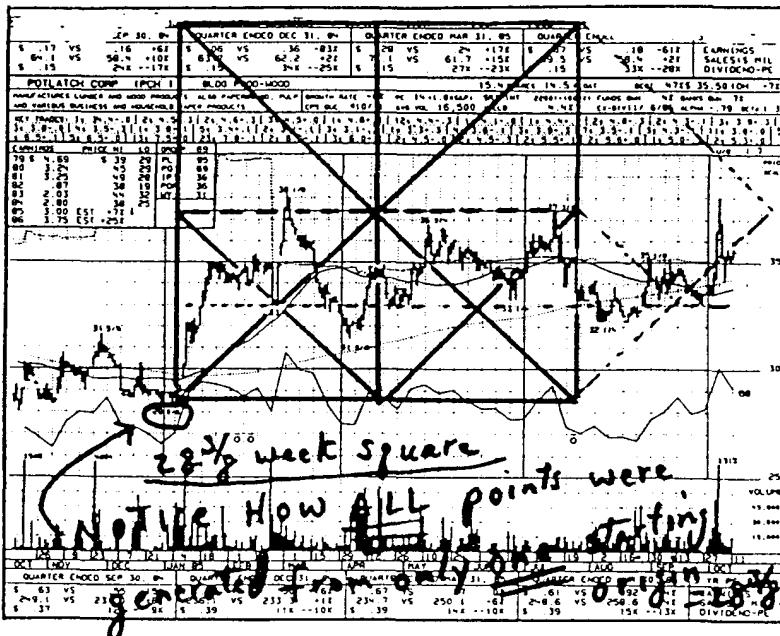
Chart 28



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time and Price Squared

Chart 29



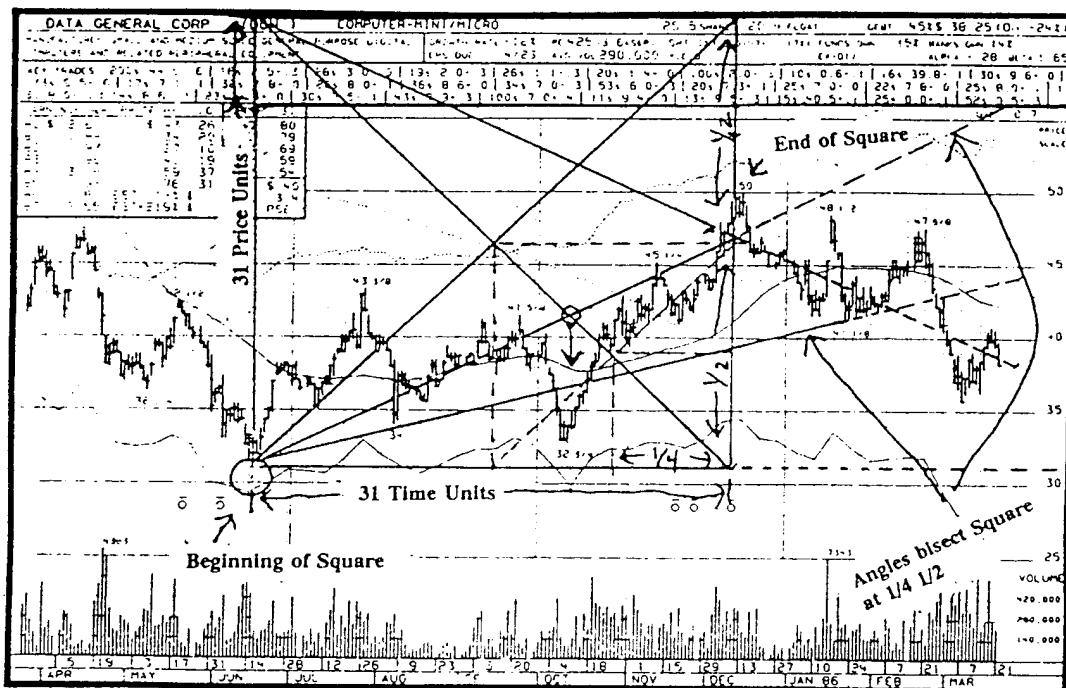
future periods are generated from only one time and price origin, either a major high or low. Nothing in these charts has been trendfitted. The timing angles were simply run up and down about the square of the major high or low.

Chart #30 is another example of a square using a strange square unit of 31, since that was the major low. The square is drawn up from that low at \$31 and angles are put on that bisect the midpoints of that square. Note how precisely the big price high came out, just at the midpoint of the time square! After that high, the price followed a trendline coming from "outer space" from the top corner of the theoretical square at a price the stock never traded at before. Nevertheless, the trendline coming down took hold of the price and pointed the way down. If you study these charts and meditate on them, you will realize that 99 9/10 of all the stuff taught in schools, or on Wall Street, about stocks and their valuations are all worthless and misinformation. Stocks follow mathematical prin-

Time and Price Squared

ciples that relate to time and price and can be forecasted with great accuracy, years ahead of time with the proper data.

Chart 30



As you look at the examples of time and price coming together at equilibrium levels of time and price proportions, you may become confused as to how to keep track of all the time and number combinations. If the cycle of 50 spins out harmonics of 25, 12.5, 75, 100 etc., it can be confusing especially when you throw in 50 hours, 25 days or 75 months. The accepted approach to organizing all the information is to use timing lines, but more specifically, geometric angles. This will be the subject of the next chapter.

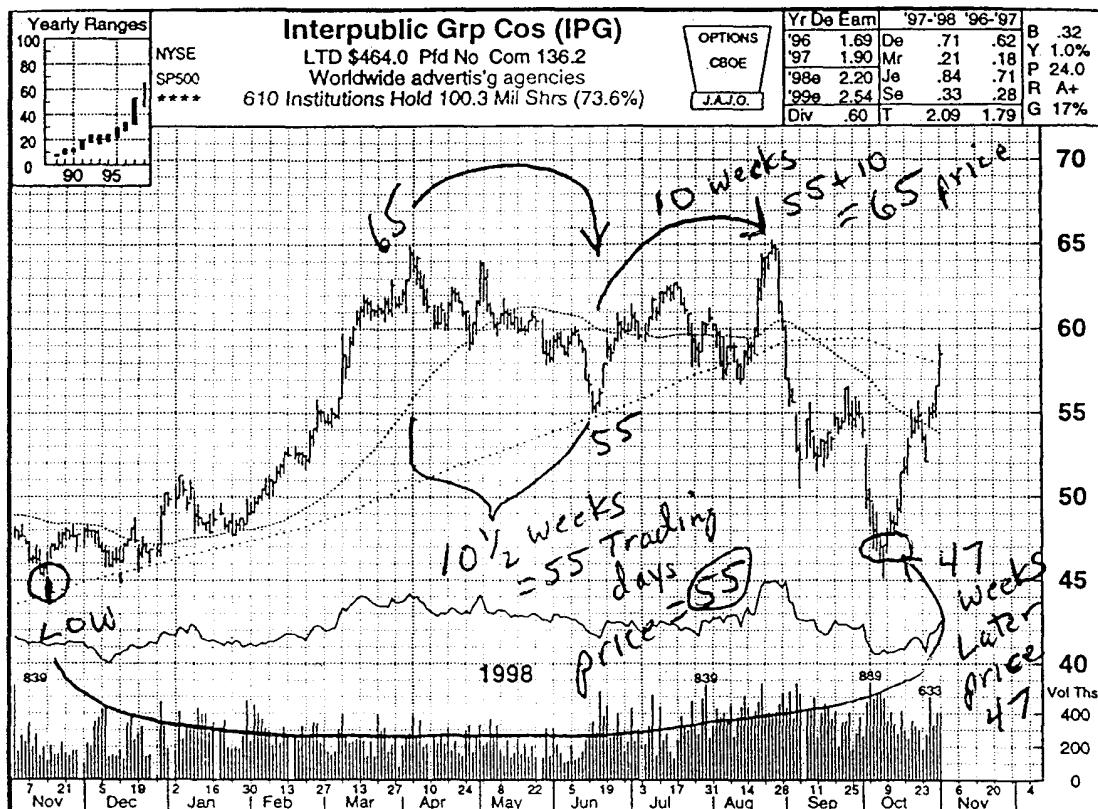
An example of time and price being related is illustrated in Chart #31. It shows a low at a price of \$47, and 47 weeks later there is a plunge and another low at \$47 occurs in the 47th week. The high price of \$65 has a correction that lasts 55 trading days and the price decline ends at \$55, 55 days from the top. From that low of \$55, the stock rallies 10 weeks to a price of \$65 for another top. These are not coincidences. It may appear strange

MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time and Price Squared

to you at first, but with some practice you will see that all stocks follow such patterns. There are a number of useful techniques that will be explained in the following sections to help to accurately identify the direction of the stock and what its final time and price will be.

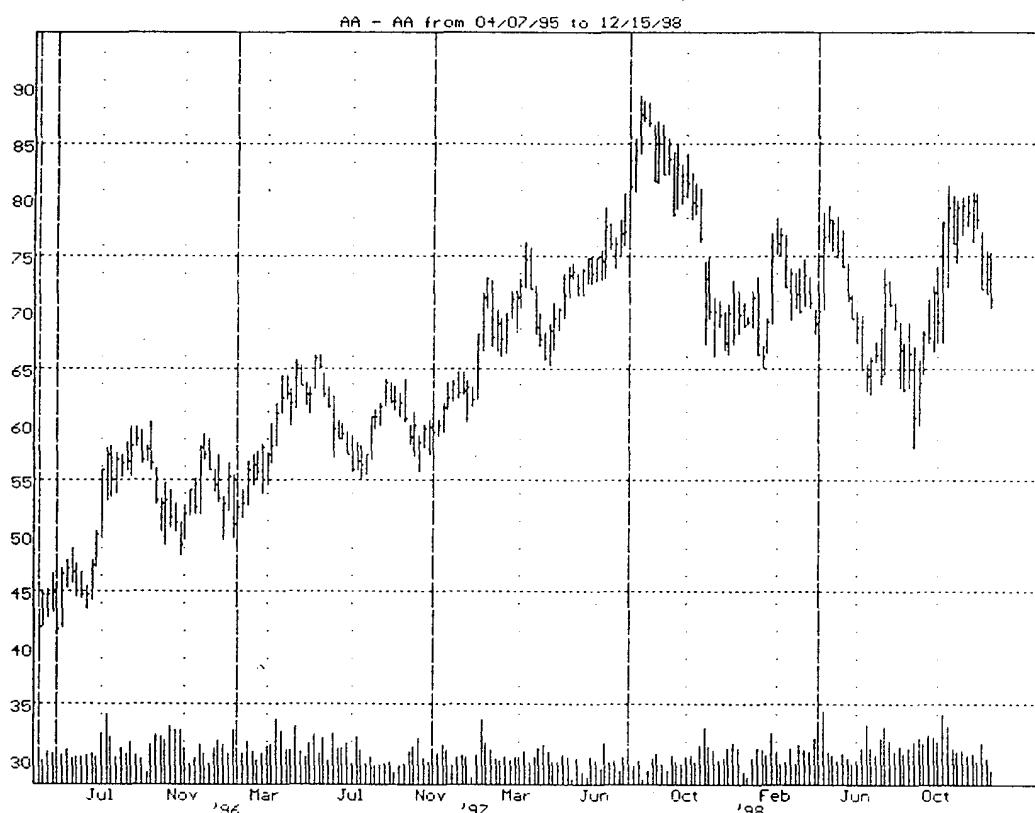
Chart 31



Time and Price Squared

A weekly chart of Alcoa, Chart #32, demonstrates a “squareout” of 40 $\frac{3}{4}$ weeks from a low at \$40.75. Each vertical line is about 41 bars (weeks) wide and as you can see, there is a big turn just about where each of these vertical lines is drawn. That is the effect of time and price being equal and a change in trend is usually indicated at that time.

Chart 32



Time and Price Squared

Chart #33 illustrates a weekly squareout of Caterpillar coming from a weekly low of \$25.375 and squaring every 25 1/3 weeks (Vertical lines).

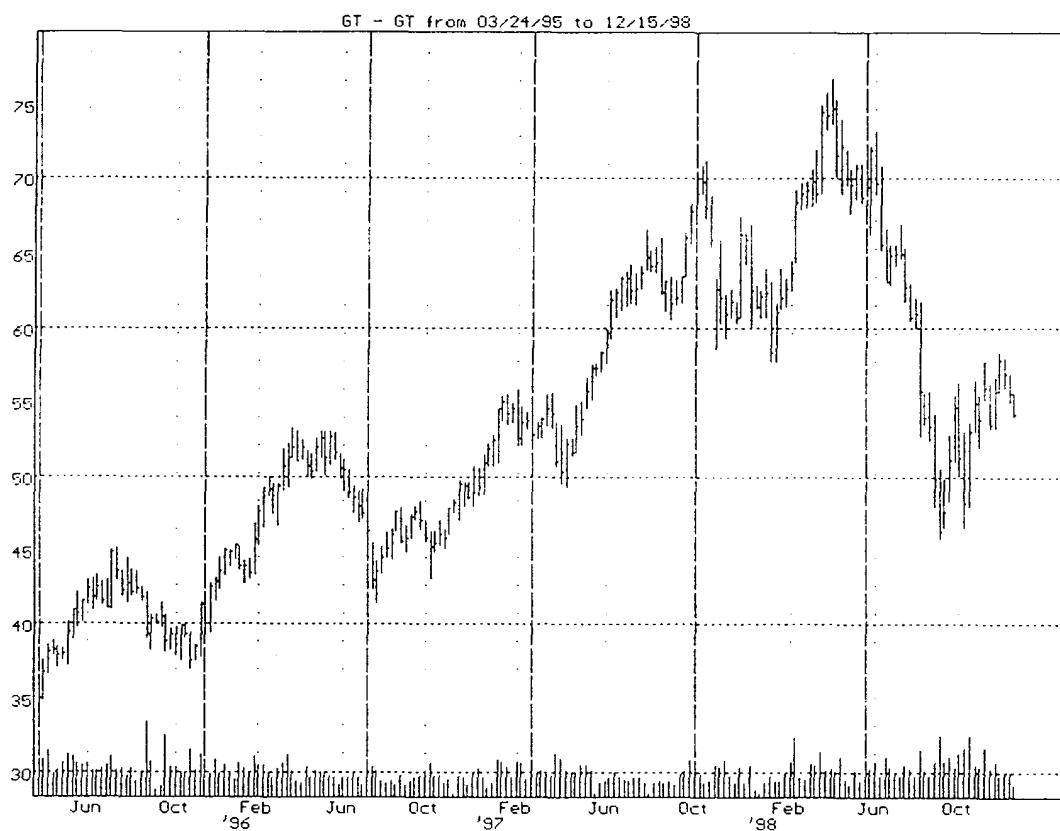
Chart 33



Time and Price Squared

A weekly chart of Goodyear, Chart #34, shows vertical lines placed every 33.75 weeks from a low at \$33.75. When examining these charts think about how valuable it is to be able to pinpoint fairly accurately when and where the big moves are going to take place.

Chart 34



Traders are usually fighting for every 50 cents on a trade. Knowing that a \$10 move is about to start is a tremendous advantage!

Chapter 6

ANGLES

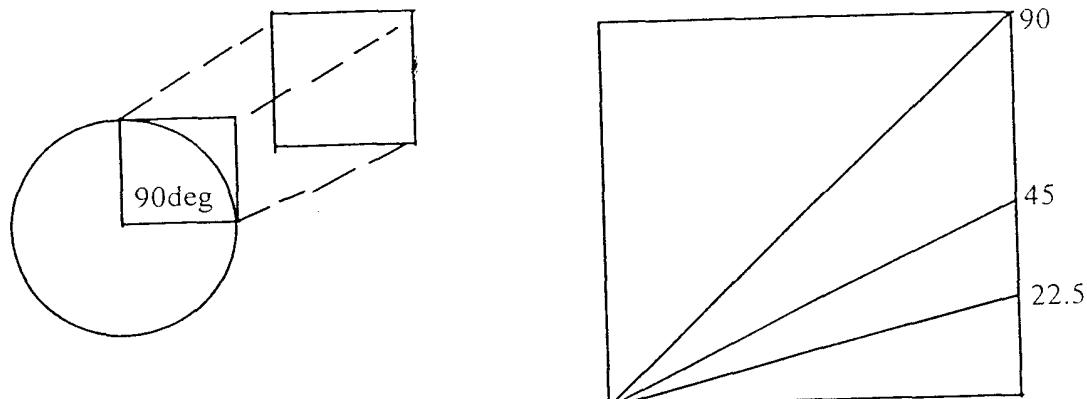
I mentioned previously that random dots or objects had no recognizable interest to humans, but organized dots like lines, squares, and other shapes did. The straight line is a special collection of points that shows a specific correspondence with time and price when drawn on a price chart. So many units of time have passed and so many units of price have advanced or declined. When the price of a stock fluctuates and then returns to an angle drawn from its highest price or lowest price, it is at that point that time and price for that issue are exactly in some kind of proportion. Any price apart from that angle is not in proportion to the time and price equation that originated with the high or low the angle was drawn from, and since cycles start at those highs and lows we must keep track of them. It is because of this unique correspondence that only takes place at the moment of contact that we can see a change in trend for that particular stock. For example, a stock hits \$50 and declines and we draw a line going down at \$1 per week. Three weeks later that line will be at \$47, but the actual price could be \$40, or \$49, or any other number. If, however, during that week the stock hits the line at \$47, then time and price would be balanced and it would be at that point that the equilibrium level would have been reached and a change *could* take place. Change doesn't always take place on the angle, since stocks can move along an angle for weeks at a time without deviating, but sooner or later a major time cycle will come out, and at that point when the price touches the timing angle

Angles

a major change will take place. You probably have not noticed this before, and it really isn't talked about much, but if you look closely at all major turns on market averages or stocks, you will always find a simple long-term trend line that was hit at the exact moment of the change in trend. In many cases people see a stock breaking out through a trendline and call it a trendline break, but what is actually happening is that as the stock rose to reach the trendline and hit it, a major change took place as the cycle ended and the new direction manifested. This might seem like splitting hairs, but the concept is very important in understanding how angles work, and can be used for forecasting and long-term prediction.

As mentioned previously, the square is the best representation of time cycles and as each stock's price "squares out," or equals in days, weeks, months, etc. its price, the cycle

Chart 35 & 36



comes to an end and a change in direction takes place. Timing angles originating from squares are therefore our theoretically perfect starting point. The diagonal of the square is 45 degrees and this is the perfect one to one correspondence of one time period to one price unit. If we take half of that 22.5 we get our next angle. In short, we find that straight

Angles

up is 90 degrees and the steepest angle imaginable and we can subdivide by two to get its harmonics:

$$90 / 2 = 45. \quad 45 / 2 = 22.5. \quad 22.5 / 2 = 11.25. \quad 11.25 / 2 = 5.625$$

It is important to note that these are divisions of *price*, but are not angles. Half of a 45-degree angle is an angle of 26.75 degrees, not 22.5 degrees as will be explained shortly.

In measuring time we think in circular terms and we recall that the great Pythagoras stated that the angles of a circle have numerical co-ordinates, which are harmonious, and this relationship between angles and numbers allows us to project stock movements by relating the lift of the angle that harmonizes with price resistance and time resistance. In other words, the angle a stock moves along will tell us how long to expect that move to go in both price and time.

To understand this we must consider that all angles are a type of circular measure starting from the center of a circle and moving through a 90-degree quadrant. We only use the first 90 degrees of the 360-degree circle, and since we can only graph stocks on a flat, square piece of paper, we project that 90-degree quadrant onto a flat square to coordinate our angles. In this pictorial representation we see the square represents a 90-degree quadrant of the circle, but instead of the diagonal being 45 degrees, it is 90 degrees, in terms of vertical units. Now, the angle up from the origin to that 90-degree top is still a diagonal and therefore 45 degrees. However, if we take the halves of that, such as 45, 22.5 or 11.25, these are not angles of those degrees, but are 26.25 degrees, 15 degrees, and 7.5 degrees respectively. Basic trigonometry tells us that the angle designated as 45 degrees on the grid is really the Arc Tangent of $\frac{1}{2}$ ($45/90$) or 26.57 degrees, and the 22.5 one is the Arc Tangent of $\frac{1}{4}$ ($22.5/90$) or 14.04. Most Gann protractors use 26.75 and 15 degrees

Angles

since these are close theorecticals and have been used for years. They also follow the traditional harmonics of the circle divided by two and by three. In other words the divisions by 2 are:

$$360 / 2 = 180 / 2 = 90 / 2 = 45 / 2 = 22.5 / 2 = 11.25 / 2 = 5.625$$

Divisions by three are:

$$360 / 3 = 120 / 2 = 60 / 2 = 30 / 2 = 15 / 2 = 7.5$$

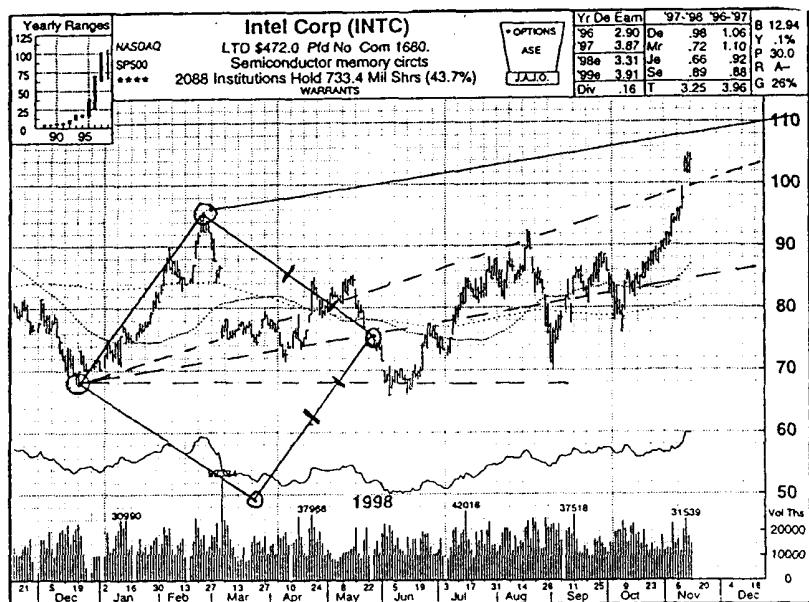
The interplay of these two sets of numbers creates all of the time and price resistance found in stocks. For instance, if a stock hits a low at \$10, then, if you add 5.625, and then 11.25, and then 22.5, you get \$15.625, \$21.25 and \$32.5 as price and time harmonics for the two's, and if you use three, you get 7.5, 15, and 30 or \$17.5, \$25 and \$40. Each high or low finds natural support and resistance at these natural number harmonics that come from the circle. The corresponding angles are $5.625 = 3.75$ degrees, $11.25 = 7.5$ degrees, $22.5 = 15$ degrees, $30 = 18.75$ degrees, $45 = 26.25$ degrees, $60 = 33.75$ degrees, and $67.5 = 37.5$ degrees. If you draw these specific angles on a chart, the price will meet resistance or support when it touches them.

The purpose of this is to find "geometric" angles that will equate the angle of a stock's impulse movement with its time and space movement, so that we can tell when the movement is about to exhaust itself. A much simpler way is to draw squares around the prices as previously shown, and bisect that square to get the natural angles for that particular stock. This was shown in the material on time and price squared, but the next two charts demonstrate the technique.

Angles

Chart #37 shows the “square” drawn about a major leg up axis, and then angles

Chart 37



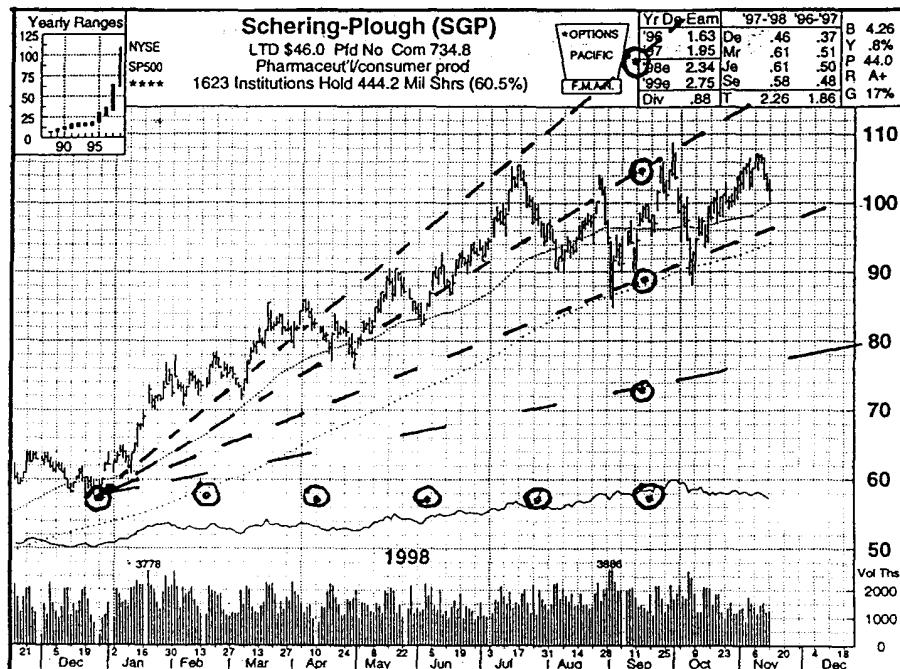
are created by drawing lines through the bisected points of the square. Note how the extended trendlines arose from that structure and contained the future price movement. This example also shows that not all squares must be drawn from the “normal” plane of straight up, but are often adjusted to the axis of the advance or decline of the stock. Adjusted angles drawn from the stock’s own axis are particularly powerful and are often overlooked by the majority of traders.

A simple method of placing equally spaced horizontal dots along a line from a high or low, and then at some point going up with the same space measurement is shown in Chart #38. Connect the dots and you will get various 1 x 1, 1 x 2, 1 x 3, 1 x 4, etc. angles. Here I moved over 5 dots and went up, but whether the number was 5, 4, 9, or anything else,

Angles

didn't matter as long as I went up the same amount to get the important 45-degree 1 x 1 angle to start. Any number over and up will work as long as the spaces are equal. I use my

Chart 38



compass to quickly measure over and up on any scale chart, and it takes only a few seconds and is actually more accurate than drawing angles from a protractor.

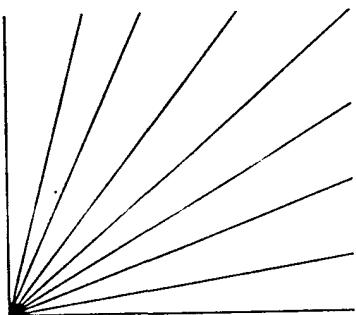
Most technical supply catalogues have pre-drawn geometric protractors that traders can use to quickly draw lines on charts and you can buy one or quickly make one out of artist's acetate paper and indelible ink pens. I do this not just for the traditional angles, but also for some more obscure angles like Fibonacci ratios of 38.2 degrees or 61.8 degrees, or 55 degrees, all of which are of importance to traders.

Angles

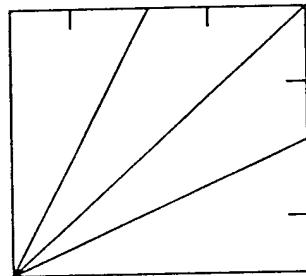
The standard protractor is shown in Chart #39:

CHART 39 & 40

The standard protractor looks as follows:



the angles are:
82.5 1x8
75 1x4
63.75 1x2
45 1x1
26.75 2x1
15 4x1
7.5 8x1



Again remember the origin is a simple square that is subdivided to get the angles.

Most traders align the angles from a major high or low with the 90-degree axis straight up, as in classic geometry textbooks. Almost all technical books utilize this technique, as do all modern computer drawn angles in purchased software. These work most of the time even *though they're wrong!* The proper method is to *align the axis* of the angles with the line that connects the major low to high or high to low axis on the chart you are using. Go back to the prior chart of Intel with the square drawn around the low to high and see how the angles constructed do not necessarily go straight up and down but follow the natural plane of the chart. Also, go back to the earlier chapter on squareouts and look at the charts of 66 days and the origin of trendlines. In those charts the square is deliberately drawn with a vertical axis and the angles coming from those squares will be traditional ones. In reality you must use both, until you find the right one that fits the particular chart you are using. You will usually find that both methods work on the same chart, but one will be slighter better than the other.

Angles

We see in Chart #41 the effects of the typical 45-degree angle, as shown in 99% of all chart books, and in Chart #42 we see the adjusted angle of 45 degrees coming up along the axis of the low to the high. It has not been drawn, but you should mentally note how the typical 45-degree angle on the second chart has no real predictive value on this chart, if drawn in from that same high.

Chart 41

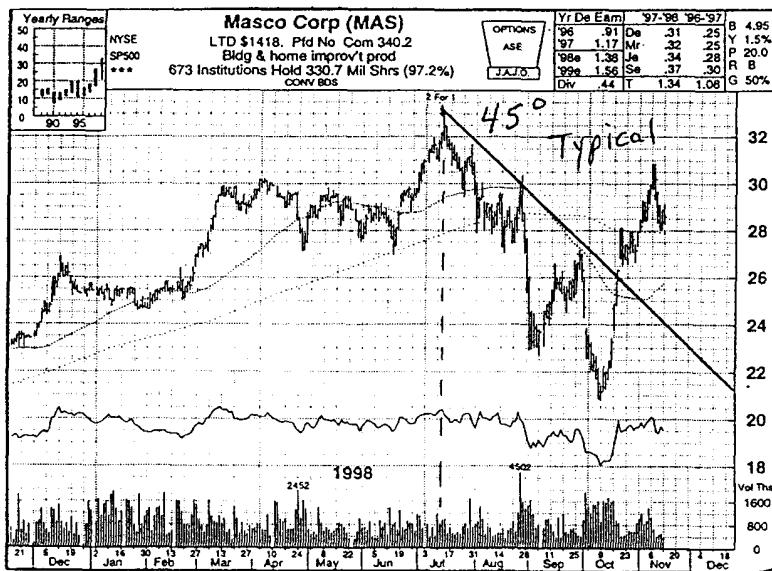
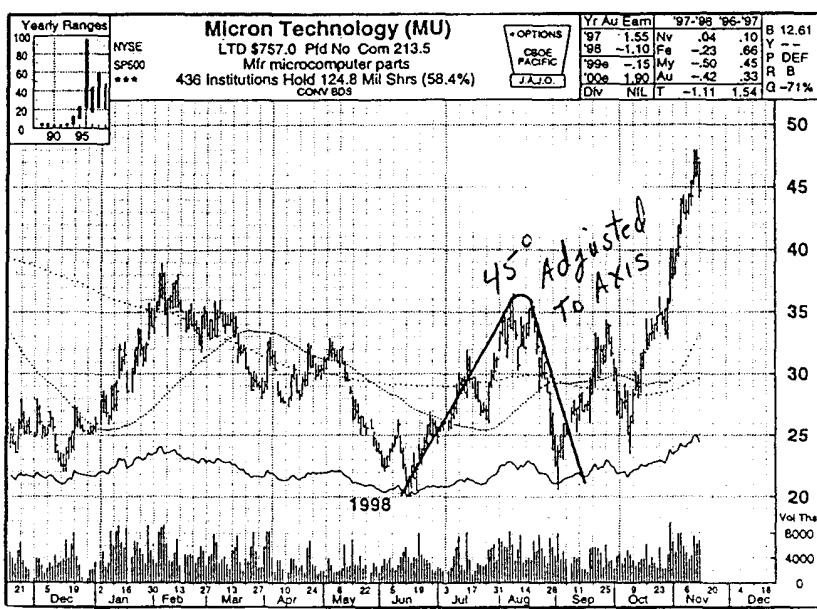


Chart 42



Angles

Ninety degrees is the strongest angle, since it defines the sides of a square, and getting away from that angle means going into a new cycle and that always results in strong changes in trend. We see in Chart #43 an up and down cycle closely holding to the 90-degree angle, and once it gets away, the stock really takes off.

Chart 43

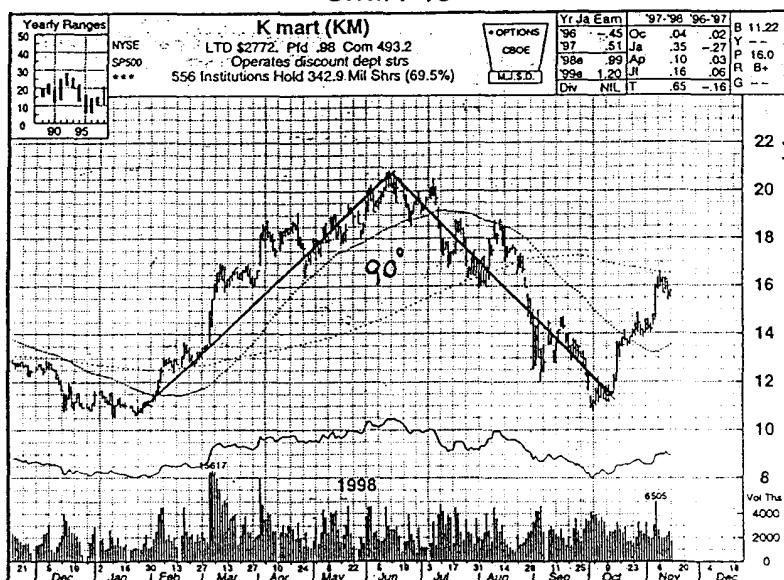
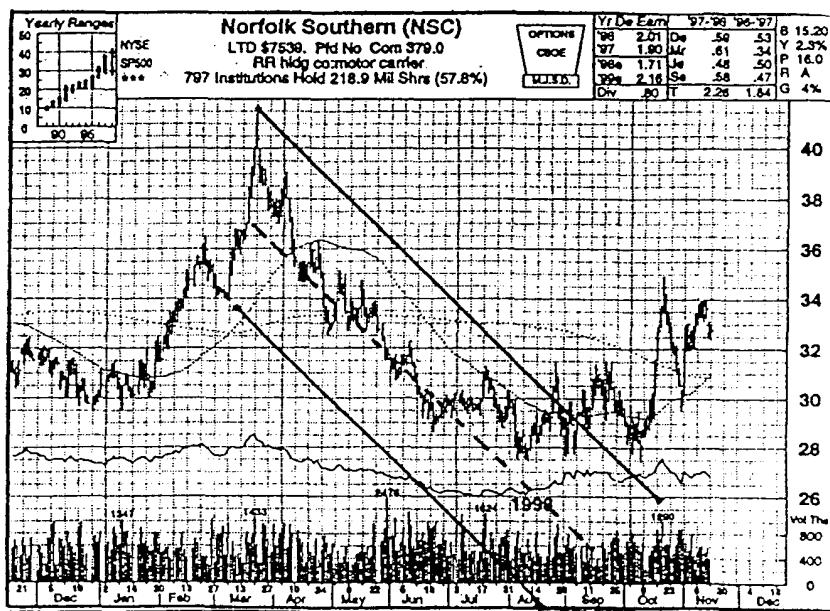


Chart 44

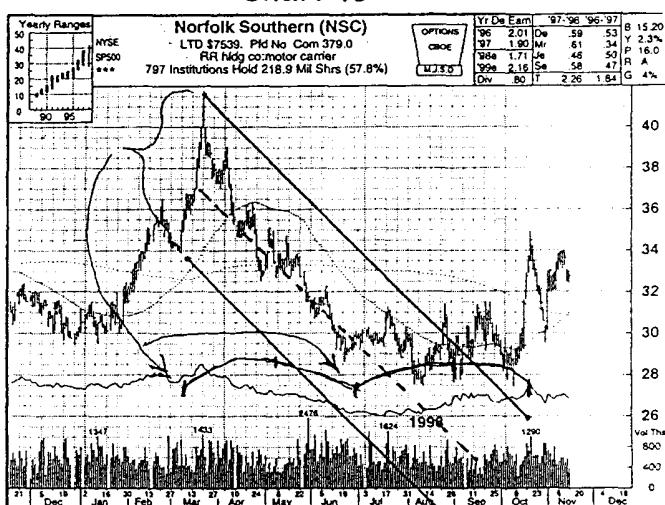


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Angles

On long-term charts, such as 5 year weekly ones, a 90-degree angle may define a long-term bearish decline. Once the low is made and the stock starts to advance a 90-degree angle is drawn down from the last, final high to the low and then turned 90 degrees back up. As long as the stock follows that 90-degree up angle, the new bull trend will be in effect. This angle is not drawn on Chart #43, but the impulse wave just starting at the right can easily be seen to be just a little stronger than a 90-degree right angle up from the axis of the decline line.

Chart 45



There are several useful techniques utilized with angles, and apart from the simple trendline, the parallel channel is the next basic technique to be discussed. Parallel channels are used to validate the primary trendline, since many times the trendline is drawn incorrectly and there can be price dropouts at times that mess up the actual placement of the trendline. A parallel channel will correct for this and also define the next larger fluctuation about the primary trend. Three trendlines are drawn in Chart #44. These are of the simple 45-degree variety starting with the high as is normally drawn. It has been my experience that all parallel channels arise from the last leg up or down, so I have drawn another 45-degree angle down from the bottom of the last leg up to the high. The dotted line in the

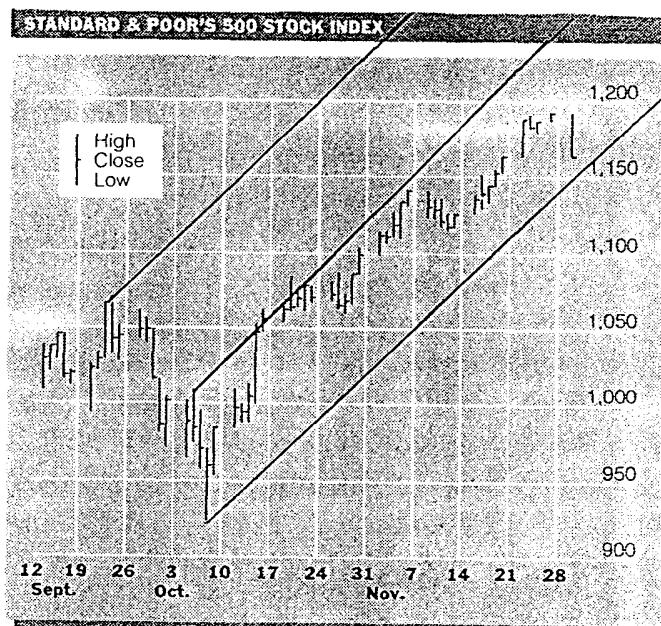
Angles

middle is a visually spotted midpoint that seems to fit the data. This chart is not exact, but is only shown to demonstrate a simple approach to very quickly finding trendlines, and the "width" of those parallel channels can then be "offset" to the right to find future movements. The same technique is used from a low with the angles drawn up.

One important consideration overlooked by most technicians when discussing parallel channels is that the "width" of the channel when measured and turned perfectly horizontal becomes a cycle finder. That is, the width of the channel is the length of the common cycles at work in the stock, and if that width is tick marked off along the time scale from the highs and lows, you will get future market turns. Chart #45 shows I have taken the prior channel width in vertical measurement and laid it out horizontally, and you can see that the first two lows came in on schedule from the horizontal placement of the low to high range. A whole book could be written on this subject and how time cycles create angles, but you can see it for yourself if you study the technique.

In Chart #46, the parallel channel is drawn up from a low. Note how the high to low swings just before the final low set up the channels for the 45-degree angle. This will

Chart 46



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Angles

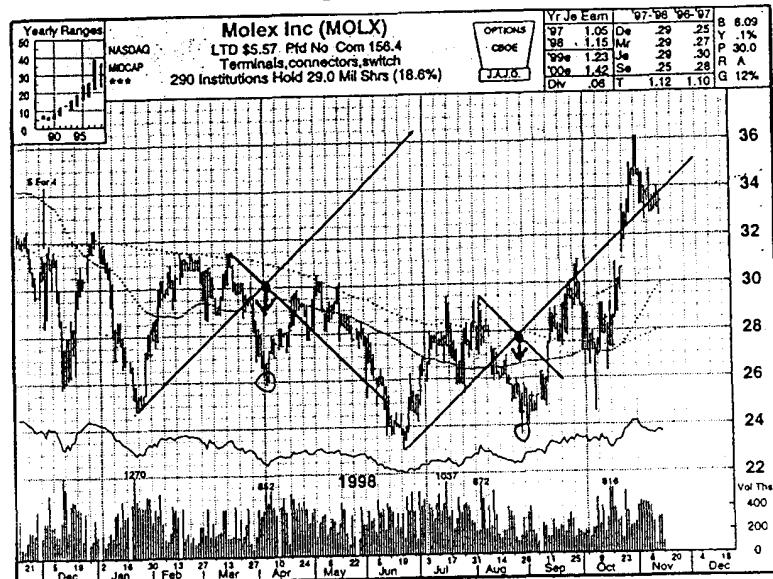
almost always give a better first attempt at finding a true trend than just connecting the lows with a trendline. As long as the high to low swing used to draw the starting trendlines approximate normal “measured moves,” the channels will be properly drawn. Should prices penetrate these angles, another set can be drawn parallel to the first set offset by the same width.

Apart from trendlines and parallel trendlines, the next simple technique for trading is to find intersecting angles that will define time periods where great change is expected to occur. The basic Gann “squareout” is two angles coming down from a top and up from a bottom, and intersecting at a point which obviously is in proportion or harmony with both the top and the bottom. Since the 45-degree is the strong diagonal, the 45-degree crossover is the most common and easiest to apply. We see 45-degree angles from two highs and two lows intersecting in Chart #47, and at those intersection points a change in trend was observed in the price action of the stock. In these two cases the stock was going down for a few weeks when the angles intersected and then went up for several weeks, but in many cases you won’t know what the new trend will be until after the fact, but you will be able to tell very quickly if you watch and wait. If you have charts with large fluctuations between highs and lows, you can set up a “tickler file” of these squareouts weeks ahead of time and wait for these changes to trade the stock. Keep in mind that we never use just one technique. We would look for a signal reversal bar for the buy or sell signal, a trendline break, or a time count, or measured move to coincide with the squareout before we actually did anything about it, but this technique would have prepared us for something on or about the date the angles intersected. Long-term trends are often difficult to reverse, so our squareouts may only last a few days and a few points before reversing again and following the main trend. It is for that reason we need big squareouts and long time counts to get a more reliable change in trend. For day traders, however, small scalps can be made

Angles

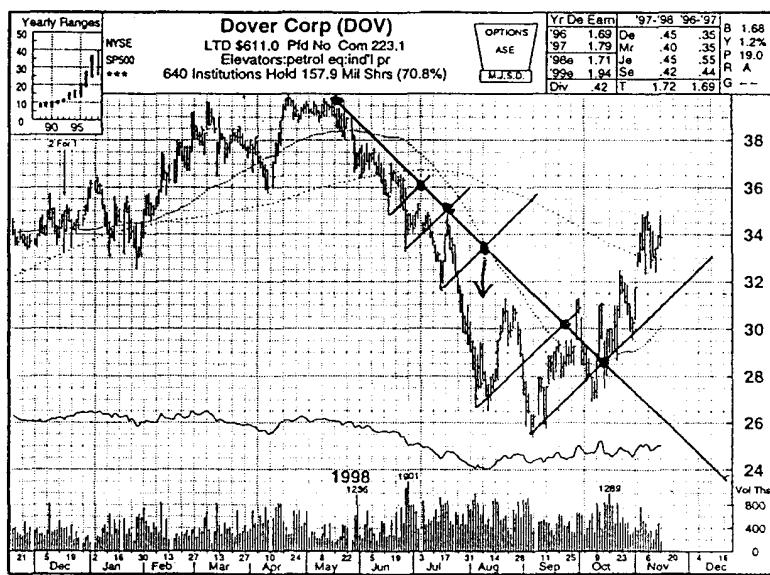
almost every day with small squareouts drawn with a long-term line.

Chart 47



We see a long-term downtrend in Chart #48 and some small daily lines drawn up from minor lows to the major downtrend line. Many times you will find good symmetries, where each intersection change will result in the same direction, as in the first two intersections shown, that created tops and then the third making a big bottom. Just remember

Chart 48



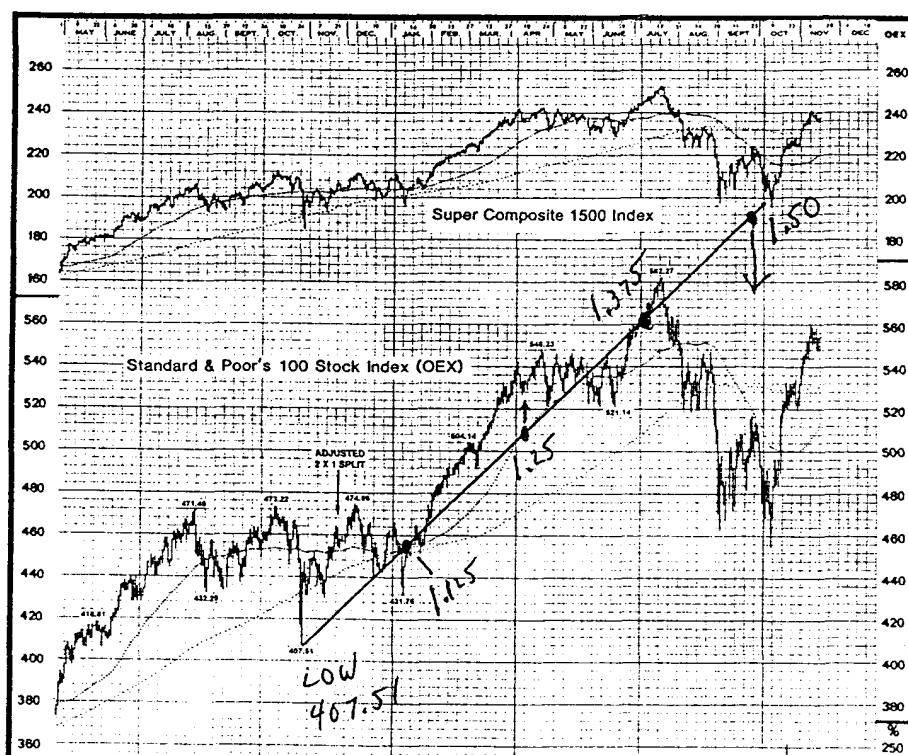
Angles

the rule that the direction the stock was traveling in will reverse, so if the price gets “sucked up” to the intersection then it will subsequently decline, and if it plunges down into the point, it will subsequently go up.

It is important to remember the significance of these squareouts. The primary long-term trendline coming down from the top on this chart is the side of a big square, and the size of that big square won’t be known until the bottom is made by a time cycle coming out. Along the way the smaller lines are creating subdivisions within the big square, and these subdivisions are harmonics of the larger square. It stands to reason, therefore, that we can guess the size of the large square by keeping track of the size of the smaller units. This is simple but unnecessary since we will know the square is finished as soon as the price breaks out above the trendline. From each point on the angle drawn, the time and price harmonics are in tune with each other and change is possible. This sets up an easy technique to find all major harmonics of the price, and this is also a major reason why these angles, particularly the 45 degree ones, are known as “timing lines.” The implication is as follows: when a 45 degree timing line coming down from a high or up from a low intersects price harmonics of the all time high or low, there should be a change in trend. In other words, if the high was \$100 and the timing line was coming down, we would see major turns when that angle intersected \$75, \$50, \$25, and when it hits \$0.0 (zero). At these prices the one to one correspondence of the angle and price means the time cycle is also at a harmonic and will turn at those points. This is where the timing name comes from. Long-term charts can have an angle that slowly intersects each eighth of the range over several months or years and each and every one will come out. It is then a simple process of continuing trendlines on your charts for years into the future, keeping track of the price levels hit that are harmonics of the all time high or low. Chart #49 of the OEX shows a timing line of 45 degrees drawn up from a low of 407.51. As the line intersects 1/

8 harmonics of the original price, I have placed a dot on the line so you can see that a cycle turn was made during that specific time period. The first 1.125 mark shows a low, the next the beginning of the top, the next the high and the 1.50 last point, the next big low. These turns aren't as precise as they could be, since I used a "spike" low that may be inaccurate and there could be possible "slippage" in the cycle length because of that spike. Better lines come from closing levels or nice clean bottoms, but I chose this so that you can see

Chart 49

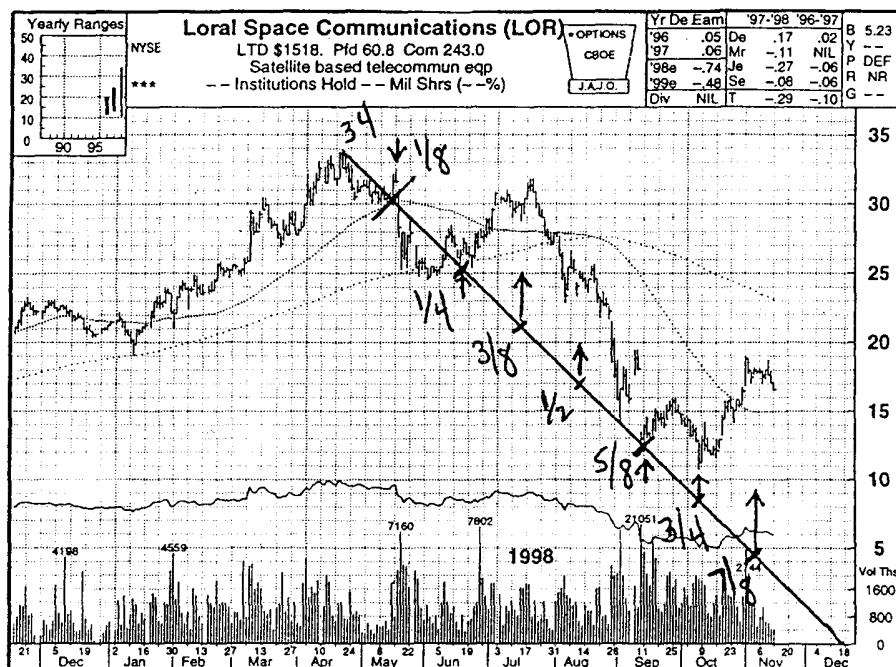


that it works on anything. Please note that in using this technique the trendline itself has nothing to do with prices per se. It is the intersection of the price scale (not actual "live" price) that is used. When the line crosses a price scale harmonic we look at that *time period* to see a turn in the actual price, and we then make our trade.

Angles

Chart #50 shows a timing angle down from a high, with the high price divided by eighths to get price harmonics and slashes at each eighth down. You can see how the price action changed around each of these turning points. Obviously, for important turns we would use major harmonics like 50% or 100% and also use them on long-term charts running over many years to see really great trades, but even in minor hourly charts the turns will show up. The method of using complete squares, as shown in the very first examples of drawing a complete "box" around a price and watching when the square was complete, gives rise to another even more powerful technique, which I call the "zero

Chart 50



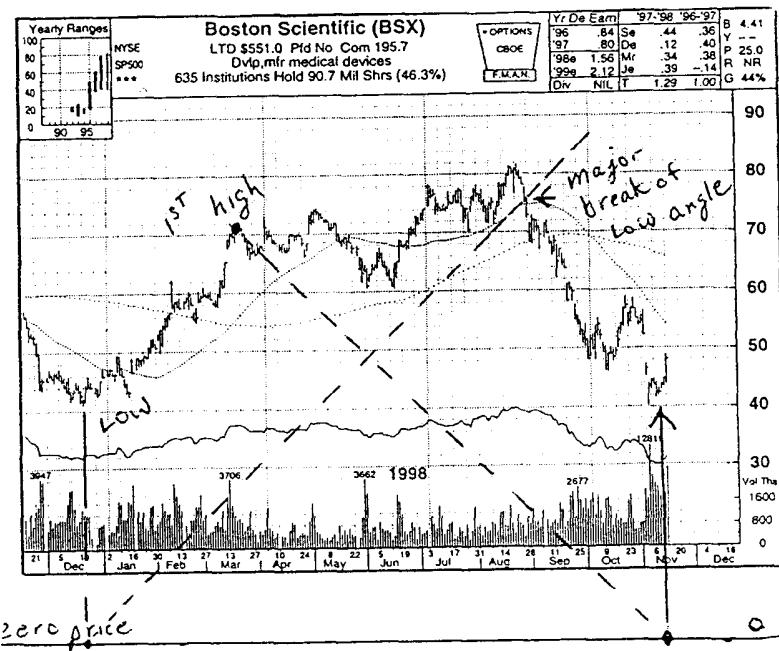
angle." To make use of it you must first adjust the price scale on whatever chart you use to find out where the actual zero price is located. On most charts the scale starts at a number

Angles

like \$30 or \$50 if the stock is high priced and zero would be several inches down off the bottom of the chart. You need to use a ruler or compass to measure the same scale on the chart and mark it down to zero. For instance, if a chart starts at \$30 and goes up through \$60, I'd measure from 30 to 60 and take that measurement and mark it down below 30 to find the zero point. Any angles now drawn up from zero, or down from any high or low on the chart down to zero, will now have complete harmonic squareouts with their origin points. If you draw a line from a low at \$30 to zero, it implies a square of 30 has been complete. The same holds for any price high or low down to zero. Most importantly, the real power of this technique is to draw lines up from zero under each and every high and low, and as those lines rise they will support the price structure when the price first hits those lines. This is the only known technique that will stop a decline dead in its tracks and can't be seen by anyone who doesn't know the method.

In Chart #51 we see an angle coming up from the true zero price and starting under the major low for the year. This is a 45-degree timing line, and since it is coming up from a

Chart 51



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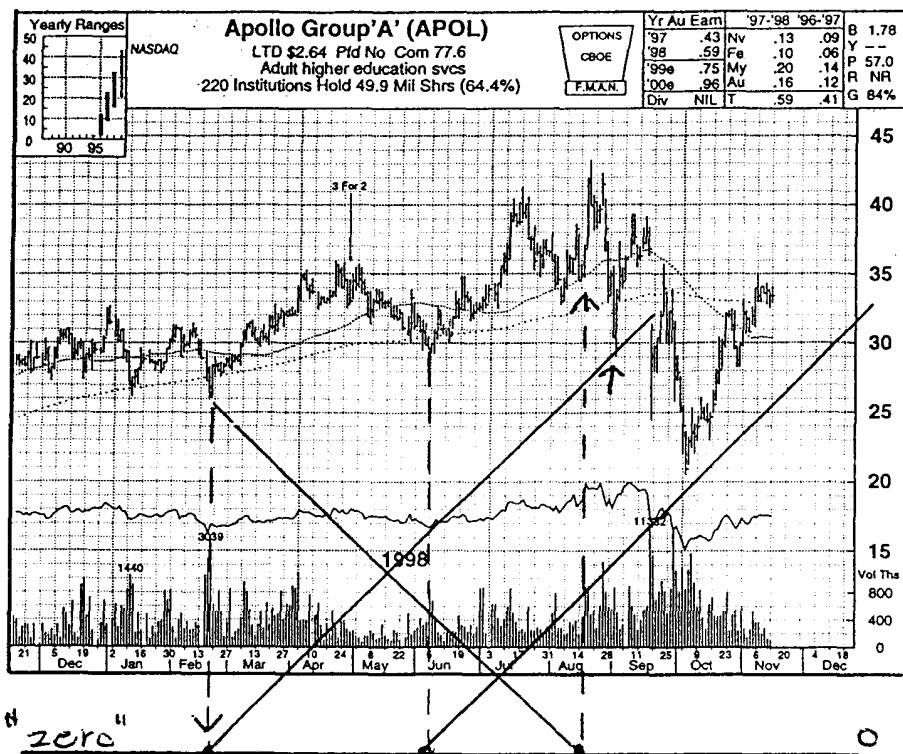
Angles

low, it signifies major support and will not break until the uptrend started at that low is over. As shown, the first time the angle was hit, the price shot up to the final high, and the next time it broke the angle, it started the major collapse of the year! The second line is drawn down from the first top and as it reaches the zero price, a major low is recorded in the price of the stock! If you will remember back to my earlier statements that all fluctuations in stock prices are nothing more than cycle highs and lows squaring out each day, you will see this principle graphically demonstrated in this chart. Not shown, but clearly implicated, is the use of other than 45-degree angles (such as 30 degrees, 60 degrees, etc.). Each high or low will spin out turns from each consecutive angle drawn down to zero. Another experiment is to run a 45-degree plastic triangle across the bottom zero angle and observe that as you move that rising angle along the bottom, each bottom is caught by a trendline coming up from zero and starting at a high or low earlier in the year.

Chart #52 shows another example of an angle coming down from a low and a zero angle going up from the same low. Note that the same low generated two different outcomes! The time cycle turn hit when the angle went down to zero and the price shot up for the biggest daily move of the year and the final high, while the angle coming up from zero caught the subsequent low after the top was in and the collapse started. The cause of this collapse was the price adjustment. The angle going up went past the original low price before the actual price hit the angle. At that point, time and price still squared out and so were in equilibrium, but the timing angle had reached a higher level than the starting price. You'll see the difference if you draw a horizontal line across from that first low to the rising angle. At that point a perfect square is formed and the angle and the zero point are the same. By extending the timing angle up we simply continue the correspondence of time and price. Remember that this is why long-term trendlines work – they catch up with price and at that time the time cycle from the origin is at a one to one correspondence and

Angles

Chart 52



a change can occur. If you take the time to practice with this technique you will become rich!

Before we leave this section on angles I should also state some simple rules for using angles. The first axiom is that when using geometric angles (like 1x1, 1x2, 1x4, etc.), if a price fails at one angle *it will always drop down or go up to the next angle* in the series. Geometric angles don't just break and then recover. If the trendline breaks, the price must go to the next angle in the series.

Angles

Chart 53

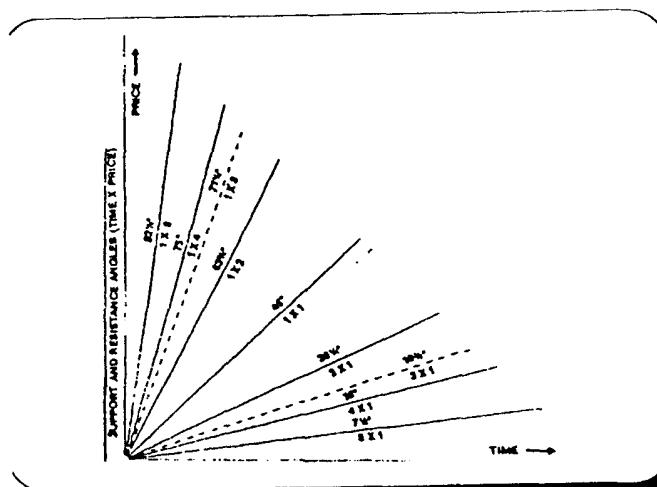
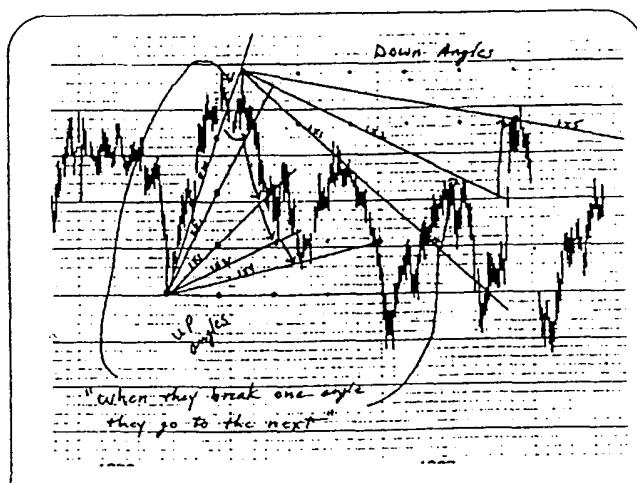


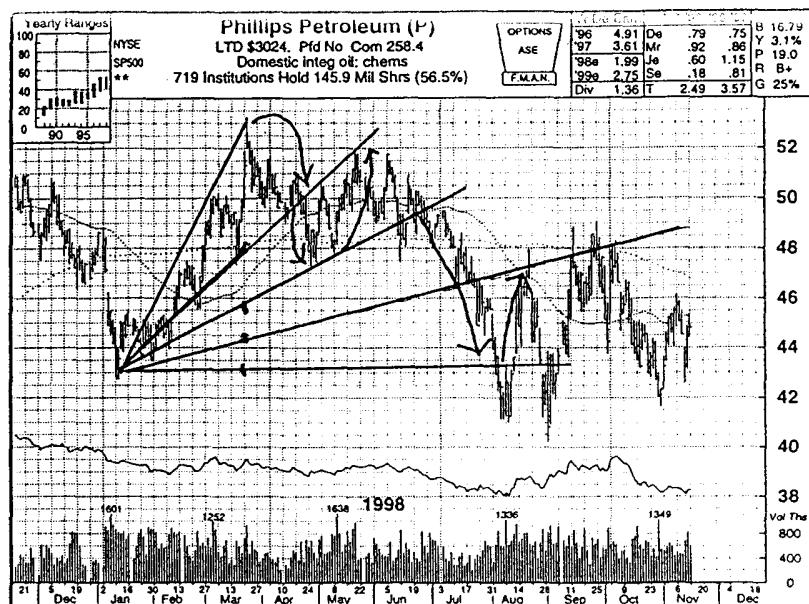
Chart 54



Charts #53 and #54 show what happens when prices break geometric angles and they go to the next angle. They usually bounce off that angle and rally back to the prior angle where they can be shorted for a decline back down. Remember, that when using these types of angles the steepest ones are the most powerful and show big price vertical moves for good trades. Weaker angles show less movement and usually indicate a coming change in trend.

Angles

Chart 55



The next rule in using geometric angles is that the emotionalism of an advance or decline doesn't change. Thus, if you apply an angle to a spike low, the first in a series of lows, and draw that angle going down, future spike lows will not go lower than that angle. Conversely, if you draw an angle going up from a spike high, a future spike high will top out on that same angle. These first two rules are seen on the following charts.

We see a 45-degree angle in Chart #56 going up from the first spike high in a new impulse wave and which will limit and define the extent of the coming move. In Chart #57 we see the downward spike angle defining the extremes of emotionalism found during selling panics.

Angles

Chart 56

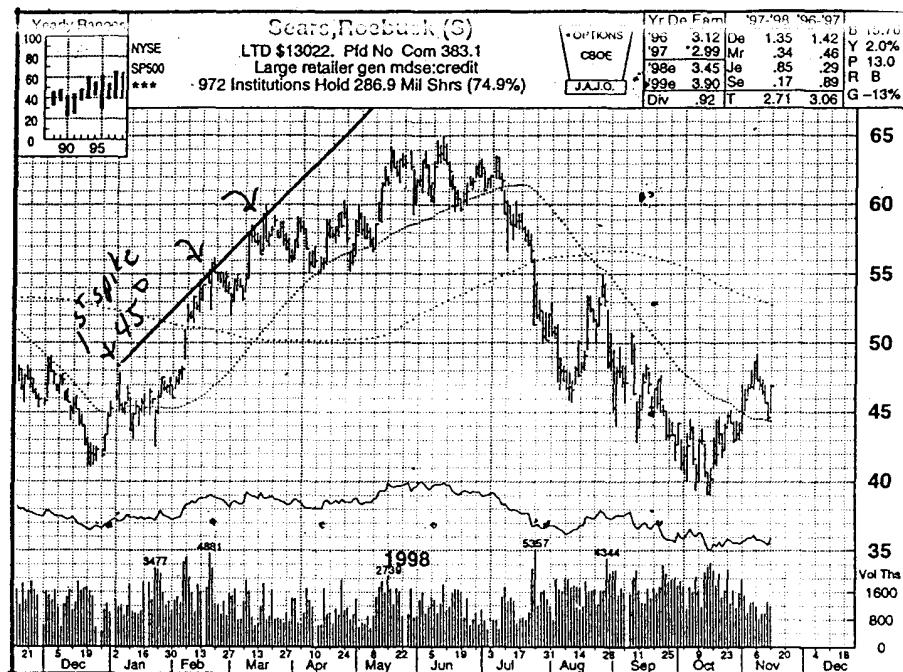
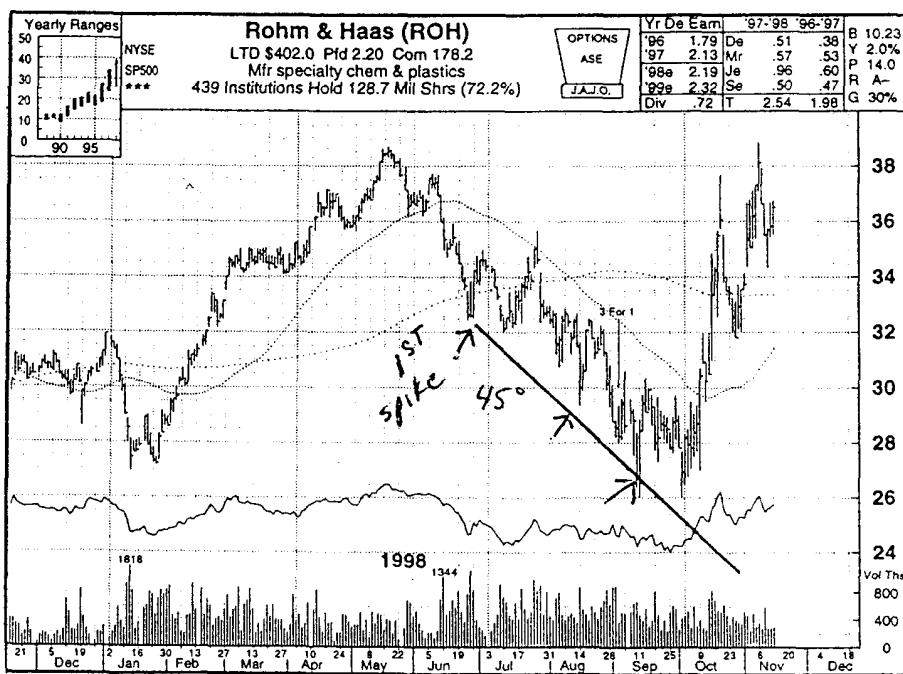


Chart 57

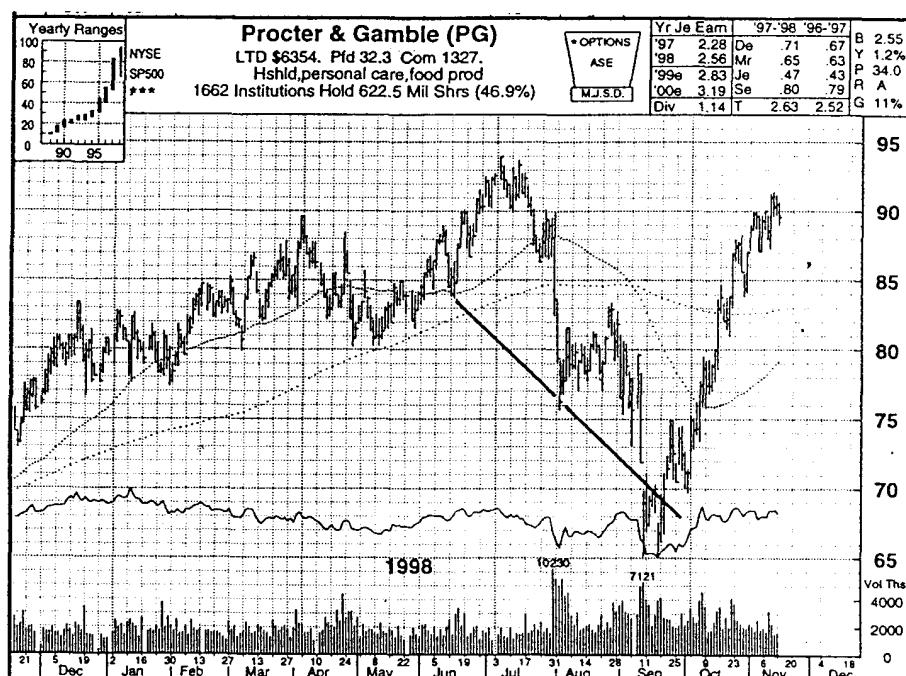


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Angles

Chart #58 is the same technique that defines a downward emotional extreme, but note that it starts from the last major low *before* the top price, as compared with the former chart that draws the angle after the first couple of lows are defined. Actually, this kind of angle from the last major low before the final top is more common, so you should always try it first. Finding the right angle is the key. Usually a 45-degree angle will do, but in very strong collapses a 4x1, 8x1, or 30 degree will often show up. The rule is simply that emotional intensity doesn't change over time, so if we measure it at one point with an angle, it won't deviate from that angle at the next point.

Chart 58



The last principle states that different angles can be used to forecast price target areas. This last idea is what we started the section with, the Pythagorean idea that the lift in the angle describing stock prices would indicate when the move would exhaust itself.

Angles

The technique utilizes two differing angles from different tops or bottoms, and when they cross in the future the price will terminate at that intersection. These ideas are demonstrated in Charts #59 and #60.

Chart 59

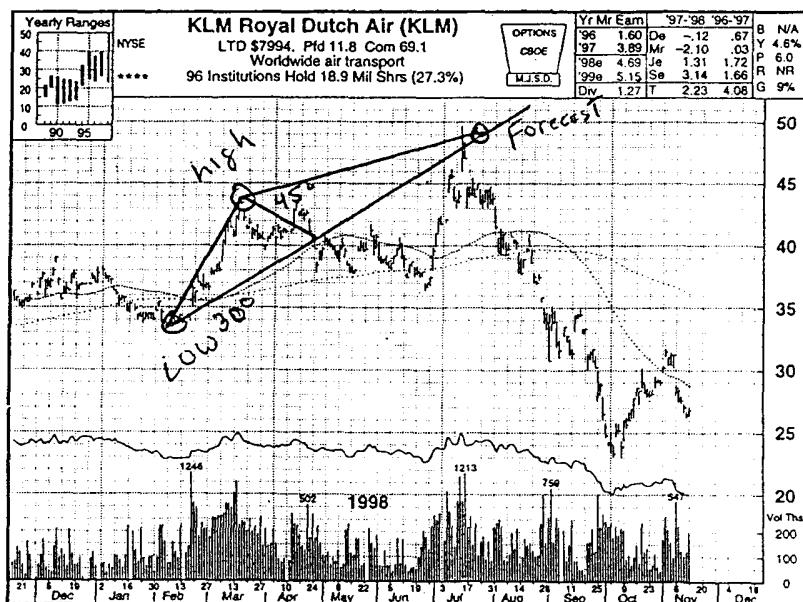
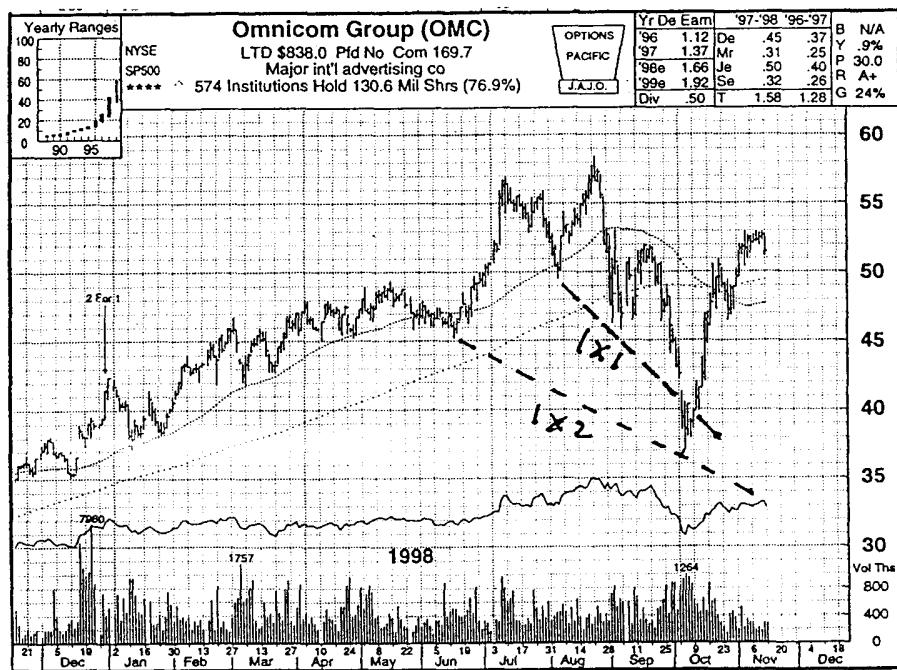


Chart 60



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Angles

Most angle methods are really a form of triangulation and the target area is defined by the intersection of the two differing angles. Gann angles such as 1x2, and 2x1 are often used as are 30 degree, 45, and 60-degree crossovers, but I find that axis adjusted 90 and 45-

Chart 61

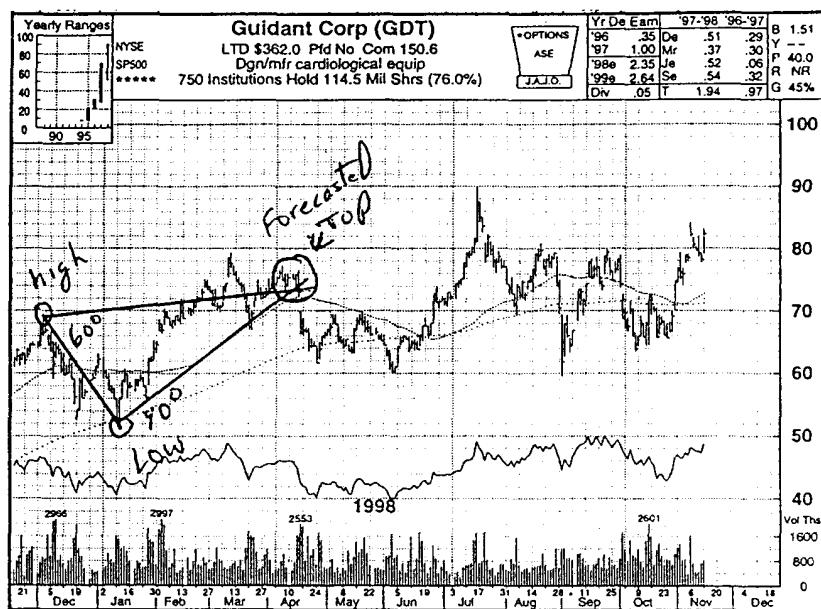
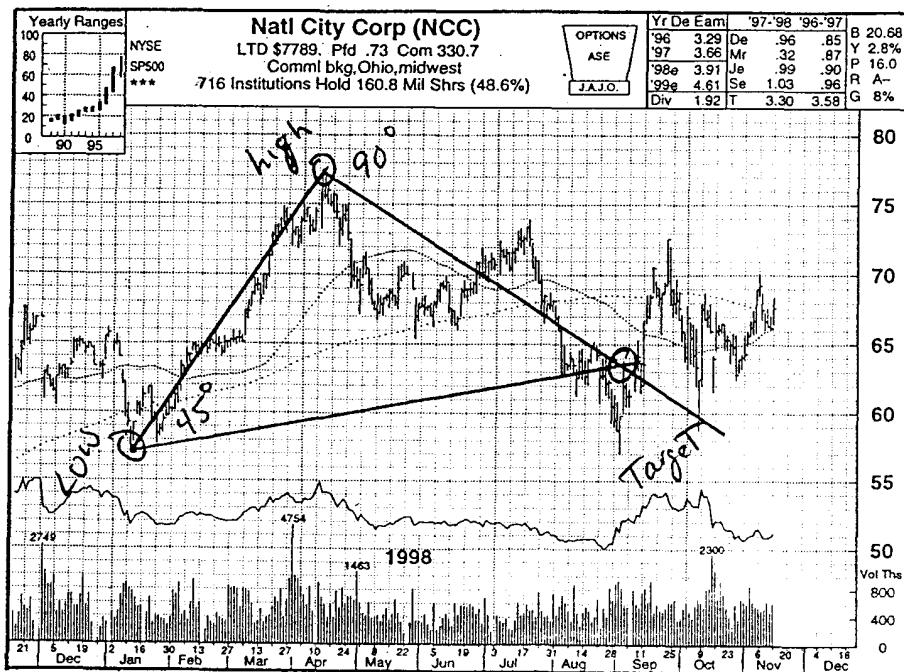


Chart 62



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Angles

degree triangulations work the best. You start by drawing a straight-line axis from a major low to high, or high to low, and that will be the side of the triangle. Standard angles like 90, 45, 30, and 60 are usually then applied to find the appropriate target. Gann's 1x1, 2x1 and 4x1 angles can also be used. Sometimes, however, you need to continue a second triangle to get to the final resolution (see Chart #60). Here again, other techniques are used in combination such as past cycle patterns, measured moves and just plain common sense. When the forecast is right there are usually several ways of doing the projection that all point to the same answer, so don't give up until you've found at least a few of them.

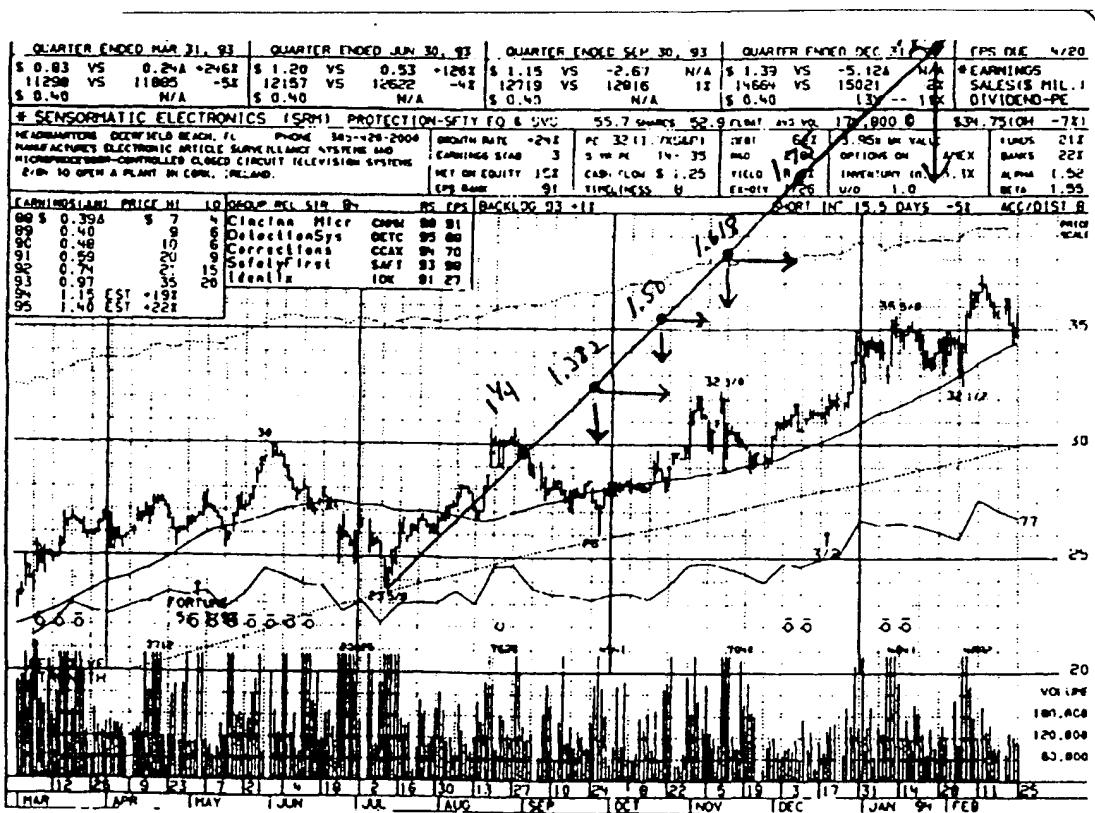
Although Charts #61 and #62 may look like the projection is made well into the move, as you study cycles you will learn that past cycles repeat similar price patterns. When you make these kinds of projections you will usually already have a prior pattern to work with that shows an advance or decline of "x" percentage over so many weeks. It is then a simple task to find an appropriate angle that gives the approximate same results and use that for the forecast.

On the following pages are some additional charts to study for using angles to determine cycle changes and price forecasts.

Angles

Chart #63 is an example of a timing angle going up from a low of \$23 5/8, and as the angle intersects harmonics of that price, such as 1 1/4, 1.382, 1 1/2, 1.618, 1 3/4 etc., we see trend changes at that moment in time but we also find horizontal support and resistance levels. This clearly shows that all points are harmonically related.

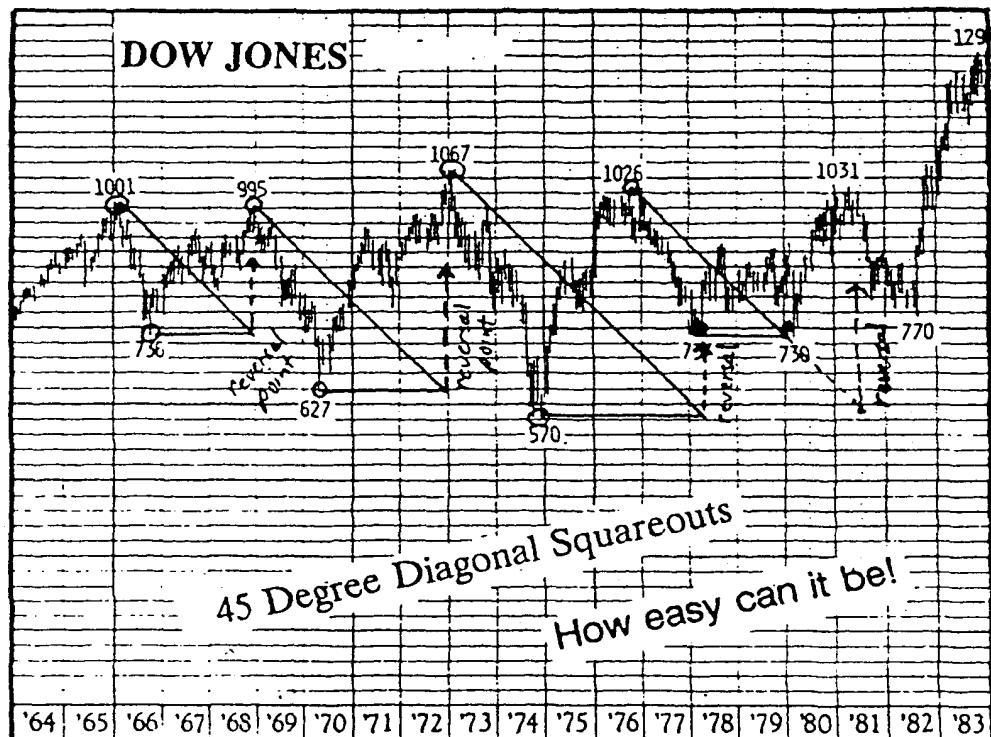
Chart 63



Angles

Chart #64 is a monthly chart showing a simple 45-degree trendline squaring out a top with a prior bottom and at that point another high or low is created. Since the scale of the chart is so large (monthly), the changes in trend are significant and the squareouts only occur every several years.

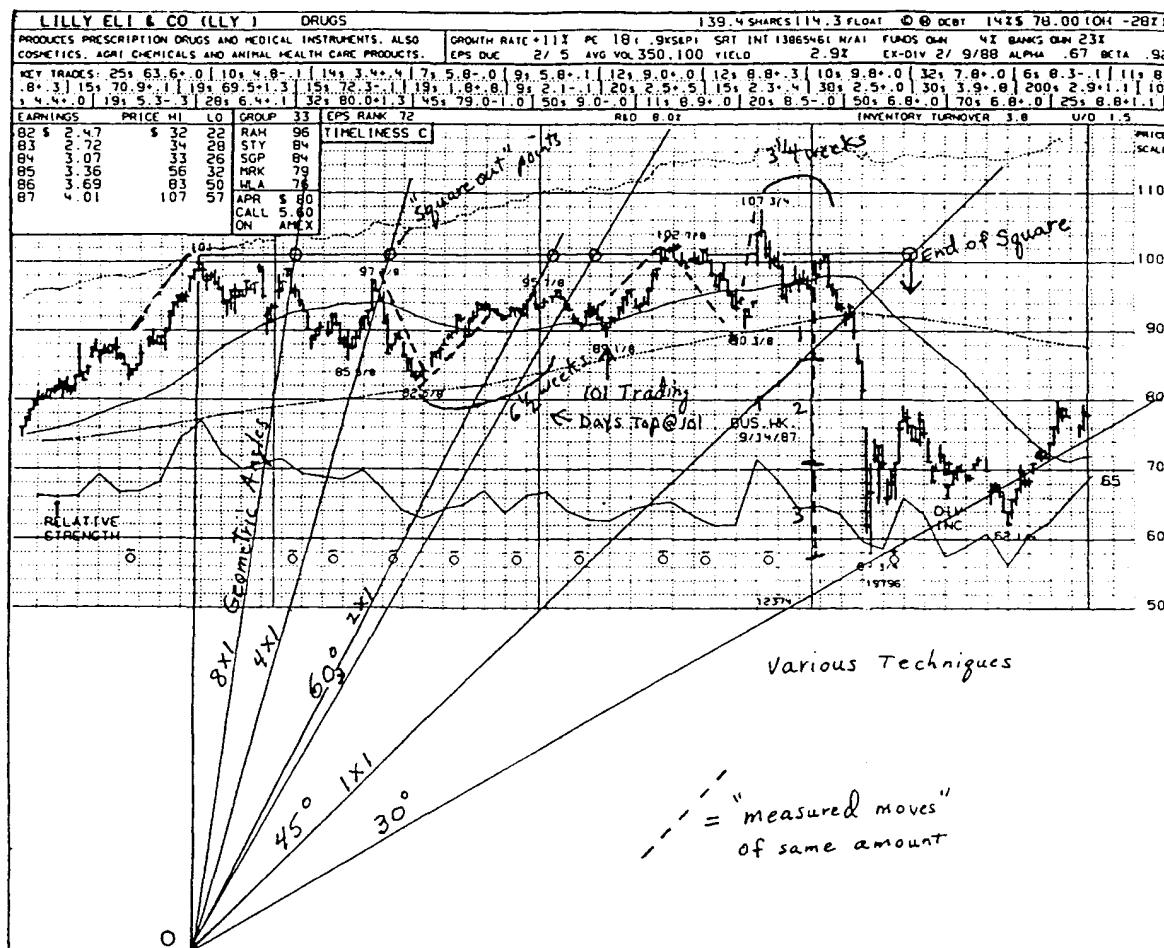
Chart 64



Angles

Chart #65 shows geometric angles coming up from zero intersecting the first high, along with some other techniques.

Chart 65



Angles

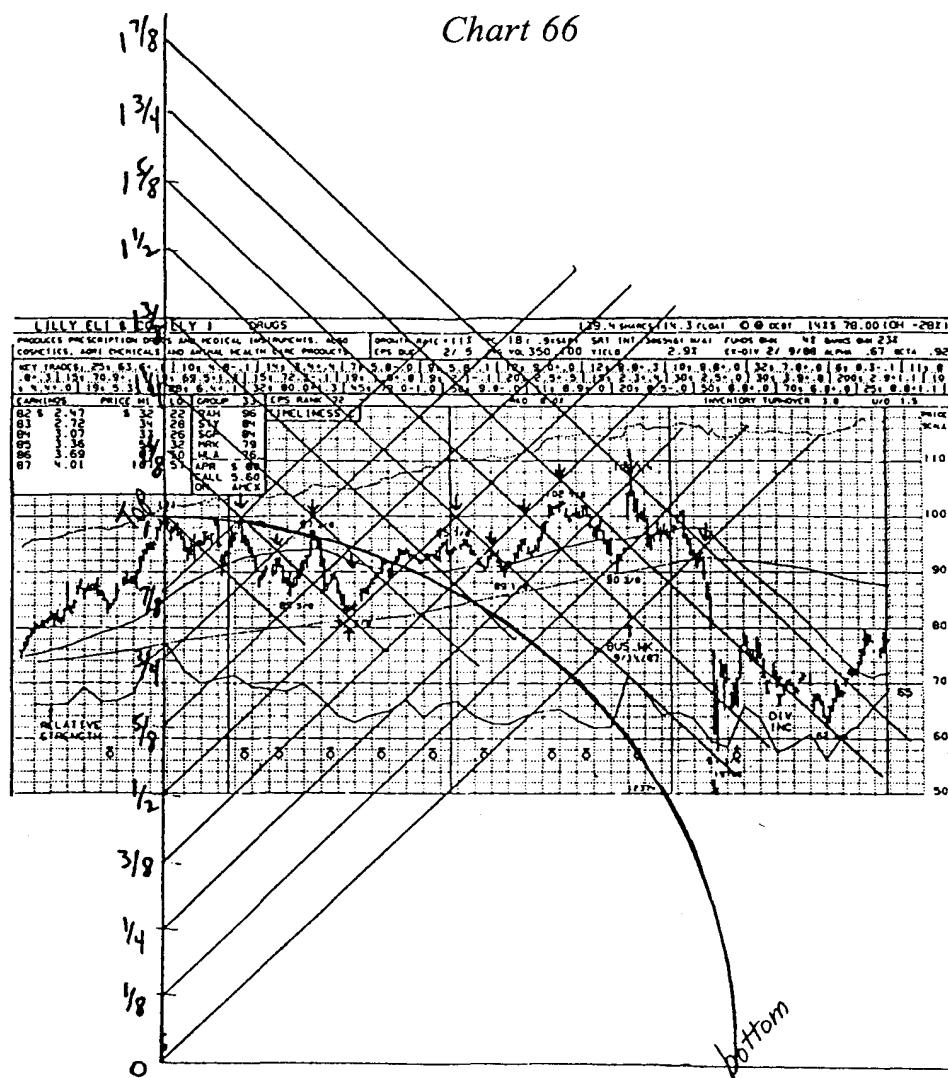
SECRET OF FRACTIONAL HARMONIC TRENDLINES

(Gann's secret of why Time and Price are the same thing!)

This chart clearly demonstrates better than words the helplessness of the human condition and why people lose in the markets – reality is completely different than perceptions – i.e. news items, brokerage recommendations, etc. have no bearing on stock price movement.

See how the top near \$100 spins out support and resistance angles at 1/8 increments. The intersections of these angles (down and up) give rise to all reversals in the price pattern and cannot possibly be related to random news or recommendations.

Human beings are controlled by mathematical cyclic emotional behavior – not rational choices!



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Angles

We see in Charts #67 and #68 the traditional use of "Gann Angles" timing lines of so many points per day, week, or month. They keep track of the one to one correspondence between any high or low and the passage of time. When the price hits these angles, changes in trend usually occur, but they also usually require a time cycle coming out, or a planetary event at the time the price hits the angle. These are very good for long-term charts over several months, so that you can clearly see the true long-term trend.

Chart 67

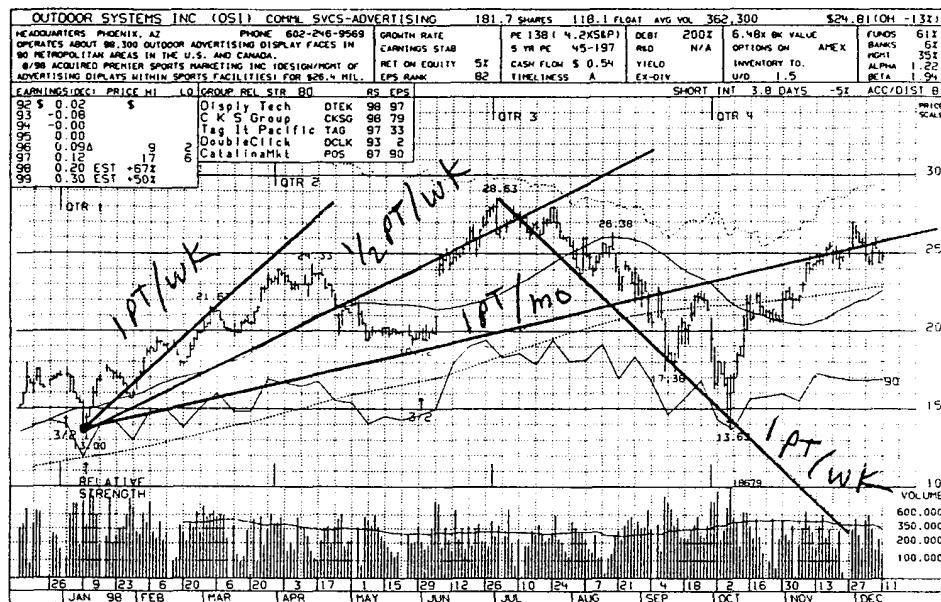
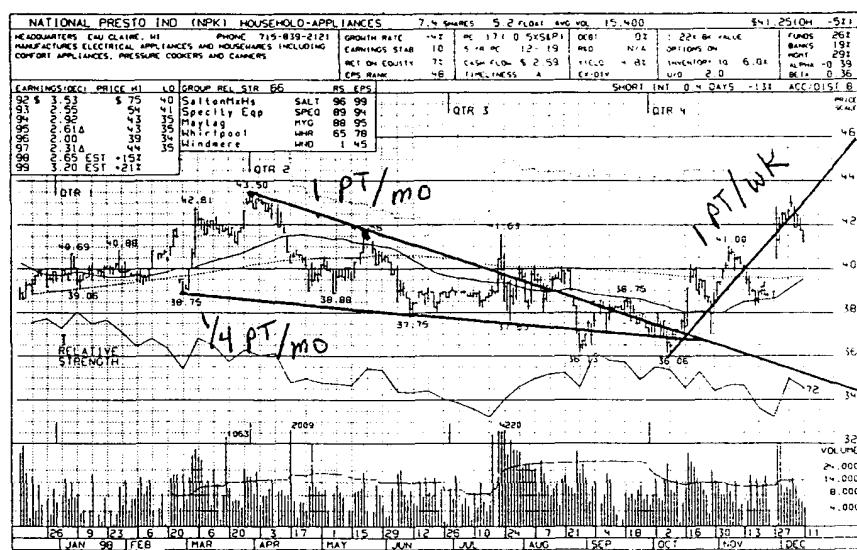


Chart 68



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Chapter 7

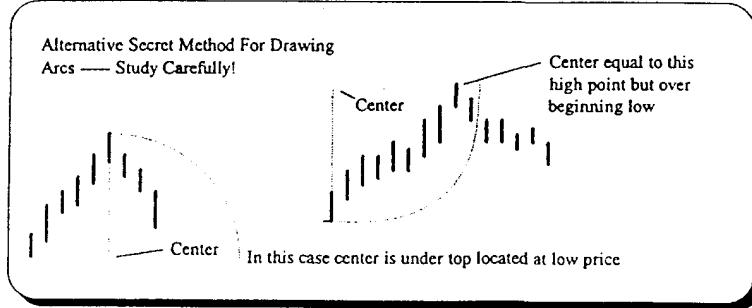
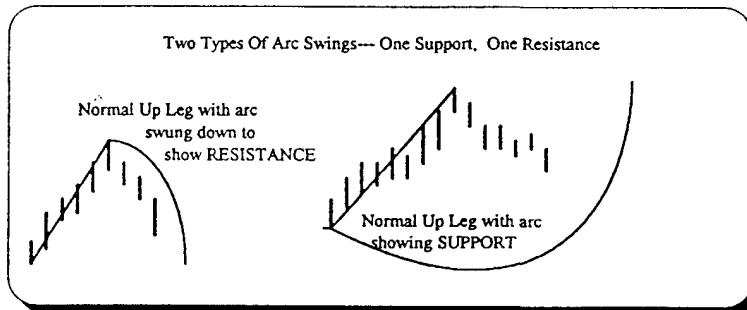
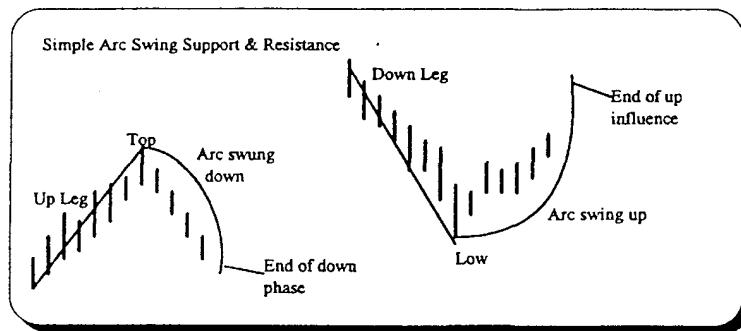
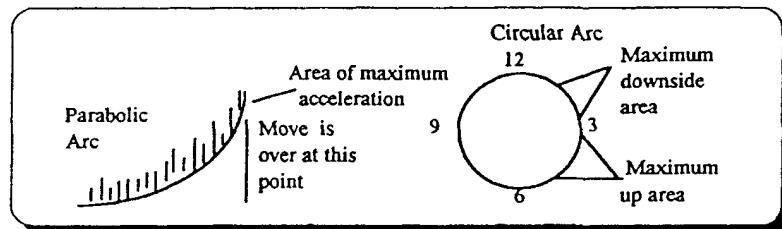
ARCS

Angles are straight lines, like trendlines and timing lines, that help us keep track of time passage and price movement. They are like moving averages, but they are constant. Arcs are like trendlines, but are circular and *describe rates of change* that are increasing or diminishing. Parabolas are types of arcs as are various semi-circles and even full circles, and all of these can help us better analyze stock prices and time cyclic change. If you remember the last section on angles, you will recall that angles down to the zero price level represent culminations, or full squareouts of a price. They are used to keep track of the time and price movement since that high or low last occurred. Circular arcs do the same thing with more precision and can give us more information. An arc is nothing but a radius from a low to a high that is swung down forming a semi-circle. If a stock hits a high and goes down, we can draw a trendline down off that high and see if the price hits it, or wait for the line to get to zero. An arc can visually show us at each and every instant how the downward influence is being manifested and how much more time to a low. Arcs are the only method that can virtually guarantee that a time period will be a high or a low. Forecasting turns through squareouts and zero angles is easy, but only arcs will predict the outcome of a squareout. Arcs describe the human emotions of greed and fear through a visual medium. As an arc falls from a high to maximum straight down, all selling that will be done is being done. The acceleration of the decline along an arc is too powerful for people to resist and fear forces them to sell. Similarly when prices start to rise, they creep

Arcs

at first, and then later move more quickly, until at the last phase there is an acceleration so strong that anyone who wants to invest will be forced in and will be invested. The areas of maximum fear and greed are the vertical portions of the arc's semi-circle and this can be

Figure 3



Arcs

represented as sections on a clock. The downward cycle takes place from 12 to 3, while the upward would be backwards from 6 back up to 3 as shown in Figure #3. These areas, or sections, of each arc demonstrate increasing rates of acceleration, and when the vertical section is hit, maximum participation is assured. The real beauty of arcs, however, is that they predict highs and lows with very reliable probabilities. An arc crashing down will result in a low when it goes maximum vertical, and an arc going up will produce a high as it maxes out.

The previous are simple representations of arc influences on most price charts. The technique is to take a compass and putting the point on the low, swing an arc down from the high. This will give the downward influence and the expected time it will take to make the next low. As the arc goes vertical down prices will drop quickly. If the arc is interrupted, the stock is too strong for any kind of correction and will go higher. For the up arc put the compass point on the high and swing the arc up from the low. This creates an arc providing support and tells us that when the arc goes maximum vertical, a top will be reached. If the arc is penetrated to the downside then the stock is very weak and a new lower low is expected. Remember that in using any technique we want to verify the change in trend, so that if an arc goes maximum, predicting a high or low, we wait to see the signal reversal bar to get the technical buy or sell before we trade. It's also better if a time cycle count has come out, a trendline coincides with the arc, or a known support or resistance point is reached at the same time the arc maxes out.

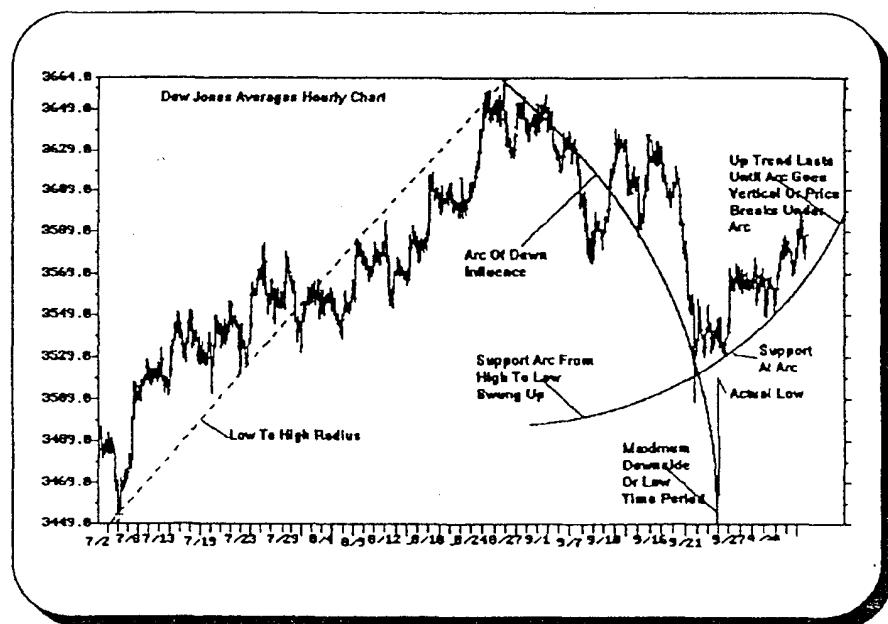
If you remember our theory that each and every point on a trendline is in proportion to a prior high or low and the passage of time, you will understand why arcs work. For instance, most technicians would look at a drop of \$10 in a stock and assume that a rally back to half of that, or \$5, would meet resistance at the midpoint. The fallacy here is that the midpoint is half the price, but it says nothing about time, and we know from our squareout theory that both time and price are the same thing. In other words, a stock can

Arcs

go from \$50 to \$100 for a double and meet heavy resistance, but what about a stock that goes from \$50 to \$60 but takes several months to do it? Is not the time element somehow connected with resistance? If a stock goes up along a 45-degree angle, what about a stock that goes up along a 15-degree angle?

What circular arcs do is equalize the time factor into circular measure so that at any time and price placement on the circle there is equilibrium. When the price hits an arc, whether it's up \$10 in three days, or it's up \$5 in six days, resistance is achieved. The main point is a subtle one so study it closely. If a stock rises along an arc and then breaks below it, at that very point which may be several dollars up from the actual low, the price is effectively at a new low, lower than the original one! At first this doesn't make sense, but if you understand that the arc is a radius, and that radius was stretched from the high to the low and swung up, then if that radius is exceeded (by breaking under the arc), time and

Chart 69



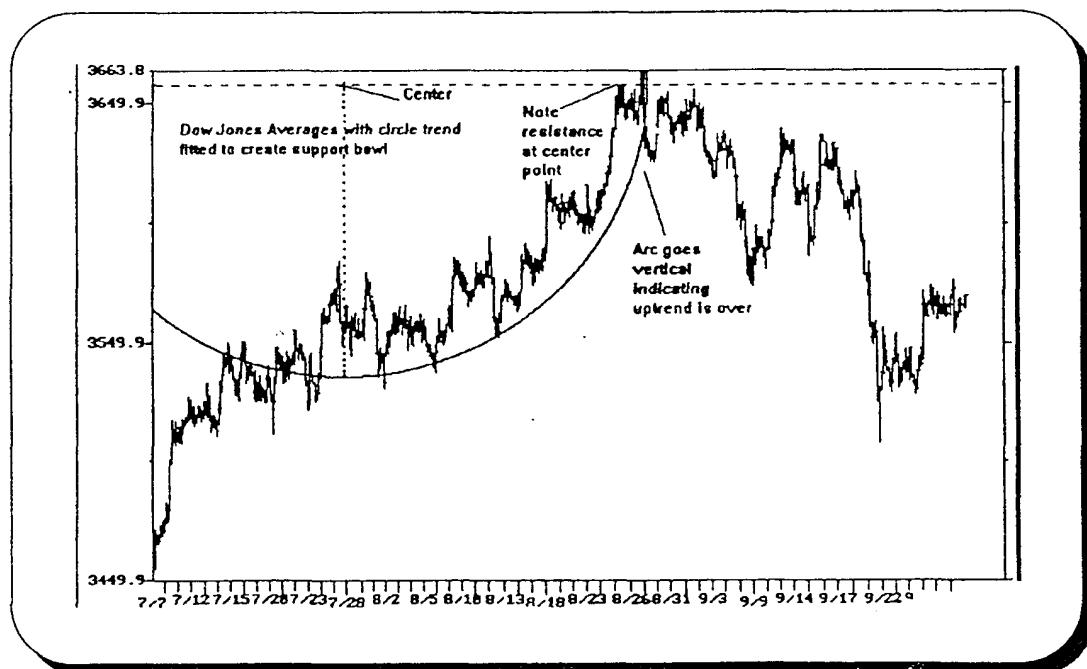
Arcs

price movement has exceeded what it was at the actual low. The powerful implication is at that point which may be well above the actual low, we have conclusive evidence the stock is weak enough to break its time and price vector from the actual low and this implies a new low below the old just ahead! Some examples will help.

In Chart #69, the arc was swung down from a high to pinpoint the low, and then an arc was swung up from that low to show support and pinpoint a possible future top.

Chart #70 shows a trend fitted arc as opposed to a swing, but it still defines the top perfectly. Sometimes you have to trend fit arcs on long term charts to find where the origin actually is placed, but as long as the trend fitted arc hits the arc at three to five points, it will usually work. Chart #70 also shows that the "gravity center" or center of a big circle

Chart 70



that the arc is a portion of, is the place where maximum resistance is found in terms of price. If a price exceeds the center point then it usually goes the full radius distance above that center.

Arcs

Chart #71 shows the typical support arc drawn from a high to the low and this gives us guidance during the intimidating initial rally after a big drop. The arc shows us exactly where support is and where the top is due. A break of the arc first would mean the downtrend has resumed.

In Chart #72 we see the down arc with the predicted climax low. Here, as in many violent plunges, the arc tells us when to cover shorts, but actually going long may require some common sense and momentum considerations as many "busted" stocks need time to

Chart 71

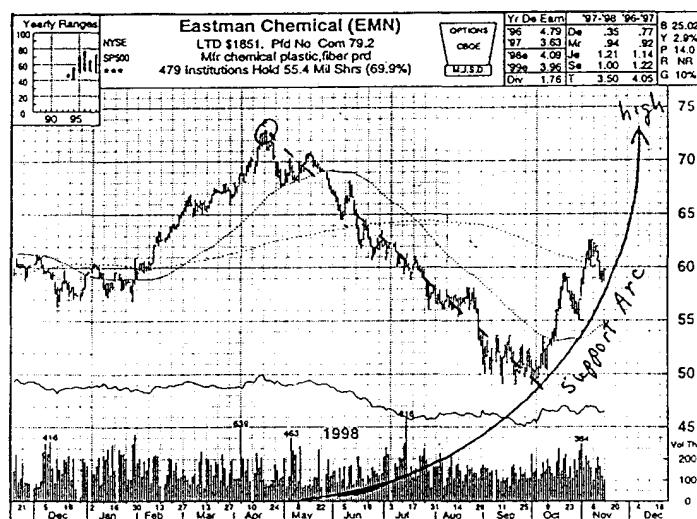
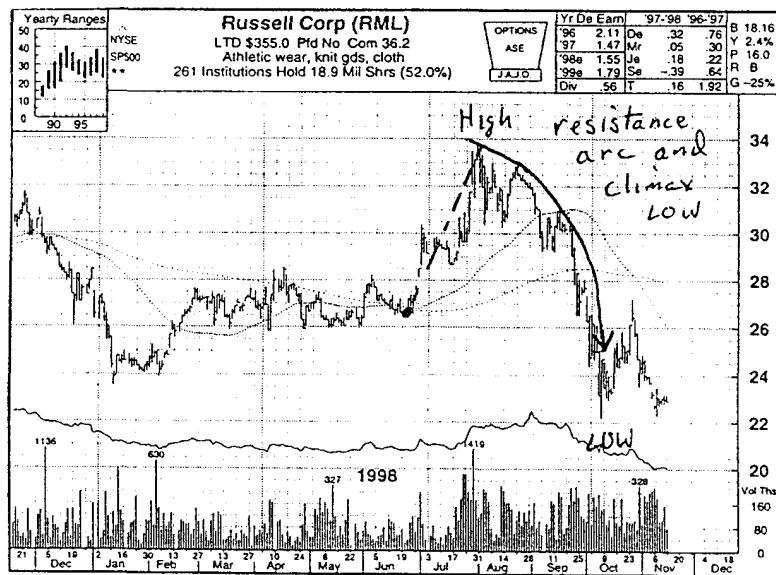


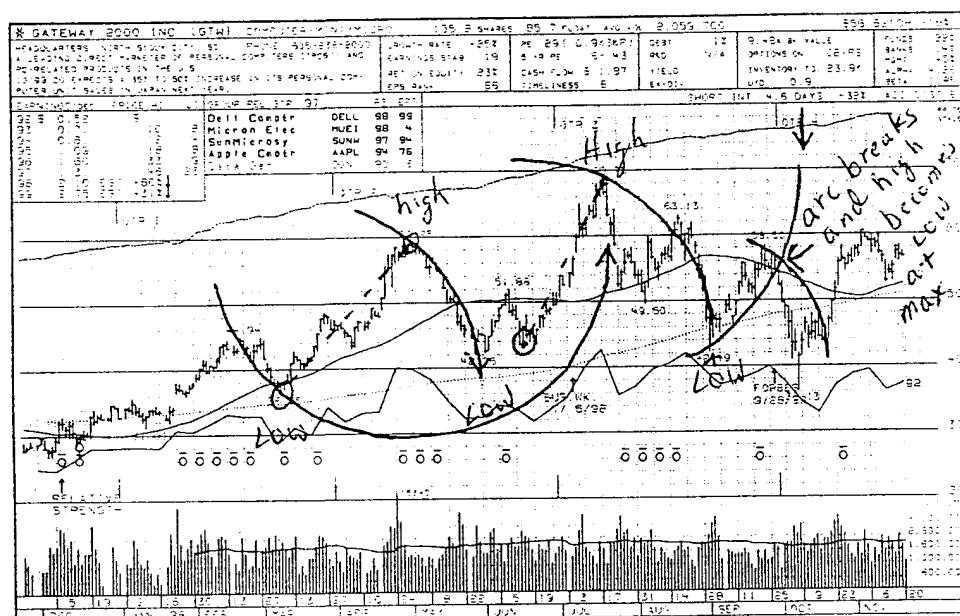
Chart 72



form bases, or test multiple bottoms. Support arcs can be drawn, but if there's no real upside momentum after a predicted low, it usually means a basing period and you would go to some other stock to trade for a while.

In the Gateway chart, Chart #73, we see many arcs and they all worked pretty well as to timing lows and highs and providing support or resistance. Note that on the arc from the big high, prices quickly fell then rallied only to stop dead at the downward sloping arc and then follow it down into the low. Arcs are usually good places to place stop orders for shorts or longs and just raise or lower your stop as you move along the arc up until the climax, when you exit the market.

Chart 73



One of the greatest discoveries I have ever made was to notice that by using circular arcs you could see all the time and price equilibrium points for a stock. If at each point on a circle connecting a low to high swing, time and price are equal, then the sides and

Arcs

tops of arcs must show future support and resistance, even if that stock has never traded at those levels. Where the circle goes up or down maximally, you will find time resistance, or the ends of cycles generating changes. At the tops and bottoms of circles you will find price support and resistance. The circles can be drawn from the midpoints of a low to high swing as these next charts show, or they can be drawn from a low to high. In any event, the vertical sections of a circle show maximum momentum culminations and changes in trend,

Chart 74

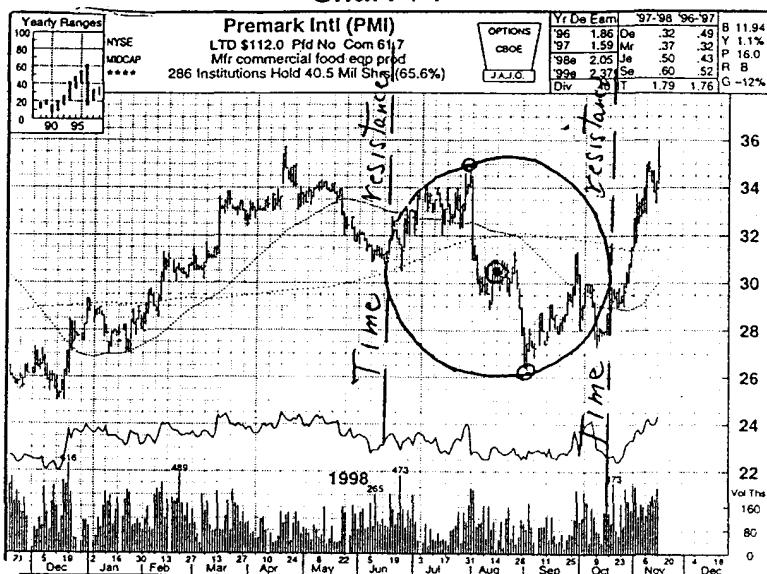
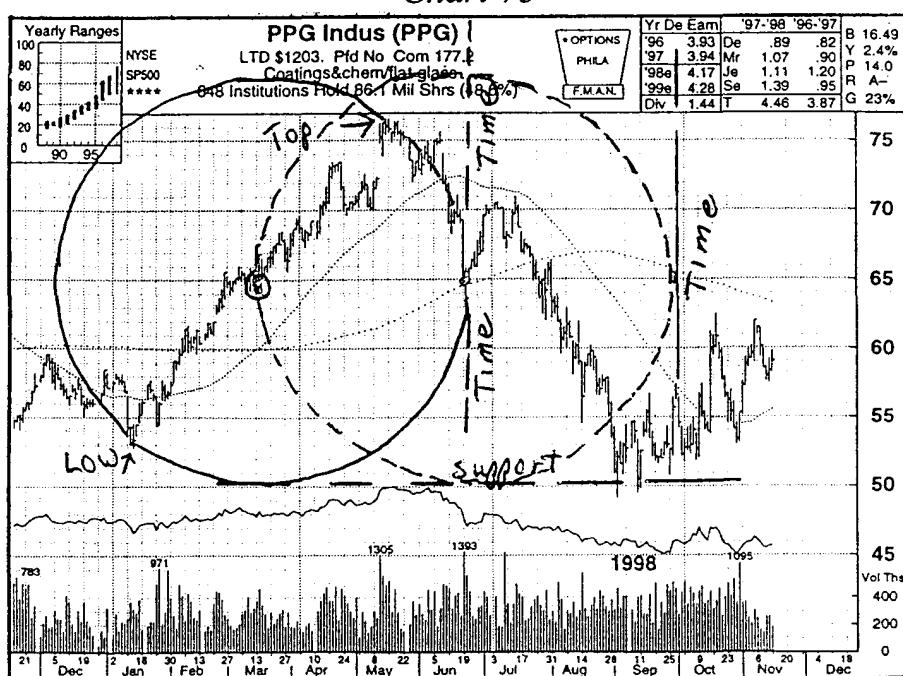


Chart 75



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while the top and bottoms of circles show future support and resistance. Keep in mind that circles can be stacked up one upon another or sideways as a stock moves out of range. On my hourly charts I have successfully extended circles on Dow Jones swings into the future and they are accurate within an hour or two of the turn, or within 10 points of the high or low!

Time cycle culmination where the arcs went vertical is demonstrated in Charts #74 and #75. At those points the stock changed direction. Chart #75 shows two circles overlapping by extending the first circle radius to the "3 o'clock" point and drawing a second circle. Also note how the future low was exactly hit and forecasted by the higher first low.

Chart 76

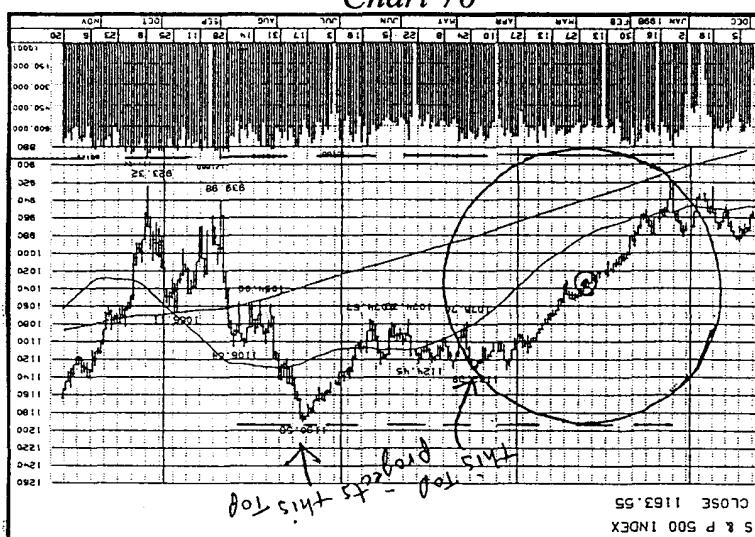
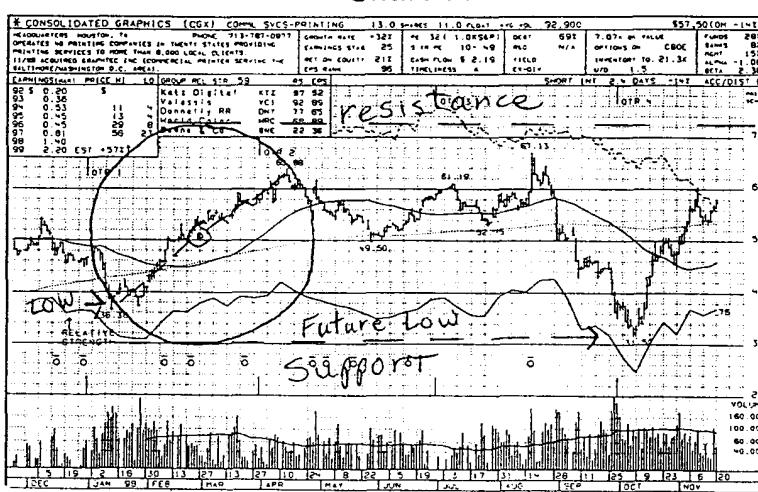


Chart 77



Charts #76 and #77 show tops of circles generating future support and resistance levels. Chart #76 is a daily chart of the S&P 500 and clearly shows how the low to first high circle accurately predicted the final high a few months later. Not only did it predict the high price, but the date too. This is not shown directly on this chart, but *if you draw in an overlapping circle in Chart #76, you'll see that the second circle went vertical at the high date and the top of the arc was the price!* You can't get any better than this. Prove it to yourself. Chart #77 shows the same technique, but forecasts a future bottom at an unforeseen level was generated from the first low.

In some ways, these circles resemble squares because we are using the "flat" tops and bottoms of the circle and the sides. The arcs show us direction and give us a better feel for the rate of climax than the drawing of a square would do. The real beauty of arcs, however, is shown in the next few charts where I reveal one of my greatest discoveries. This is a universal way to convert any chart to get exact time and price correspondences, and it can only be done with arcs. To appreciate this we must first look at the traditional way technicians measure prices, by measuring from a low to a high. They take the actual high or low number and take ranges, or expand the prices by multiples and fractions to get harmonics of the prices. Gann students take a similar approach. They draw a box around the high or low to make the square of time and price. From what we have just demonstrated, however, this is clearly wrong. By just using the actual price you only take into consideration the price element, not the time, and we know that both time and price are always in equilibrium. In order to draw a true square we must adjust the price on the chart for the time component. The prior arcs show this since they generate future highs and lows at levels not associated directly with prices, but from arcs drawn around prices. Chart #78 shows the traditional, often successful, box. Chart #79 shows the box enlarged by the arc and swung from the high back up to the arc's top where the square is made. Not

Arcs

only does it forecast a future high, but the end of the box now shows cycle turns accurately.

Chart 78

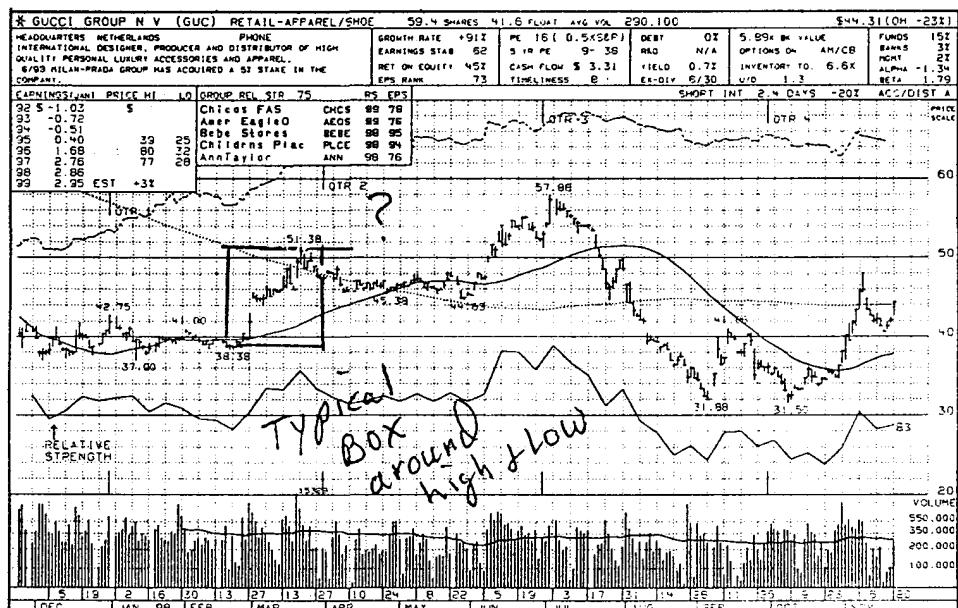
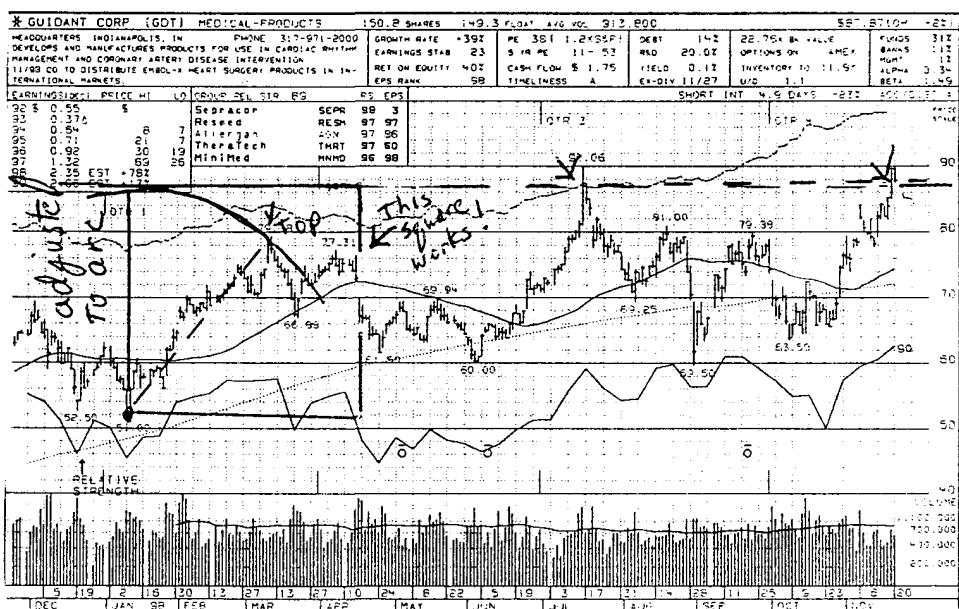


Chart 79



Arcs

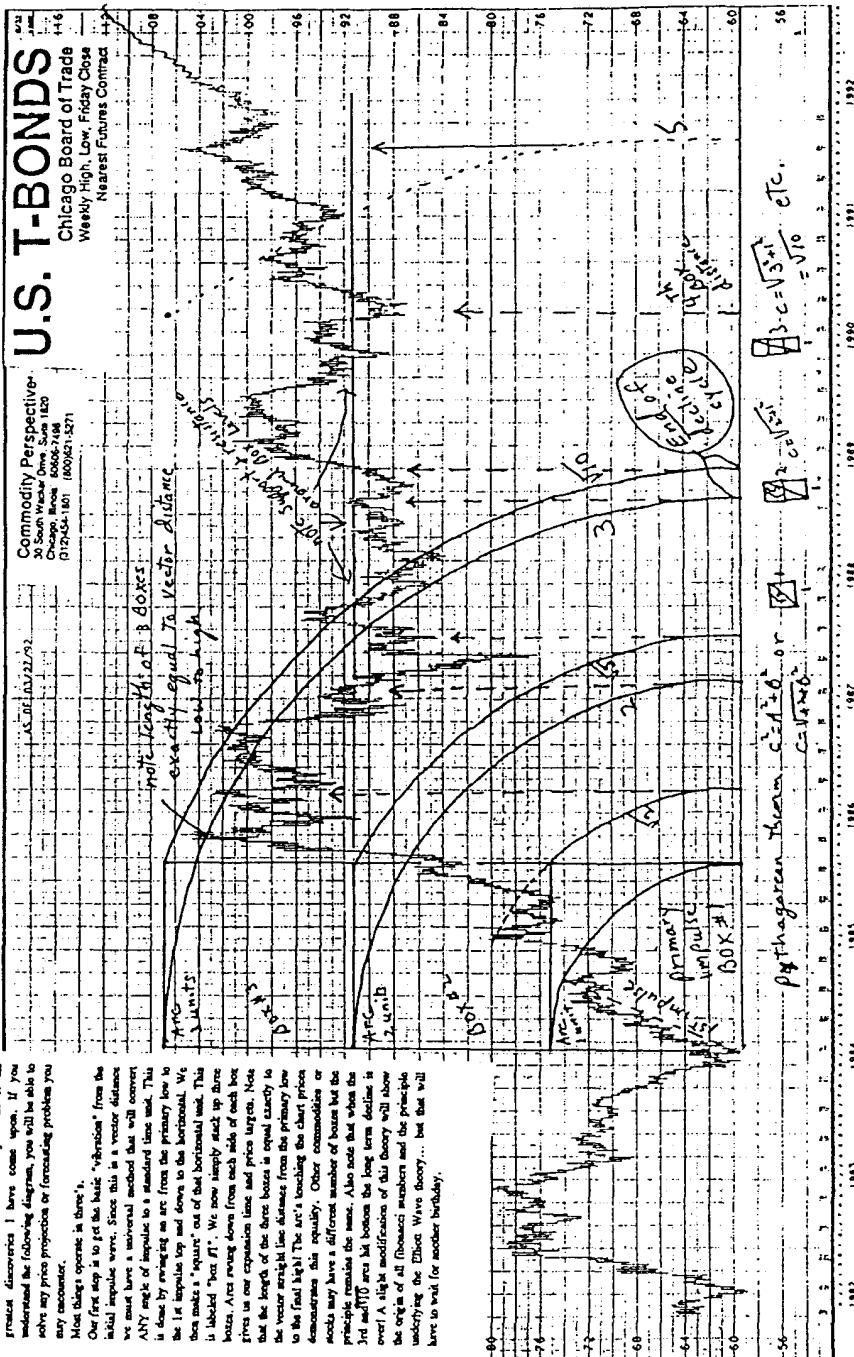
Stacking these “adjusted” boxes works very well. An elaborate example on bonds is shown in Chart #80. Remember this is from the *initial impulse wave up*. Everything else grows from that.

**Reprinted from Mr. Jenkins' Newsletter,
Stock Cycles Forecast
Volume 8, Issue 15 dated March 11, 1993
Chart 80**

**Trader's Tip -"Simple
Geometry"**

I have been fortunate enough in my life to have been born with the special visual faculty to “see” geometric shapes in nature and thereby get a glimpse of the divine movements of W.H.L. in action. On the occasion of my 40th birthday and the birth of my son this week, I wish to share with you one of the greatest discoveries I have come upon. If you understand the following diagram, you will be able to achieve any price projection or forecasting problem you may encounter. Note that it operates in three dimensions.

Our first step is to get the basic “vector” from the initial impulse wave. Since this is a vector distance we must have a universal method that will convert ANY angle of impulse to a standard time unit. This is done by projecting an arc from the primary low to the 1st impulse top and down to the horizontal. We then make a “square” out of that horizontal line. This is labeled “vect RT”. We now simply stack up three boxes. Arcs owing down from each side of each box gives us our expansion line and price targets. Note that the length of the three boxes is equal exactly to the vector straight line distance from the primary low to the first high! The arc’s connecting the chart price encompasses this equality. Other commodities or stocks may have a different number of boxes but the principle remains the same. Also note that when the 3rd and 4th are hit bottom and long term decline is over a slight modification of our theory will allow us to use all Fibonacci numbers and the principles underlying the Elliott Wave theory... but that will have to wait for another birthday.



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Arcs

Chart 81

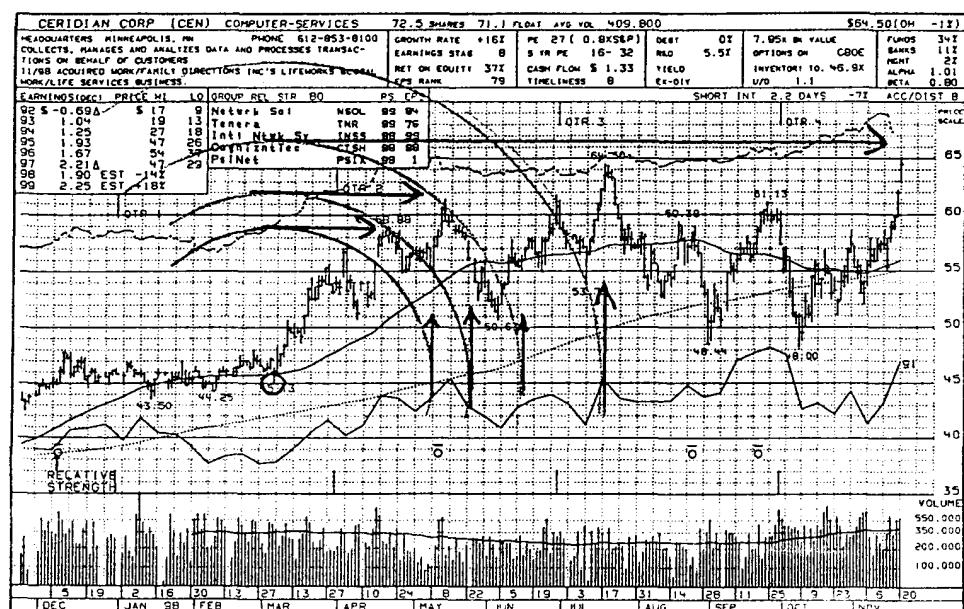
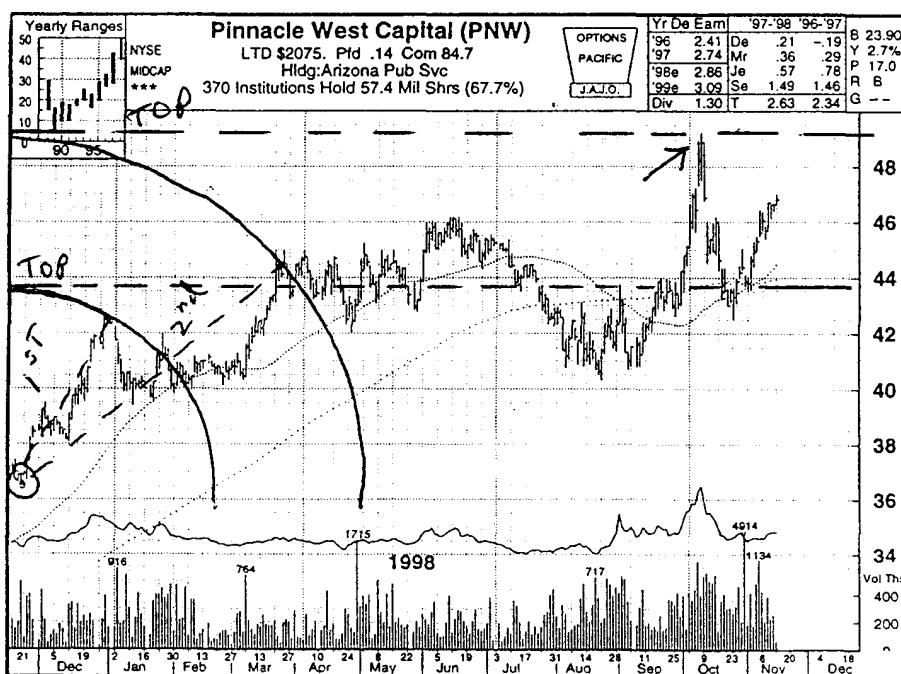
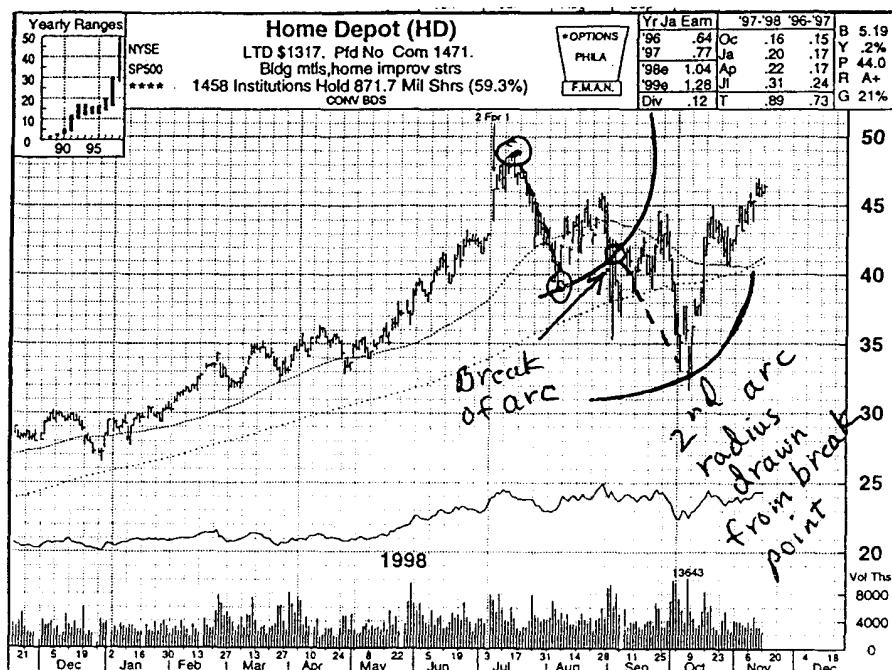


Chart 82



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Chart 83



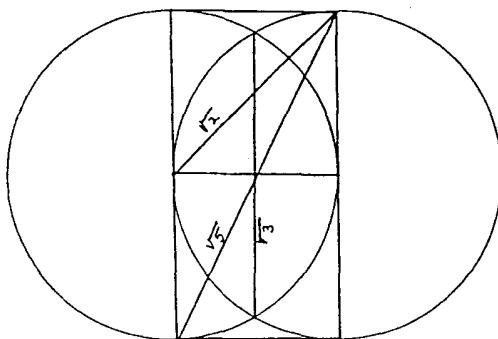
There are three examples of arc techniques in Charts #81, #82, and #83. Chart #81 shows multiple arcs drawn from successive price highs and downs, showing both climax low areas, and future resistance and support levels at the tops of the arc circles. Chart #82 is the same, whereas in Chart #83, we see how a second arc can be drawn at the violation point of a first arc to get the next area of support. This is an adaptation of the measured move idea, but in circular time and price terms.

The pattern in Figure #4 should become a common sight to you if you are a serious student. All numbers and proportions arise from the roots of 2, 3, and 5, and this simple drawing shows how to construct these ratios on any chart. The first step is to draw a circle and then move the compass to the 3 o'clock point and draw a second one intersecting the first. The vertical distance between the two circle intersecting points is the square root of

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three. If you now draw a horizontal line connecting the centers of the two circles you create two boxes and we know the diagonal of a square is the square root of two, and since we have two boxes stacked on top of one another we can see that a diagonal from

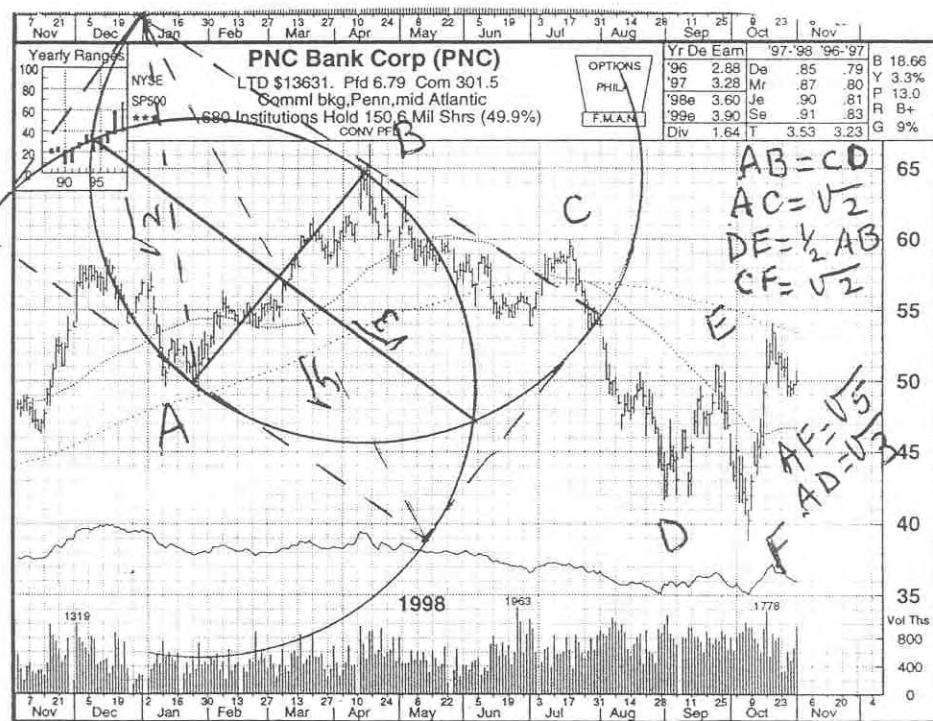
Figure 4



the bottom box up to the top box is the square root of five. From this simple structure we can now apply all kinds of measured moves to our charts relating to these sacred proportions. We first swing a circle around any major low to high or high to low to get our initial circle and then complete the diagram. We will then have these major chords in terms of our particular stock and we will find that all movements will be one or part of these numbers (like $\frac{1}{2}$).

Chart #84 starts with an arc swung about points AB. Two squares are then constructed to get our square root of 2 and 5 distances and the square root of 3 comes from the perpendicular to AB. Please take a compass or ruler and measure the vectors between ABCDEF in all directions and you will see how this works. All movements are precisely measured; there are no random fluctuations in this stock!

Chart 84



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If you want to trend fit an arc, here is the proper method. First you must pick three points on your chart that you believe fall on the arc as shown in Figure #5. Then you swing an arc with your compass around the first two of your three dots as in Figure #6. Without moving your compass length you now do the same with dots 2 and 3. Lines connecting these swings will intersect at the center of a circle as shown in Figures #7 and #8. You then move your compass to that center point, adjust it to the length of a dot, and draw the circle as in Figure #9.

Figure 5

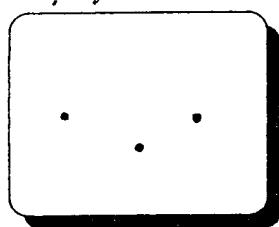


figure 6

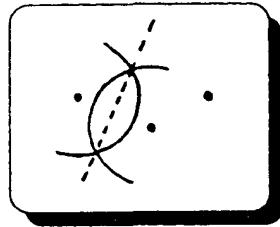


figure 7

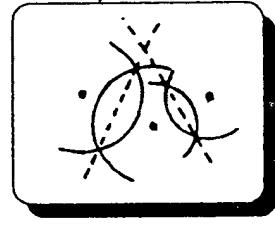


figure 8

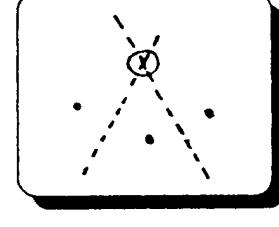


Figure 9

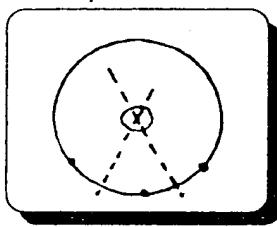
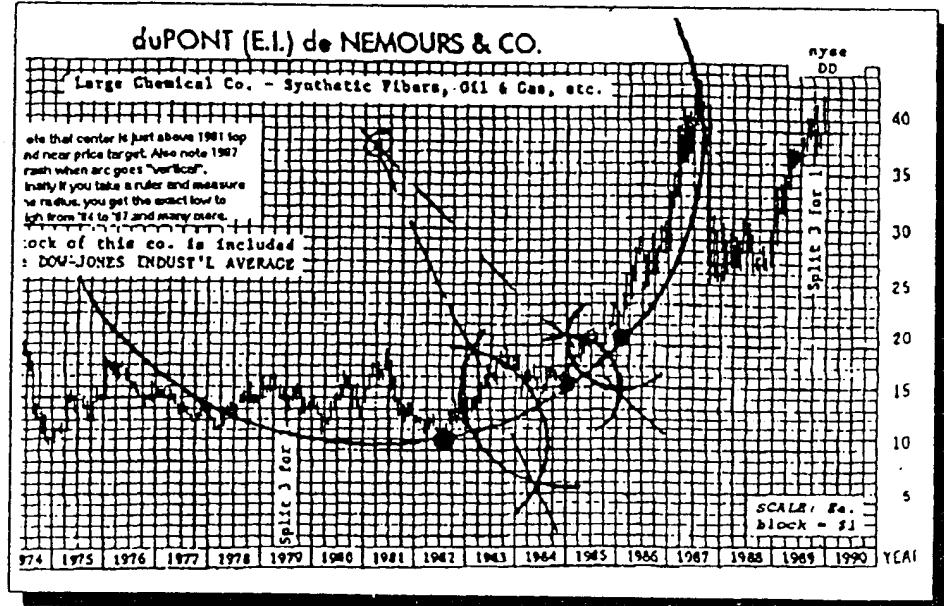
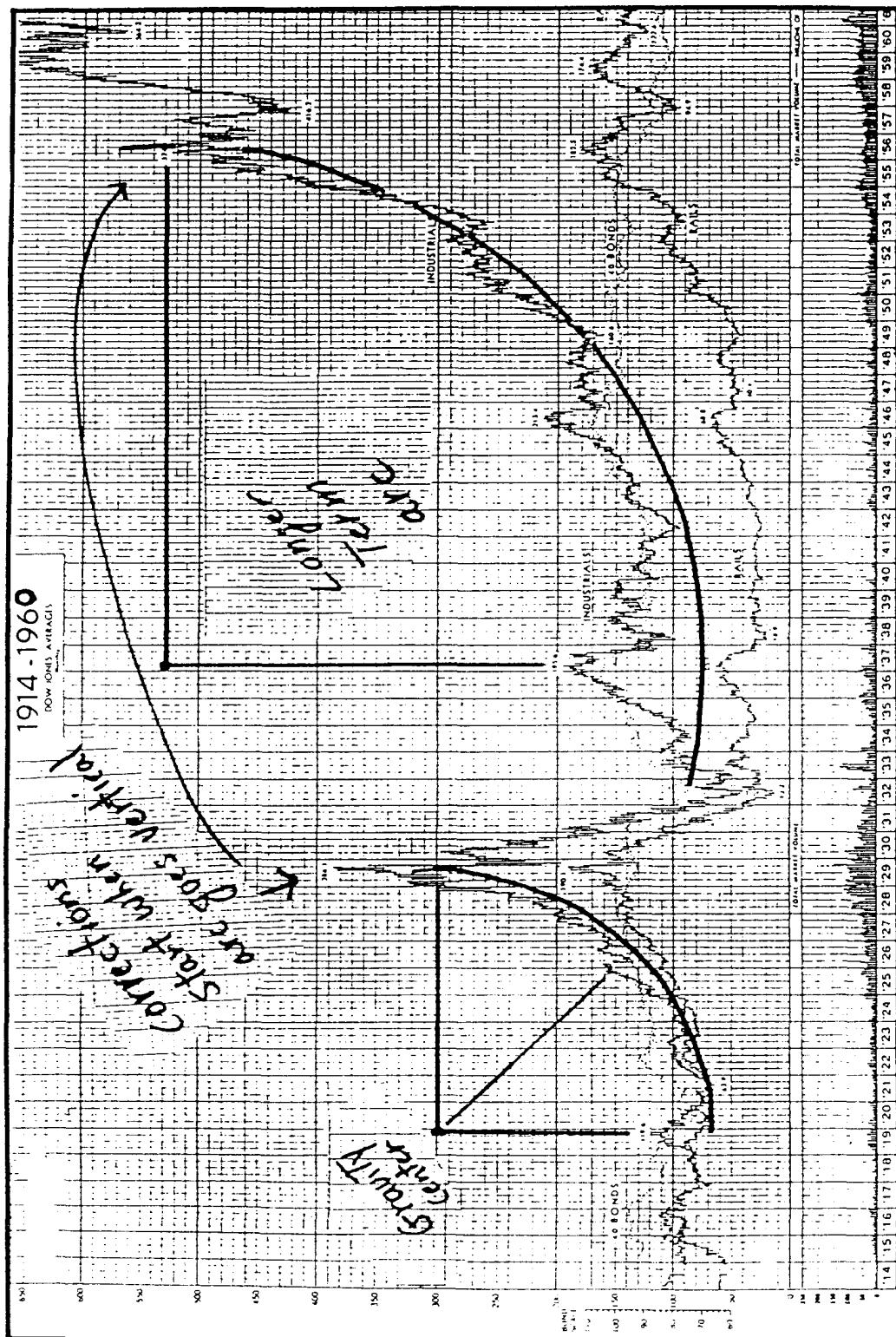


Chart 85



Arcs

Chart 86



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Chapter 8

SUPPORT AND RESISTANCE

When we trade stocks we need to know where to buy or sell them. Arcs, trendlines, and prior highs and lows tell us possible termination points, but we need more precise numbers to trade against. Proportions like one eighth, or one half, have always been used, but there are more universal systems available that apply to every kind of chart we may have to use.

The most basic is, of course, fractional harmonics of the price itself. Dividing the all-time high or low by eight has always produced good results and should be tried first. These incremental units in eighths are added to, or subtracted from, all swing highs and lows to project target zones. Eight is also used to divide time, for example, the 52 weeks in a year divided up into 6.5 week segments, which works very well for almost all stocks and market averages. A good forecast will encompass both a price target and time target, so that when we talk about resistance we will need to think about both time and price resistance. Any numbers we generate from circles, trendlines, or proportions can also be used as time elements, since time and price are interchangeable on a properly drawn chart.

The most basic number systems come from the universal truth that the circle is a fundamental principle and has 360 degrees. Three hundred sixty is one of the basic working numbers and subdivides into a number of other significant elements such as 36×10 , 72×5 , 12×30 , and 2.5×144 , to just mention a few found in all natural phenomena. To

Support & Resistance

handle any number we usually find its harmonics by dividing by 2 and 3. Since ancient times the circle was always divided into “trines” ($360/3=120$) and “squares” ($360/4=90$). Almost any number can then be generated from the basic building blocks of the circle divided by these fractions. The table in Figure #10 shows the basic divisions:

Figure 10

Each number is divided by 2 to get the next one.

$360/2=180$	$360/3=120$
90	60
45	30
22.5	15
11.25	7.5
5.63	3.75

These are the basic elements, but these are also additives, so that the complete number system would consist of each or any of these incremented by the other amounts in the table. To make it simple, note that 7.5 is 360 divided by 48, and many of these fractions like 15 add up to the 45, 90, 180 divisions by two, so that we can start with 7.5 and 11.25 as basic building blocks and then start adding. The table in Figure #11 shows the complete number harmonics of 7.5 and 11.25 up to 150 and active traders will note that these numbers are quite familiar since the vast majority of stocks trade around these levels every day. You may want to copy this chart and have it handy for your day trading.

Support & Resistance

Figure 11

Common number support and resistance levels:

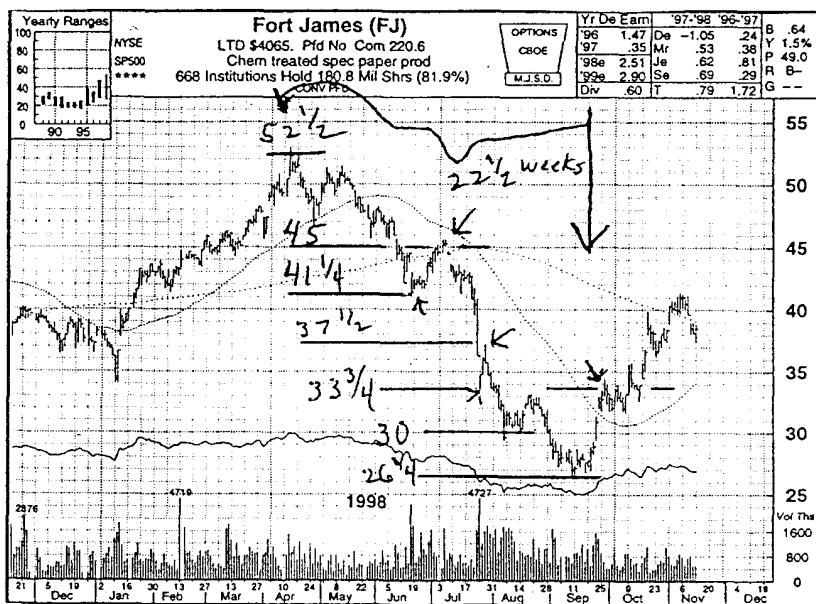
7.5	Add'l Numbers from W.D. Gann course he used
11.25	but not included here- he basically divided 360 by
15	1/2 1/3 1/4 1/8 1/16 1/32 and 1/64
22.5	5.625
26.25	16.875
30	27.875
33.75	
37.5	39.375
41.25	
45	50.625
52.5	
56.25	
60	61.875
63.75	
67.5	
71.25	73.125
75	
78.75	
82.5	84.375
86.25	
90	95.625
97.5	
101.25	
105	106.875
108.75	
112.5	118.125
120	
123.75	
127.5	129.375
131.25	
135	140.625
142.5	
146.25	150

Support & Resistance

Remember, to use these numbers you merely take a major high or low and increment it, or decrement it, by these levels to find that particular stock's individual support and resistance. The natural levels are shown in the chart, but many stocks have their own particular levels and you must calculate them individually. For example, if a stock hits a low at \$9 you would start by incrementing 9 by 7.5 or 11.25. Those targets would be \$16.5 or \$20.25. You can also use the smaller increments like 3.75 or 2.81 on cheap stocks. As the stock goes up or down, you just add or subtract these numbers to project future levels. It is important to note again that this also applies to time, so that from any high or low date, you would look at 2.81, 3.75, 7.5 or 11.25 days or weeks later for a turn. These cycles don't work as well, but sometimes they offer the only clue to a stock's pattern. In the section on time and cycles I'll give you the most likely time cycle increments that are most effective in forecasting.

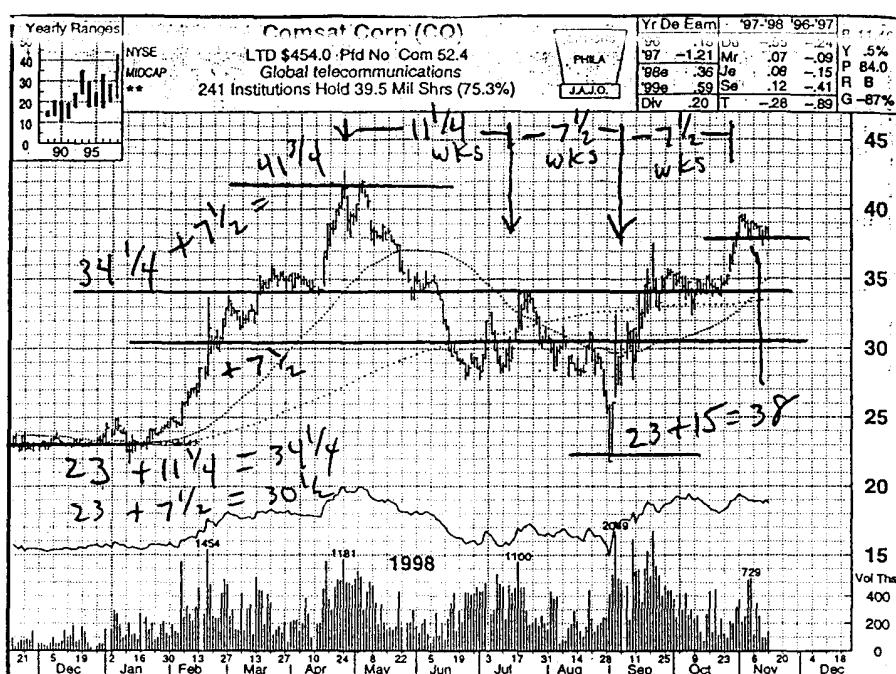
We see in Chart #87 a stock's high price topping right at a natural number of \$52.50. As you can see, the decline stopped at all the others on the way down and the time cycle length was also a multiple. Chart #88 is similar.

Chart 87



Support & Resistance

Chart 88



Aside from the natural 360 base, there are some other systems that work well. One is that complete moves in stocks often go \$17.50 and the quarter harmonic of this number, or \$4.375, yields very good results. I often trade stocks at intervals of \$4.375.

Of course, the theoretically perfect harmonic of a stock should be related to its square or circle. As previously mentioned, at each and every point on a timing line or circle, the price of a stock and the time period from its high or low origin are at equilibrium. It makes a turn then because the time and price square out. In theory we should be able to find a number vibration that is unique to each stock and provides support and resistance. In studying the square that we draw around a stock's price, we can come to the conclusion that the *fundamental building block vibration of a square is the square's square root*. We now have our universal key to time and price. Each stock's high or low will create support and resistance in terms of time and price at the square root intervals of its individual historic highs and lows. Furthermore we should be able to increment those square root numbers and re-square them to grow our square as our stock advances. This in

Support & Resistance

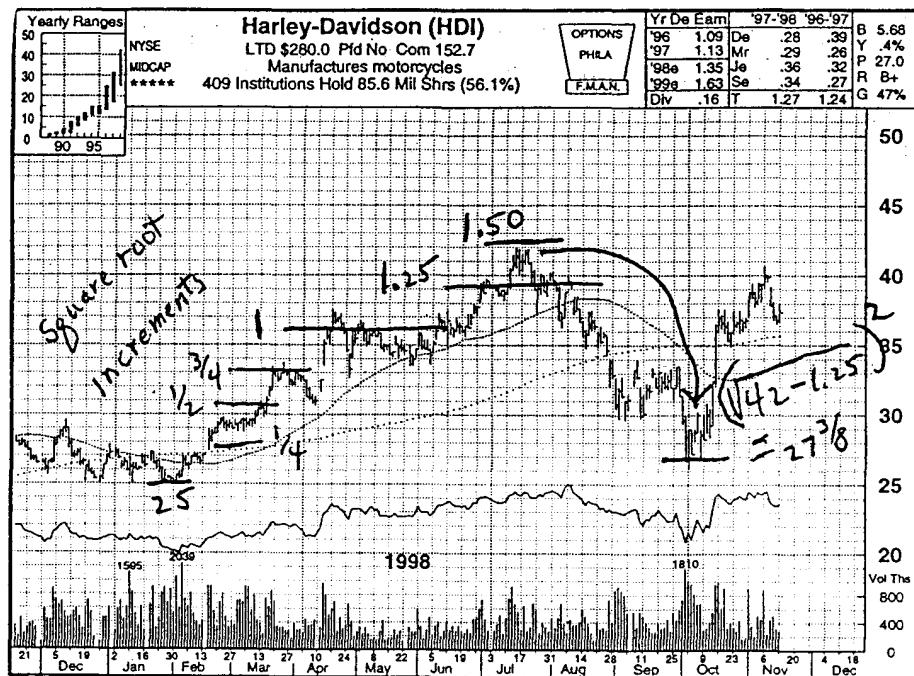
fact is what we do and has been one of my greatest applications of the Gann work to trading, especially day trading S&P futures or active commodities. It works as follows:

If a stock has a low at \$34, we first find the square root of 34, which is 5.83. We then increment that square root by .25 or $5.83 + .25 = 6.08$. We then square 6.08 to get 36.97, or about \$37, as our first minor resistance. Depending on the fluctuation we need, our increments can be larger or smaller but usually .25, .50, .75, 1, 1.25, 1.50, 1.75 and 2 are all we need. Two is the master cycle as will be explained shortly, and one is the next strongest. For intra day trading items like S&P futures I use 1/32 or .03125 as an increment. This very small increment usually gives the fundamental vibration measured move of the S&P on very quick scalps, and stops are entered just past these levels. For instance, if the S&P were near 1,180, the square root would be 34.3511, and adding .03125 gives us 34.38238. Re-squaring that we get 1,182.15 and the difference is 2.15 points as the fundamental vibration. If that's too big, use 1/64 instead of 1/32 to trade.

You may be surprised by your outcome. When used properly, every high and low during the day will be hit within 15 basic points the vast majority of the time! The basic technique would be to take the extreme high or low made in the first 30 minutes of trading and then increment or decrement that extreme price for the remainder of the day. One easy technique for those with computer screens is to graph the price using the price axis incremented by the calculated fundamental unit and start the grid at the low, or the low minus the fundamental. When that is done the price line axis on the graph acts as a natural barrier and can be traded against.

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Chart 89



Most stocks will go one full unit increment, or two. A stock at 89 will drop to 71.125 ($\sqrt{89}=9.434$, $-1=8.434$, re-squared =71.12). Very shallow corrections good for day trading react to the square root of the square root. If the above 1 unit drop of 17.88 is too large and might take three weeks or three months to be hit, we can use the square root of that (4.23) and buy the stock when it drops from 89 to 84.75. On my proprietary computer programs I use trailing stop filters of the square root of the square root of each high price along the advance to indicate a change in trend. Strong moves will barely touch the square root of the square root price and then turn up. For very strong stocks I use that point for *buying* into a correction with a sell stop.

Support & Resistance

Chart 90

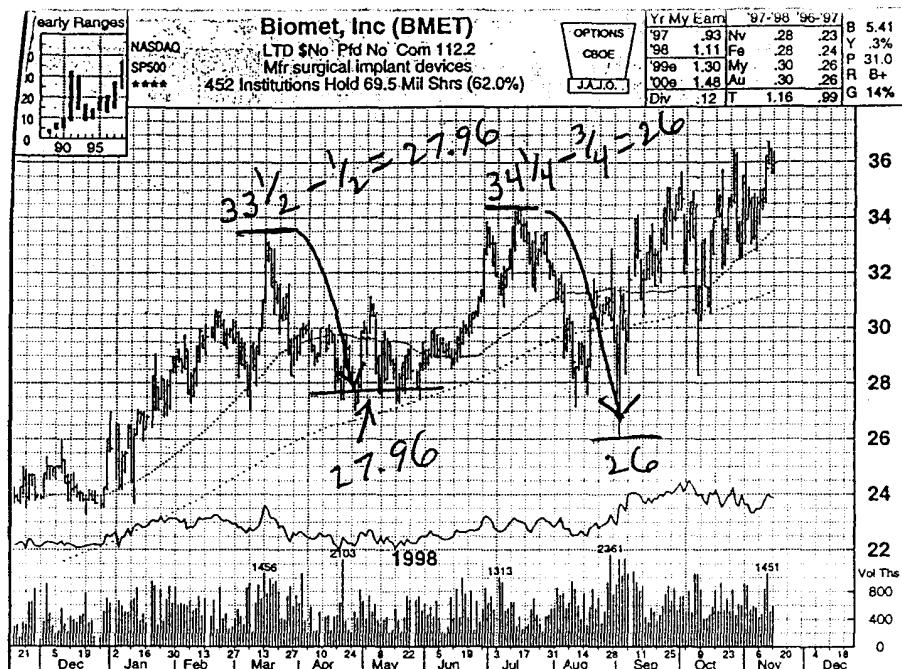


These square root number sequences have long been a closely held secret and for years, especially in the 60's and 70's, each bull and bear market not only ended on these natural squares from their origins, but they usually followed a Fibonacci sequence like 5 added to the low, or 3, or 8. In recent times with huge volatility moves these 3's and 5's are often squared themselves to get the increment. If you use the market averages in your forecasting these large square root increments can be helpful.

The squaring of numbers is readily seen in most charts, particularly the odd squares like 3, 5, 7, 9, 11, etc., with the even squares also showing up. For instance, after a low is

Support & Resistance

Chart 91



made you will almost always find big turns at 3 weeks, 9 (3x3) weeks, 16 weeks (4x4), 25, 36, and 49 weeks. These squares of the natural integers are very powerful. On very long term monthly charts of the Dow Jones Averages, you will find most bull and bear markets terminating on a natural square number of months from one in the distant past. The reason this works is beyond the scope of this work, but it is based on natural phenomena. One "easy" method for keeping track of all cycles, but especially these natural squares, is to make a tape by cutting a segment off the bottom of the chart you are using and then tick off with a marker each natural square in days, weeks, and months. This should extend well into the future. You then run this tape back and forth across your chart, lining up the highs and lows and looking for "clusters" of natural squares in the future where big turns are expected. On August 24, 1987, I made a dramatic call on the market using this ticker tape method. While looking for the final top, I noticed a reverse order count down of a Fibonacci sequence from the past that placed zero at that point in time. Usually at big turns

Support & Resistance

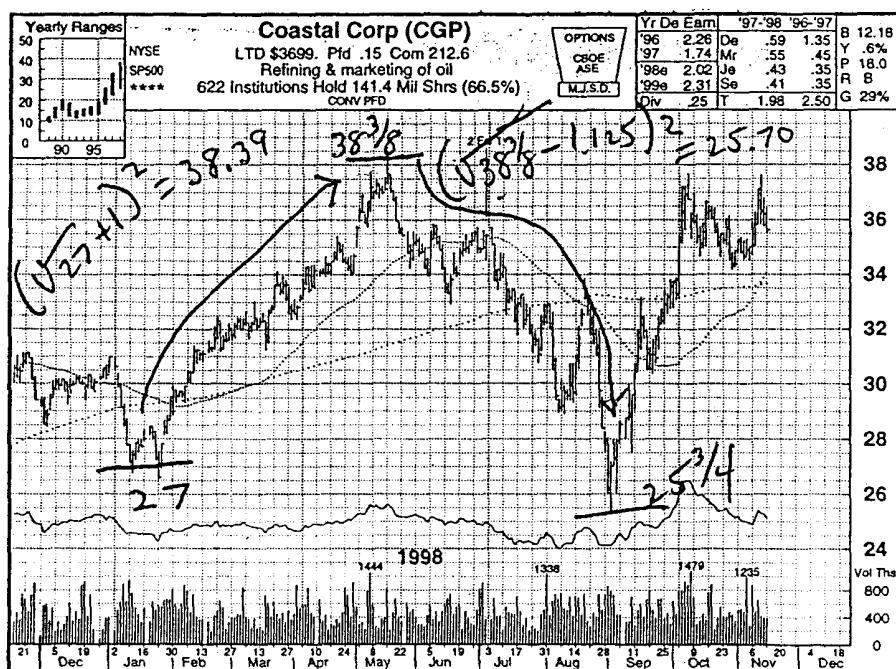
you will find these time cycle numbers, as well as price resistance numbers and arcs all coming out simultaneously.

The next section will examine the famous Gann Square of Nine which is quite similar to these ideas of natural squares and square roots, but it has been in use for a thousand years or longer.

On the pages that follow are charts that demonstrate various square root techniques from determining support and resistance and for use as trailing stops in trading.

In Chart #92 we have the square root of the low plus 1, re-squared, projecting the high, and that high minus 1.125 from the root projecting the low.

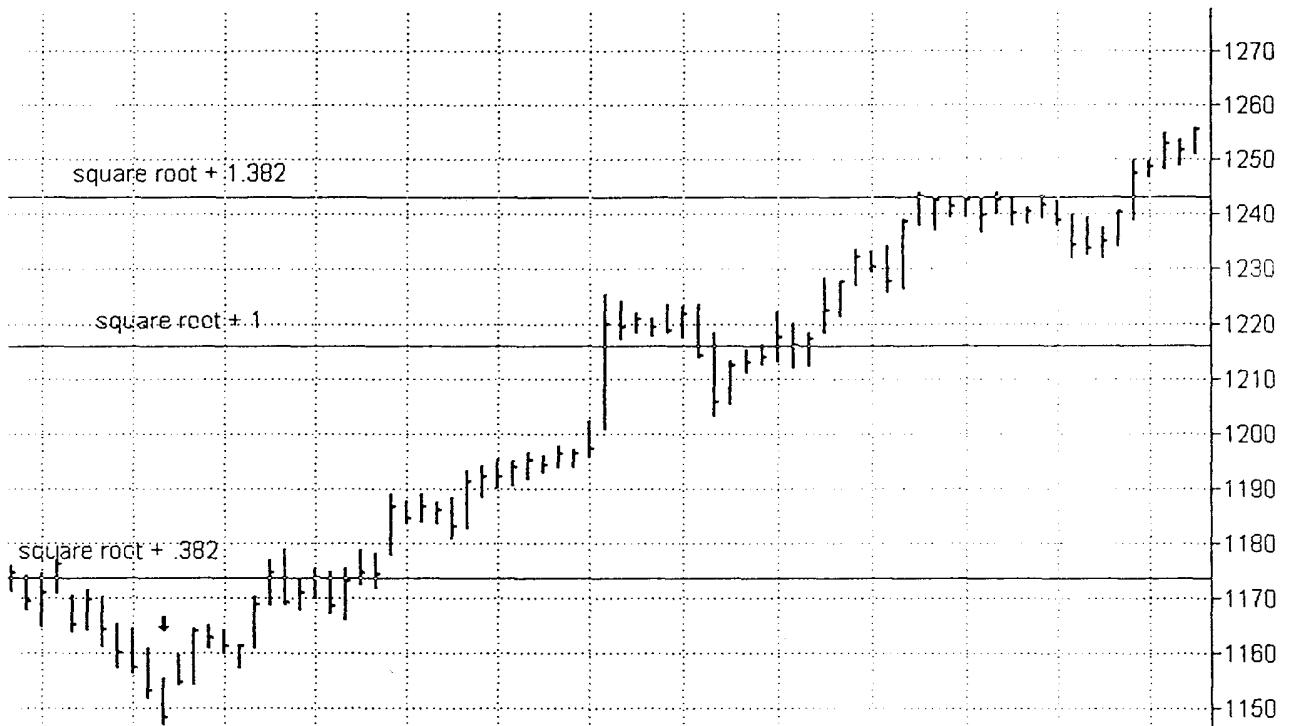
Chart 92



Support & Resistance

Chart #93 is an hourly chart of the S&P futures showing a low and the square root of that low incremented by the Fibonacci ratios of .382, 1 and 1.382. The horizontal lines clearly show the natural resistance at these ratios.

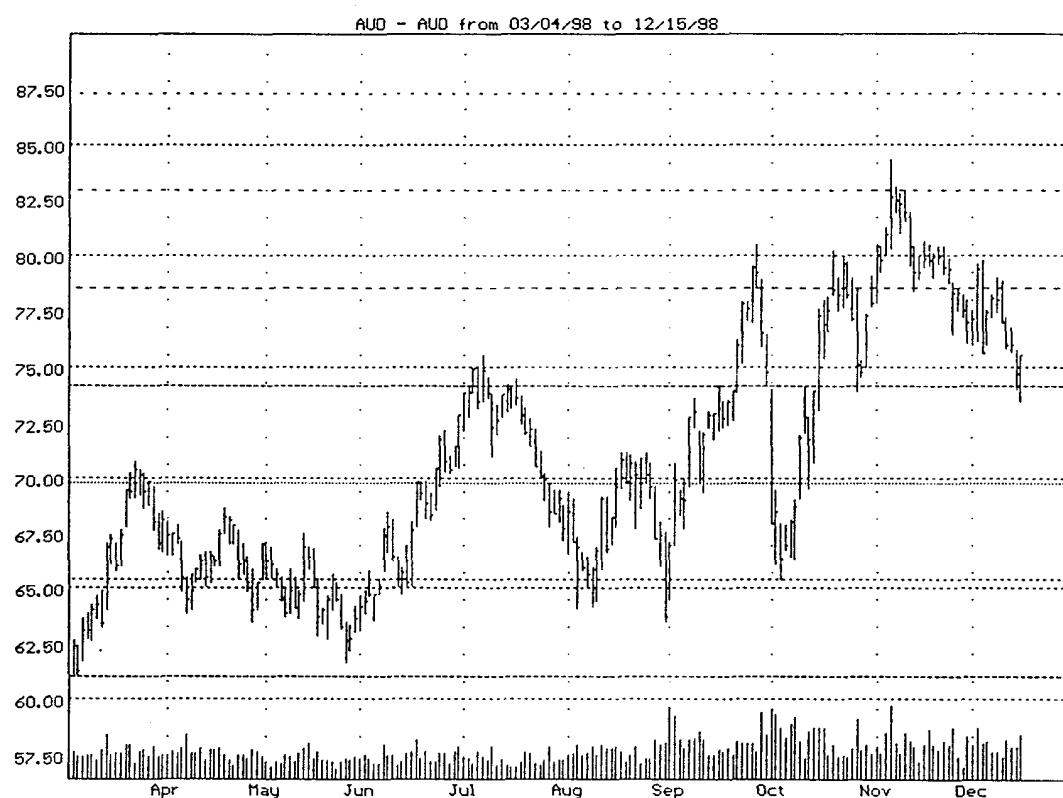
Chart 93



Support & Resistance

Chart #94 shows levels of \$4.375 aggregating to major swings of \$17.50. This was a George Bayer idea from the 1930's and it still works today. On this chart it's a little hard to see since the lines for the price level are close to the \$4.375 lines, but you'll notice how the prices seem to bounce back and forth between these levels of natural support and resistance.

Chart 94



Support & Resistance

Chart #95 is a daily chart of Eastman Kodak showing square root increments from the low level at the start of the chart. The increments are .25 and you can see the price bouncing around these support and resistance levels. The price scale is an even \$5 increment and the square root lines are the lines in-between those numbers. You may want to take a calculator and walk through the chart starting with the square root of that low near \$54 and taking its root and incrementing by .25, .50, .75, etc. and re-squaring to see the effect on the chart.

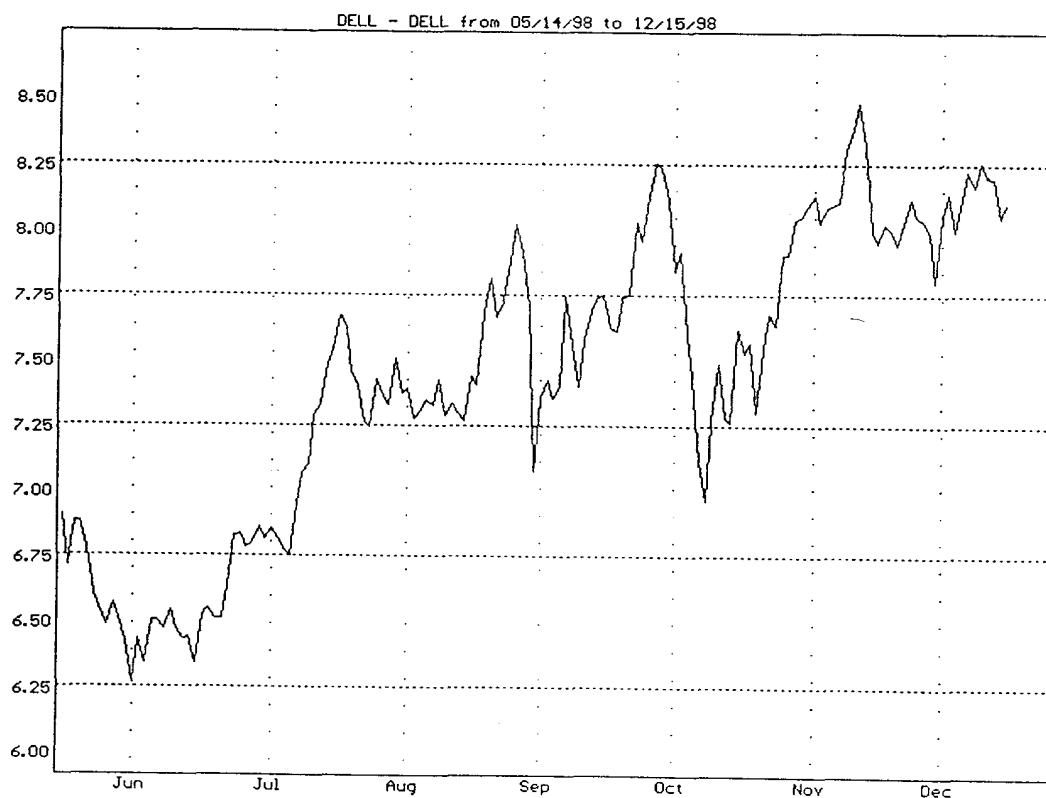
Chart 95



Support & Resistance

One technique I use with my computer to avoid the clutter is to graph stocks by their square roots and not the whole price. This way you can easily see what root levels the stock is trading near, without any calculation on your part and you can count levels up and down. Chart #96 is a daily chart of Dell Computer in terms of square roots, and you can see the .50 root increments this stock trades in. You can also see at a glance that the low 6.25 is incremented by 2 full points to get to the top at 8.25. The one full point at 7.25 was a major support area indicating much higher prices.

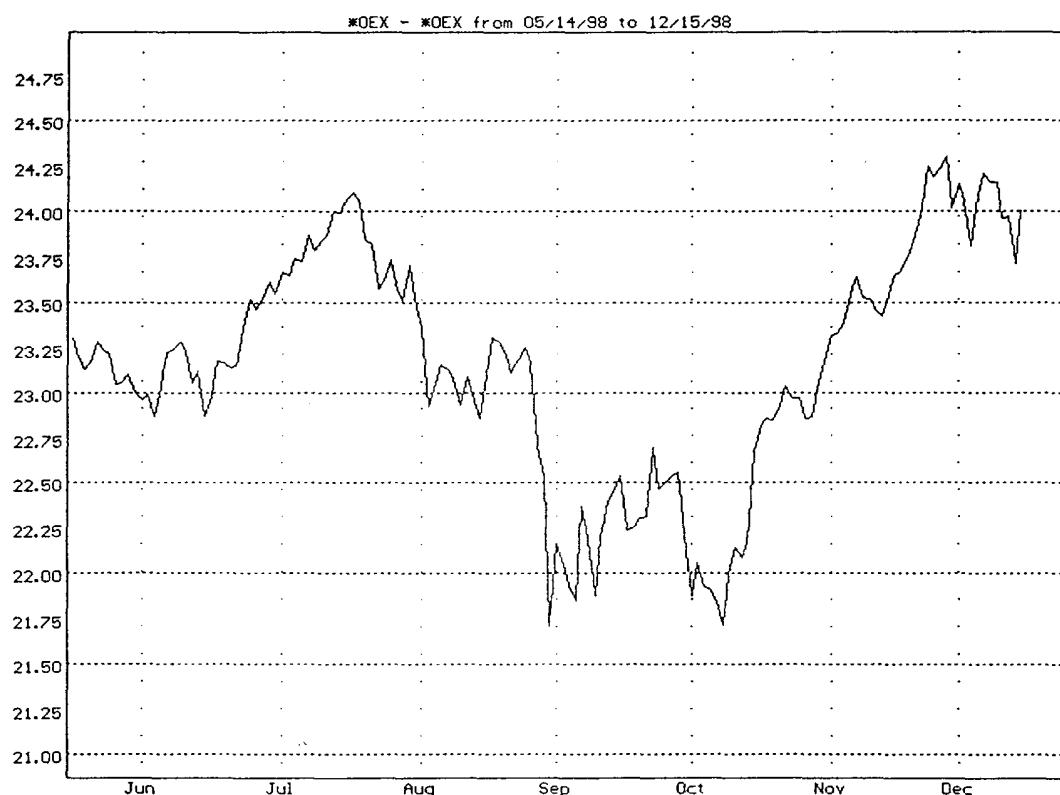
Chart 96



Support & Resistance

The same technique used on the OEX where you see the .50 and 1.00 increments as major support and resistance levels is illustrated in Chart #97.

Chart 97



Support & Resistance

Chart #98 and #99 show the Dow Jones and another individual stock pattern. All market movements revolve around square roots.

Chart 98

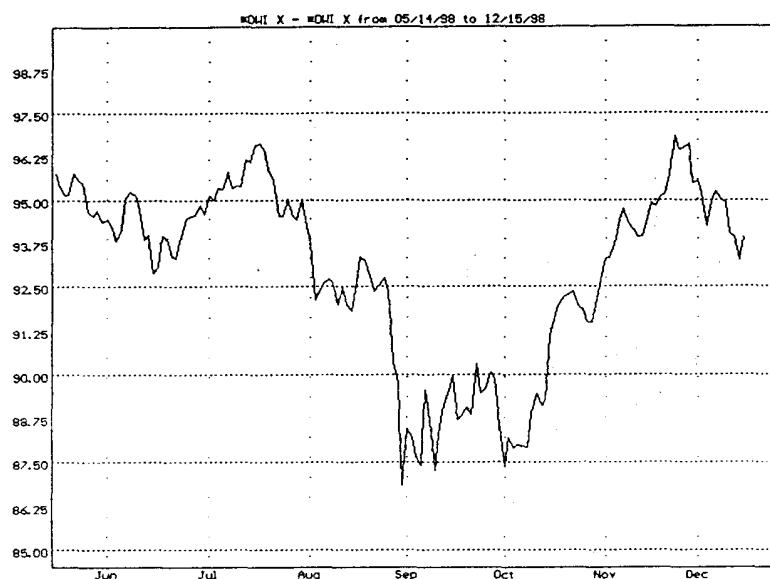
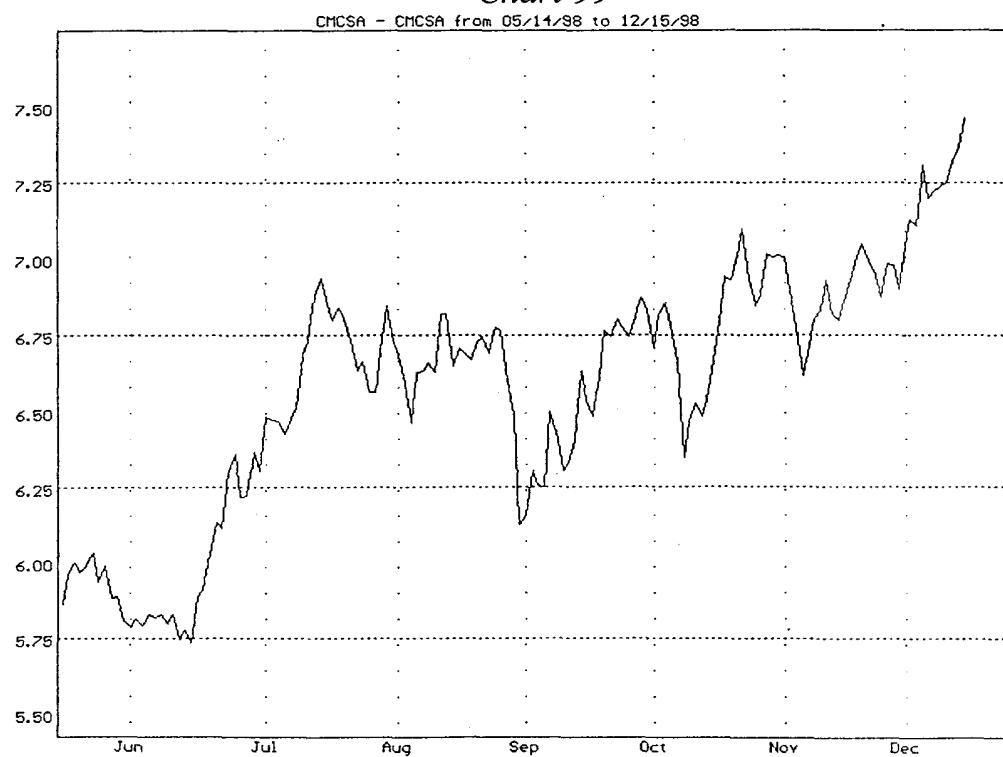


Chart 99

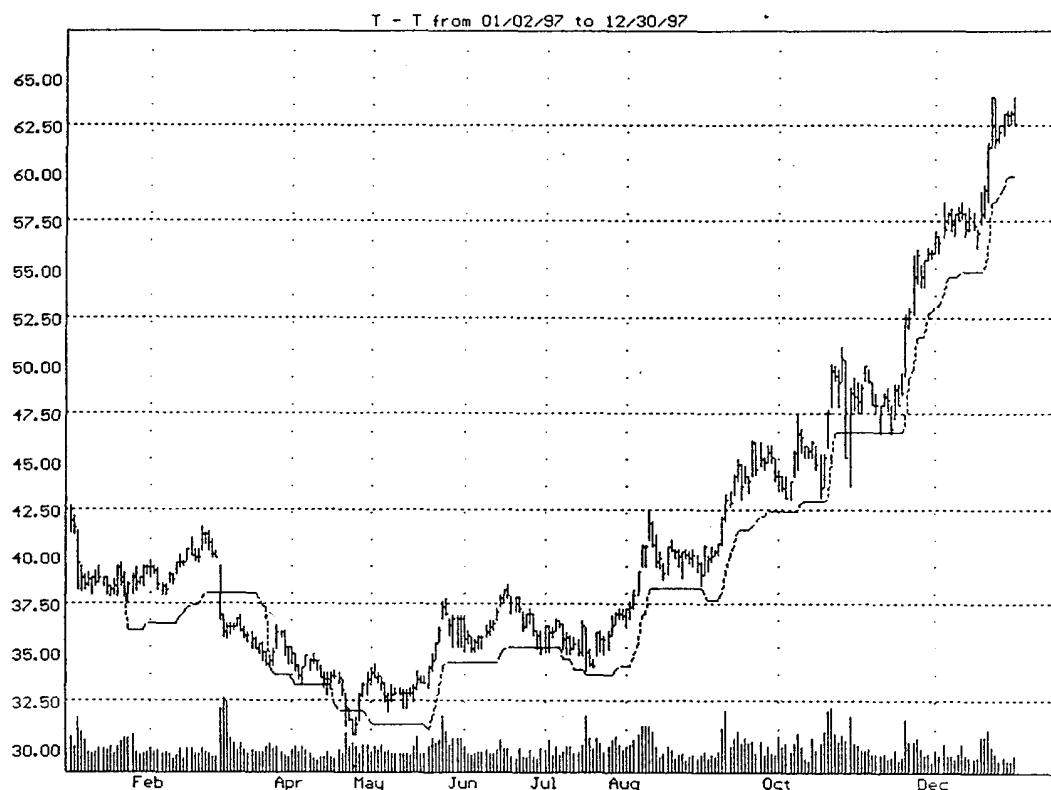


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Support & Resistance

Chart #100 is an example of a technique I use for swing trading, and to find buy points in strong trending markets. A major correction might drop one full square root point, but usually the root squared twice is a good trailing stop to buy at. For example, a \$49 stock has a square root of \$7, but the square root of \$7 is \$2.65, which makes a very strong support level for bullish stocks. Chart #100 shows AT&T with such a trailing stop

Chart 100

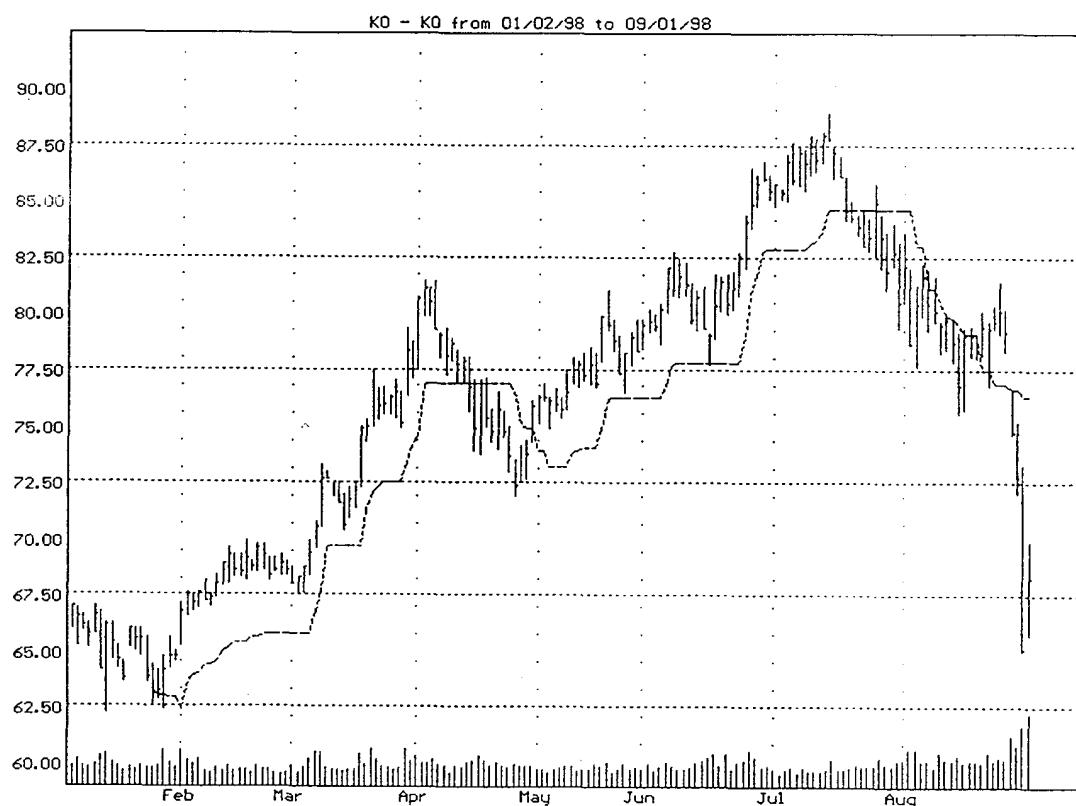


Support & Resistance

line offset with 15 trading day lags (a normal 3.25 week cycle). The calculation is made from the highest high for the 15-day period. Note how the correction always seems to end just at that flat square root of the square root level during the 3-week cycle.

Chart #101 is an example of Coca-Cola with a trailing stop of the square root of the square root, where you can see what happens when it breaks under that level. It is almost always a correction period until you at least regain the 15-day stop average line. Also note that on the first violation, prices went exactly below the line as they had been above it, proving it to be a balancing pivot point.

Chart 101



Chapter 9

GANN SQUARE OF NINE

Part of every Gann course includes the so-called Square of Nine, which is a square of circular arrangement of numbers, with the first full square including the first 9 integers and number 10 starting the next square or circle. Going down the left hand diagonal is the square of odd integers (1, 9, 25, 49, 81, 121, 169 etc.), and going up along the right diagonal are the even squares (2, 4, 16, 36, 64, 100, 144, 196, etc.). The actual origin of this number wheel is unknown, but it has been used in the East for at least a thousand years. The important thing to note is that each new square starts at the *number after an odd square*. Look down the left diagonal (1, 9, 25, 49, etc.). These numbers form the end corner of squares and represent powerful resistance to stocks. If the stock's price goes higher it breaks into another square and usually an explosive move results that ultimately moves around the wheel until the next odd number. This lends itself to a good strategy of seeking out stocks that approach natural odd squares to either short on failures, or buy on breakouts. Also, note that there is a tendency for high priced stocks to move faster than lower priced stocks because of the distance between each corner of the square. The full square's length is the increment of 2 added to the square root of the number, since as we have seen, each new square starts at the next odd number and odd numbers are separated by 2. In other words the square root of 9 is three, and two added to three is five, and five

Gann Square of Nine

Chart 102

Jun 21														
133	134	135	136	137	138	139	140	141	142	143	144	145		
132	91	92	93	94	95	96	97	98	99	100	101	146		
131	90	57	58	59	60	61	62	63	64	65	102	147		
130	89	56	31	32	33	34	35	36	37	66	103	148		
129	88	55	30	13	14	15	16	17	38	67	104	149		
128	87	54	29	12	3	4	5	18	39	68	105	150		
Sept 23	127	86	53	28	11	2	1	6	19	40	69	106	151	Mar 20
	126	85	52	27	10	9	8	7	20	41	70	107	152	
125	84	51	26	25	24	23	22	21	42	71	108	153		
124	83	50	49	48	47	46	45	44	43	72	109	154		
123	82	81	80	79	78	77	76	75	74	73	110	155		
122	121	120	119	118	117	116	115	114	113	112	111	156		
169	168	167	166	165	164	163	162	161	160	159	158	157		
Dec 21														

squared is 25, the start of the next square after the number 9. This characteristic of this particular kind of chart made it a calculator of square roots and squares in ancient times. To find any number directly above or directly below any number you just take the square root and increment or decrement it by 2 and then re-square. If you take the number 46 found below the numbers 1, 8 and 23, and take its square root you get 6.78. Add two for 8.78 and re-square and you get 77 the next number directly below 46. If you add one to the square root or 7.78 and re-square, you get 61, which is the number directly opposite and above 46 on the other side of the square.

Gann Square of Nine

Previously we used increments of square roots like .25, .50, .75 etc., to increment prices and we now see the origin of that method. If 2 will take you all around the full square, and 1 the opposite side, then .50 will go 90 degrees around, and .25, 45 degrees around. One and a half will take you 3/4 around. If you visualize these squares as the face of a clock, then from 12 to 3 is an increment of .50 added to the square root, 1 is 6 o'clock, 1.5 is 9 o'clock, and 2 comes back to twelve. These are 90-degree rotations, a powerful angle, but we also use 45 degrees and the 45-degree rotation is the root incremented by .25.

Most traders who follow Gann never understand this root stuff, but merely use the square to trade stocks or S&P futures off the numbers. I must admit that I myself often grab the chart when the futures are moving so fast you don't have time to calculate anything. They do usually stop dead in their tracks at all the corner points and especially the four "Cardinal" points that are the points of the compass of North, South, East and West. Those axis lines on the Square of Nine are particularly important and tie into the seasons of the year with number theory. Originally the chart was constructed for astrological purposes, and in ancient times the cardinal signs stood for the four seasons of the year. Each season was started with the Sun's entry into an astrological sign. Today those signs are Aries for spring, Cancer for summer, Libra for fall and Capricorn for winter. This Gann square was more of a circle, or wheel, and is still referred to as a Gann Wheel. The East point or 3 o'clock, was the starting point and represented 0 degrees Aries on March 20-21, at 6 a.m., which is the first day of spring and the start of the natural calendar, or the astrological one used in horoscopes. Counter clockwise and 90 degrees up or at 12 o'clock was the first day of summer, June 21. The West point at 9 o'clock was September 23 at 6 p.m. for the first day of fall, and the bottom at 6 o'clock was December 21 at 12 midnight for the first day of winter. The hours come from the astrological hour rulerships that start at sunrise (6 a.m.) on the first day of spring. By setting these dates and times to this

Gann Square of Nine

number system, you can find seasonal changes in the markets and also calculate the number of days between events. Each 15-degree segment represented approximately 15 days and possible market turns. Our calendar is a solar one with each day of the week representing one degree of movement of the Sun. Some months the Sun moves more slowly than others and that's why some months need 31 days to go 30 degrees. On the Gann wheel the following dates represent the seasonal 15 degree movements of the Sun: March 20, April 5, April 20, May 5, May 20, June 6, June 21, July 7, July 22, August 8, August 23, September 7, September 23, October 8, October 23, November 8, November 23, December 7, December 21, January 5, January 20, February 5, February 19, and March 5. These aren't always 15 calendar days apart, but they are 15 degrees of the Sun's movement.

As we noted when we looked at the harmonics of 360, 15 is a fundamental unit of resistance and its harmonics of 30, 45, 60, 75, 90, etc., can all create turns in the market. Using the Gann Wheel you could line up dates of past highs and lows by circling the dates, or the actual numbers in the squares, and at future dates that were offset by one of these 15 degree harmonics, you would expect to find change. In other words, if the market hit bottom on the first day of spring on March 20th, 45 degrees later on May 5th, or 180 days later on September 23rd you could expect a turn. Similarly, if a stock made a high or low at \$69 on the March 20th line, then major seasonal turns would occur on these seasonal dates and the prices would be 67, 65, 63, 61, 59, 57, 55, 53, 51, 49 or going up, 71, 73, 75, 77, 79, and the important odd square 81. These numbers are taken off the wheel at 15-degree rotations. In this example the positions are merely \$2 for each segment, but in the situation of a high priced stock or a market average, the movements are quite a distance. If the Dow Jones sold at 9,300 then a full circle would be 390 points ($9,300+2$ square root), so that a 15 degree segment would be 16 points ($390/24$), or 32 for 30 degrees and

Gann Square of Nine

97 points for 90 degrees. Most Gann calculators or wheels use plastic overlays with these 15-degree angles, as well as others etched on them. The overlays are tacked to the center of the wheel where they can be rotated to align with the dates listed on the perimeter of the wheel. For example, if a stock or market tops on an off seasonal date like January 12th, you could rotate the angles to that date and the other spokes on the plastic acetate would then pinpoint the correlating 15 degree harmonics dates, and related numbers on the wheel. As shown in the prior section, I prefer to take square roots and increment them myself, rather than spin a wheel. The wheel is more graphical though, and makes it easier to keep track of a history of many highs and lows by circling the actual numbers on the wheel. When a future number comes back to the same spoke, then another high or low is indicated.

I might note here that there is some debate about how the Square of Nine spiral begins. In the following examples, the number 2 starts at 9 o'clock and goes up. Other charts in more of the astrological tradition have the 2 start with the first day of fall and then go up counter-clockwise. There are also charts with spring labeled at the 9 o'clock point rather than 3 o'clock. In both methods, as long as the spirals are consistent and the odd squares go down and the even up, they will give the same answers, but the seasonal dates can differ.

In theory, bull and bear markets expand and contract in proportions and numbers that are related. If a low starts on a Cardinal Cross number like 40 then it is most often the case that future final highs and lows will fall along the same horizontal axis, so that the number could be 69, 106, 53, 86, or 127. This is why the angular relationship of the Gann Square of Nine is so important. You can graphically see those angular relationships among the numbers and the dates.

Another interesting feature of the Gann square is that not only are the numbers on

Gann Square of Nine

the wheel important for support and resistance, but those same numbers are time factors from prior highs and lows. For example, if a stock tops at \$40 it may simultaneously be 19 (number on axis with 40) weeks from a past high or low, or 69 (also cardinal cross number) months from another. There is usually both a time and price relationship working at the same time.

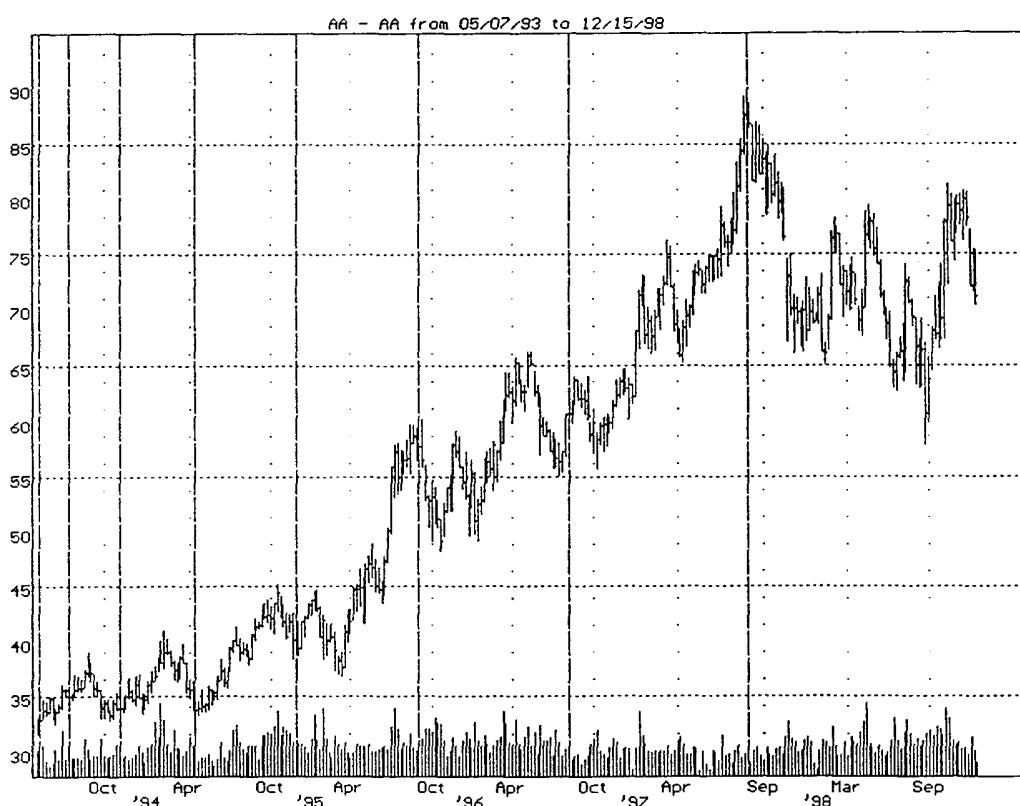
One approach to the square that works well is based on my previous statement that bull and bear markets begin and end on natural squares and in terms of time are natural square (9, 16, 25, 36, 49, etc.) time periods apart. What usually takes place is that if a high or low is suspected, you go back in time along the main axes, especially the odd square one and find an anniversary month that had a high or low. If this is February you would look in the months of February, but back a number of years equivalent to the number on the square axis you're on. You then see the exact date of that year in the part where the top occurred and see how far off it was from the prior natural square on that same axis. The top this time will usually be off by that same amount. For instance if you are 81 months from an anniversary top, go back both 49 months (next odd square from 81) from today, and 49 months from 81 months back (130 months back), and look at that high for confirmation of the current top projection.

Although most traders are familiar with the Square of Nine as a price predictor, its actual function is more of a time period projector. Since it is based on natural squares and we know prices spiral out in a square fashion from an origin point, you usually take the spokes of the Gann Wheel and use the numbers on those spokes as days, weeks, and months from an origin point. Past highs and lows are circled on the wheel to make it obvious which spoke a particular stock or commodity trades in. The following charts of weekly squares will demonstrate this use.

Gann Square of Nine

Chart #103 is a weekly chart of Alcoa. The vertical lines are the numbers in the Square of Nine at the 225-degree spoke (or 315 degrees if you start March at 9 o'clock like some wheels do). This is the odd square spoke and the numbers run 9, 25, 49, 81, 121, 169, etc. On this chart those numbers represent *weeks* from a major low and as the chart clearly shows they scored major hits each time they came out.

Chart 103



This is a simple example of natural squares in weeks creating turns in the market. You would also notice, if you were to do some sleuthing, that the price the stock hits on

Gann Square of Nine

the date of those time spokes is also another number on the wheel that is a harmonic of that spoke. In the Gann method you always want to look for both time and price relationships at all turns. Chart #104 is a weekly chart of Dupont on the 45-degree spoke (5, 17, 37, 65, 101, etc.) and Chart #105 shows J. P. Morgan on the 225-degree spoke.

Chart 104

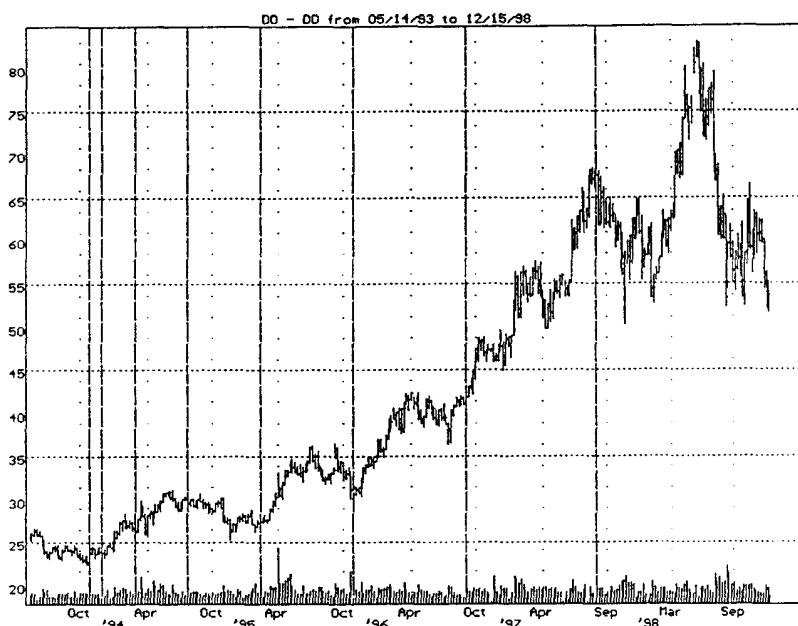
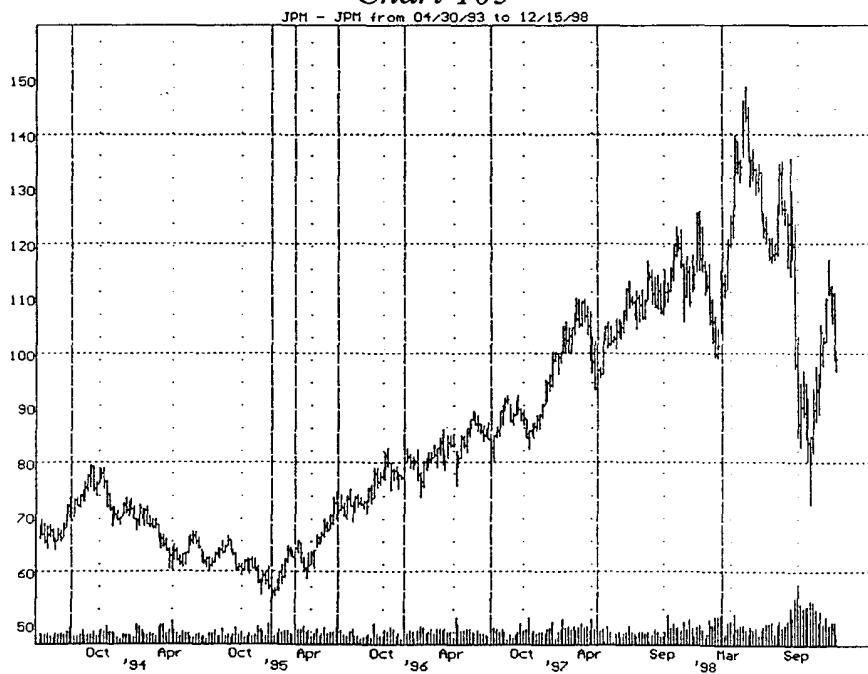


Chart 105



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Gann Square of Nine

We see General Electric in Chart #106 and Boeing in Chart #107 with both on the 225-degree spoke. As you can see, this method is very accurate – within a week, for predicting major turns, although you do have to do a little work in deciding if they are lows or highs on the date of the turn.

Chart 106

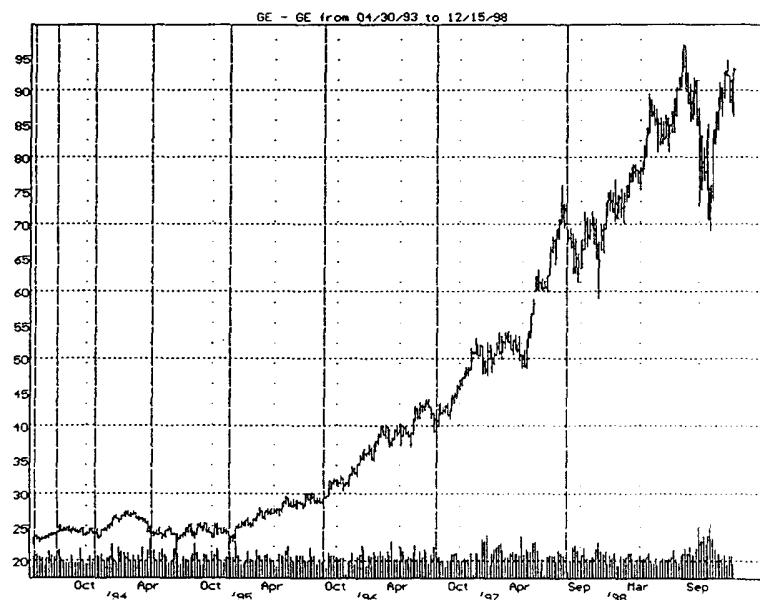


Chart 107



Gann Square of Nine

Instead of the traditional presentation of the wheel format, some Gann enthusiasts use a grid format, so that the rows, which represent angles, are easier to read as in Chart #108.

Chart 108

spoke	1	2	3	4	5	6	7	8	9
0	2	11	28	53	86	127	176	233	298
45	3	13	31	57	91	133	183	241	307
90	4	15	34	61	96	139	190	249	316
135	5	17	37	65	101	145	197	257	325
180	6	19	40	69	106	151	204	265	334
225	7	21	43	73	111	157	211	273	343
270	8	23	46	77	116	163	218	281	352
315	9	25	49	81	121	169	225	289	361

Incidentally, this chart has March at 9 o'clock with the 45 degree spoke (3, 13, 31, etc.) shown instead of those numbers on the 135 degree angle as shown in the big chart in this section. It's just easier to present a table with 0, 45, 90 etc., angles in a row, so that the March row in this table is 45 degrees and the March in the other would be the 180-degree row in this table. It really doesn't make a difference as long as the 45-degree harmonics are in line. In the table format note the number of the square, numbered across the top (1, 2, 3, 4, 5, 6, 7, 8, 9). A second and third table could be continued below with 10, 11, 12, ... squares across the top. The numbers going down the squares increment by the value of the square number at the top, so in the number 4 square that starts with 53, the numbers are incremented by 4.

Gann Square of Nine

A table, seen in Chart #109, is also used with this method and is generally accurate, but not always. It shows *what to expect* (high or low) at each spoke depending on whether the cycle started with a high or low (example charts shown were started with lows).

Chart 109

	Start chart at LOW	Start chart at HIGH
0 degree	expect a low	expect a high
45 degree	high	low
60 degree	low	high
90 degree	high	low
120 degree	low	high
135 degree	high	low
180 degree	high	low
225 degree	high	low
240 degree	low	high
270 degree	low	high
300 degree	low	high
315 degree	high	low

In the next section we'll look at some of the astrological origins of Chart #109 and how Gann used planetary longitudes to determine prices on the spokes of these wheels.

I might also add here some brief observations about these Gann Squares, since there are many courses devoted to them. First, the square shown previously is certainly not complete. You would normally fill in all the numbers and keep going around the square until you get into the thousands. If you're trading the Dow Jones at 9,000 or more, rather than fill in all those numbers you would first go up and down the cardinal crosses to get a

Gann Square of Nine

starting point. For instance, the North vertical cardinal cross runs up at 4, 15, 34, 61, etc.

To find the equivalent number near 9,000 just take the square root of 9,000 (94.87) and subtract it from the square root of your last number, in this case 61. $94.87 - 7.81 = @87$ for the square root increment. Knowing that each number directly above another must be offset by two, we can use 86 or 88 as the increment. We then take the square root of 61 (7.81) and add 86 and re-square to get 8,800 for the number directly above 86. If we use 88 the next number up is 9,180. This means a full cycle at this level is about 380 Dow points (9,180-8,800), or 95 for each 90-degree rotation. The other cardinal points can be found similarly, or you can just increment the root (8,800) by .25 and re-square for each subsequent corner.

If you use odd priced commodities or futures you may want to construct squares based on their full price increments. For instance, Treasury bond futures trade in 32nds of a point, so if you use the Square of Nine, think in terms of 32nds per number. An example would be a price of 118 9/32. You first convert the full number of points in this case 118, so that you have $118 \times 32 = 3,776$, then you add the 9 to get 3,785. You then look up 3,785 on the wheel and go around in terms of 32nds. Better yet, you would construct a square of 32 just like the square of 9, but the first full square would have 32 in it with the start of the next square 33. It may take some juggling of angles to set up 32nds, or 18ths or any other number, but once you have it, it's good for life.

The principle of the Square of Nine applies to all numbers, but this actual square is based on the natural 1 to 9 numbers. The best way to use the technique is to construct a *specific square* for the all time high or low price for the stock that you trade. If the all time low was \$17, first put 17 in the center where 1 is located, start the first eight digits in the first square going up (i.e. 18, 19, 20...25) then the next square begins. If you use an all time high, you circle down. It's a lot of work but it really gives good results and you can perhaps quickly adapt an excel spreadsheet to do the work for you. You may also draw a

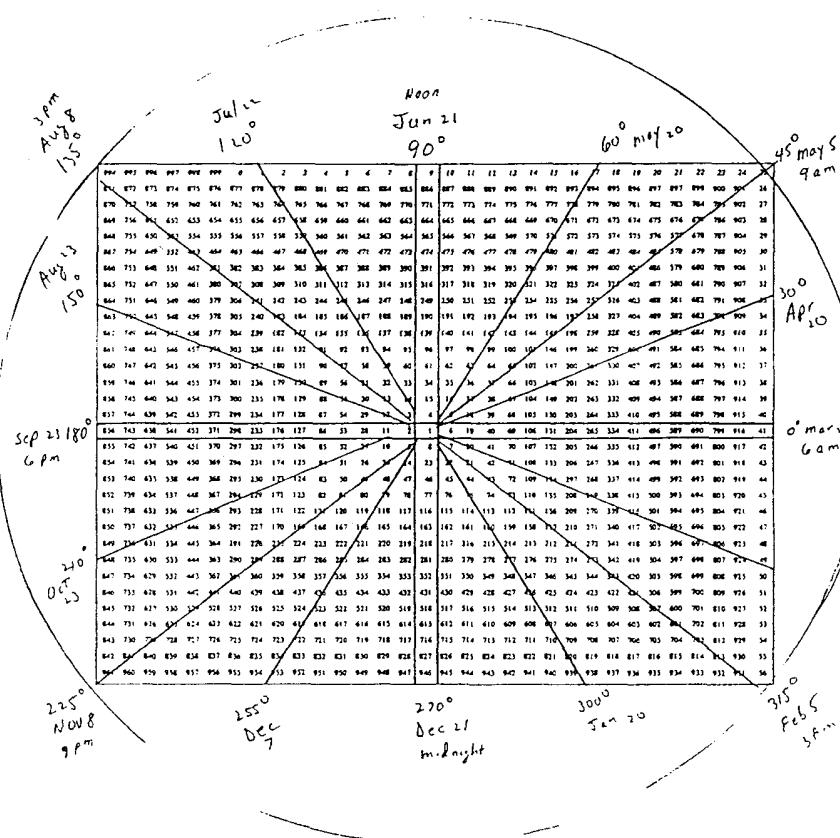
Gann Square of Nine

circle around the outer square corners, add angles, and work the days of the year around the large perimeter.

The Square of Nine was not the only Gann square. Others that he used were based on the same principles, but the first circle, instead of ending at 9, went to 12, 24, or 36. Others also used 6 and 7 as keys, but the 9, 12, 24, and 36 are the most universal because of their 360-degree harmonics. Remember, the whole concept is to relate angular degrees to numbers laid around a circle. The reason he did this will be explained in the next section, but first we'll do a practical example so you can see how to use it. Most traders use the wheel for numbers, and if a stock or S&P future hits the corners of the Square of Nine you always get reversals, or at least major support or resistance. This works, but it's not really what it's all about. Remember, it's a square calculator, and as I've mentioned before and throughout this course, you will see examples of natural squares in days, weeks, and months being put on charts to call market turns.

Chart #110 is the typical representation of the Gann square of Nine with the March 0

Chart 110



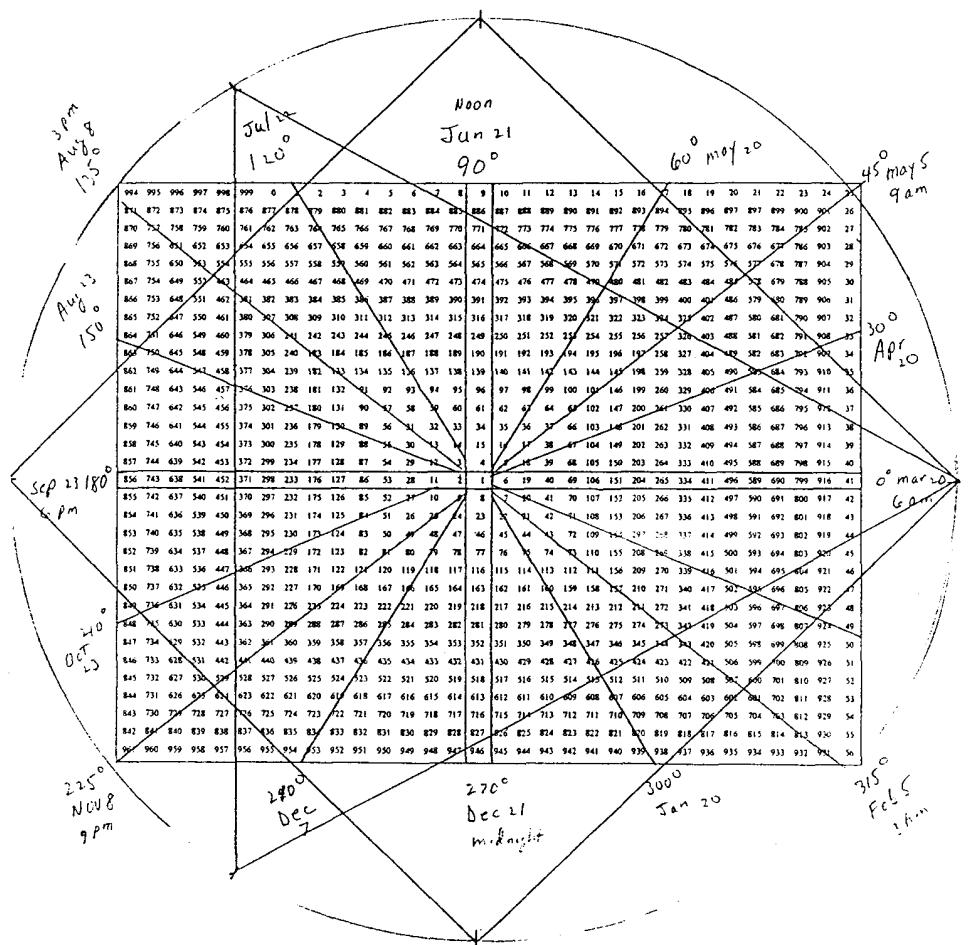
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Gann Square of Nine

degrees on the right. Not shown are the degrees 0-360 along the outer wheel circumference and the triangle and square that are movable and pinned to the center. The corners of the square and triangle start at the outer circumference on the date in question and the remaining corners of the square and triangle point to other dates with their sides intersecting prices within the chart that should be hit on those indicated dates. This is shown in Chart #111.

Chart #111 shows the addition of the square and triangle pointing to March 20 or 0 degrees. Normally, you would set these dials to any date, and at the place where *the angles intersected prices within the numbered square*, you would expect a high or low to occur.

Chart 111

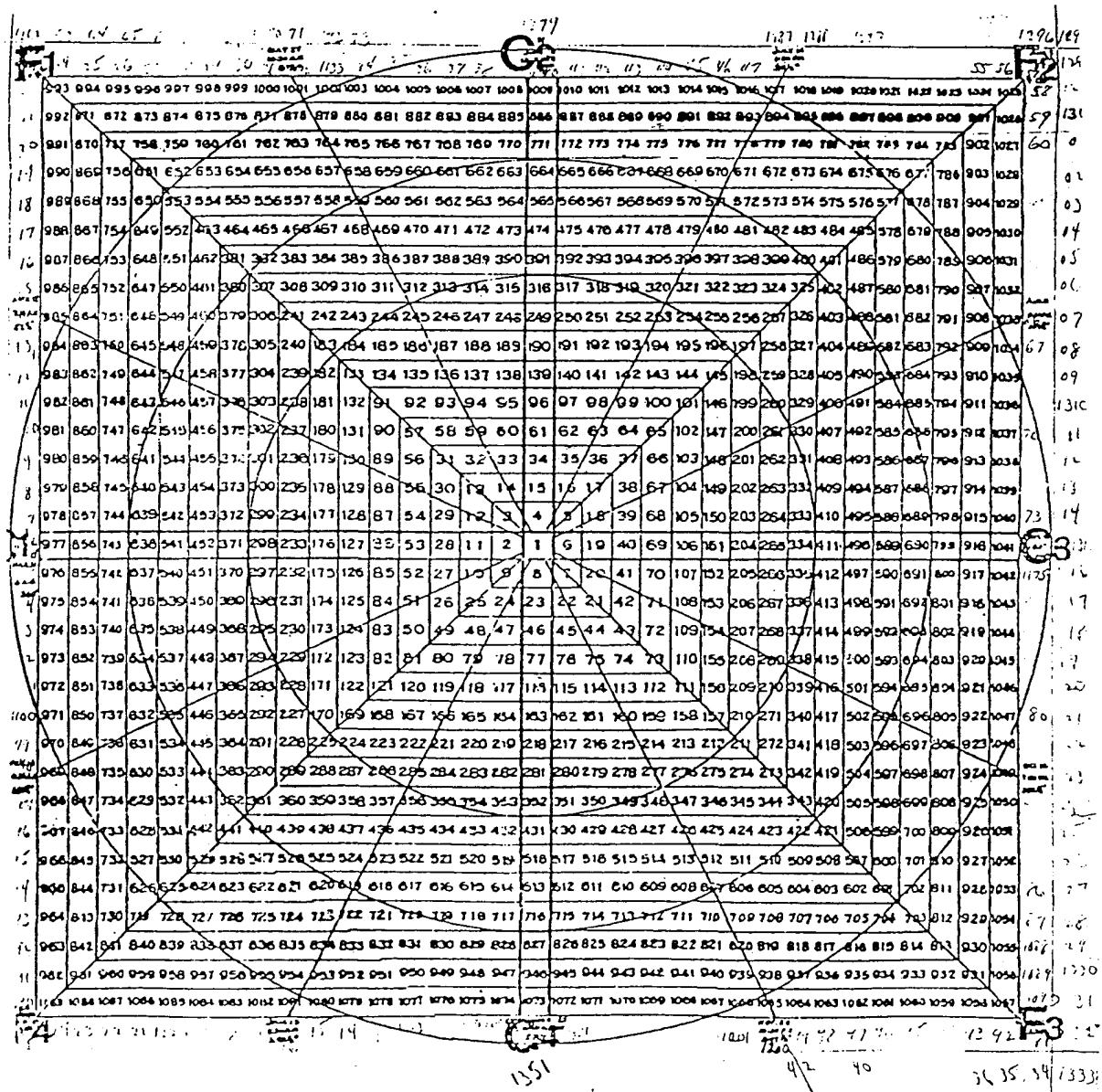


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Gann Square of Nine

ORIGINAL GANN SQUARE OF NINE

Chart 112



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann Square of Nine

As I finish this course in the second week of January 1999, the market has just hit a major high and dropped some 600 points in three days. What was the significance of this? The top was over a weekend, so Friday, January 8th was the closing high at 9,643 on the Dow Jones, and Monday, January 11th the Dow closed at 9,620. You could try either date, or use an average for the calculations, but as you will see, it won't make that much difference. The first thing you need to do is keep track of time in terms of days, weeks, and months.

To keep track of time a spreadsheet could work, but personally programmed in basic, a small program that reads a file containing all the major highs and lows since the 1880's. The program then starts with the first date and then goes through the integers squared for days, multiplies that by 7 for weeks, and multiples days by 30.437 for months. As it squares these time periods, it checks to see if the answer falls between two dates I input, such as January 1st to January 15th. If so, *I know a natural square cycle* from that prior high or low, is coming out this week. When I input January 4th to January 20th, I got this printout:

Date came out	Integer squared	Squared period	Past high or low	Description of cycle
1/05/99	17 x 17	289 months	12/06/74	"Watergate cycle"
1/05/99	64 x 64	4096 days	10/19/87	"crash"
1/08/99	57 x 57	3249 days	2/15/90	"Japan crash"
1/11/99	37 x 37	1369 weeks	10/16/72	"Final fling low"
1/11/99	49 x 49	2401 weeks	1/05/53	exactly backwards
1/12/99	72 x 72	5184 weeks	09/05/1899	100 yr cycle

Gann Square of Nine

Since our top was January 8, or January 11, we see from the listing above that those two dates are “live” in terms of natural squares, and we would look up the charts for those years to look for similarities. I’ve mentioned before that every day a cycle is coming out, and the big moves are just clusters of many coming out together. We need to use our Square of Nine and circle these numbers to see what we get. We see immediately that these numbers (49, 17, 37, 72, 57) all fall along the corner axis on the square, therefore they are all harmonic, and we see that the ones with a top on the 11th (37, 49) fall on the odd square line. This is a very important line, since the odd squares are the breakpoints on the Square of Nine, so we look further. The price on the 11th was 9,620 and time and price must come together if the wheel works. Going up the right side of the wheel, along the series 5, 17, 37, etc., we need to know if 9,620 is near this angle. As mentioned previously, a number directly above another number in the Square of Nine is offset by 2. That is, the square root of 37 plus 2 re-squared is 65, the next number. If 9,620 is on this angle, it will be an exact multiple of 2 added to the square root of any of these numbers. So the square root of 37 is 6.08 and we add 92 to get 98.08 and re-square to get 9,620! That means 9,620 is on the same axis, the dates line up, and the price is a match, so look for a reversal in trend that will probably follow the number of days and percent from the prior time periods such as 1953 or 1972.

Gann Square of Nine

Chart 113

Jun 21													9620
133	134	135	136	137	138	139	140	141	142	143	144	145	
132	91	92	93	94	95	96	97	98	99	100	101	146	
131	90	57	58	59	60	61	62	63	64	65	102	147	
130	89	56	31	32	33	34	35	36	37	66	103	148	
129	88	55	30	13	14	15	16	17	38	67	104	149	
128	87	54	29	12	3	4	5	18	39	68	105	150	
Sept 23	127	86	53	28	11	2	6	19	40	69	106	151	Mar 20
126	85	52	27	10	9	8	7	20	41	70	107	152	
125	84	51	26	25	24	23	22	21	42	71	108	153	
124	83	50	49	48	47	46	45	44	43	72	109	154	
123	82	81	80	79	78	77	76	75	74	73	110	155	
122	121	120	119	118	117	116	115	114	113	112	111	156	
	169	168	167	166	165	164	163	162	161	160	159	158	157
	Dec 21												

This example, Chart #113, is only one solution to the problem, but it shows a possible use for the Square of Nine in terms of time cycles and prices lining up. We'll come back to the astrology of the Square of Nine in the next section, but I know many of you Gann "groupies" want to know more, such as, what is it? Here are my speculations. First, I'm reasonably certain that this is a picture of the Great Pyramid of Giza viewed from the top down. As a Mason, Gann knew the occult significance of the Great Pyramid, and how it is the only structure on Earth that incorporates all the history of religion and numbers and mathematics in its form. The Pyramid not only solves the age-old problem of squaring the circle, but also squares the triangle and uses the phi and pi ratios at the same

Gann Square of Nine

time. The circle inscribed within the pyramid's base, plus the circle that squares the base, is the distance from the Earth and the Moon. Therefore, we have a structure that incorporates the distances and radius of the Earth, Moon, and Sun, with the perimeter the exact number of days of the year. The slope of the pyramid is 1/7 of 360, or 51.51 degrees, which creates a right triangle with a square root of phi ratio of 1.27 and a hypotenuse of 1.618. Most of the other relationships of the Pyramid are planetary and the Gann square shows various circles (see Original Gann square chart) that "square" the squares. These circles appear to represent orbits of planets, since the circles intersect 225 (Venus), 361 (Earth) and 625 (Mars?). The first orbit could also be the master planet Uranus (7x12), since 361 is the square of 19, which is the distance of Uranus from the Sun compared with the Earth, and 19x19 is 361, so that this orbit "squares" the earth. The first full cycle of the Square of Nine ends with this 19 square, or 361, and on the chart you'll see that the first circle is inscribed within that square. Nineteen is a special number, the sum of 7 plus 12, which are the 7 days in the Bible, and the 12 tribes of Israel, and 7x12 is the length of Uranus' orbit, or almost exactly 84 years. Gann loved to use the number 7 in everything and Uranus spends 7 years in each sign, but 1/7th of the circle is 51.51 degrees (right triangle), which sets up the Fibonacci ratio (triangle sides 1, 1.27, 1.618). There is very strong evidence that Uranus is the ruler of the United States, since every 84 years since the time of Columbus in 1492, there is a major event in U.S. history.

The first big circle that hits 361 or 19x19 is also the only square that has 72 numbers in it (361-289), so there is a direct one to one translation of 5 degrees per number ($360/72=5$). All the other squares have fractional translations.

When you put the square and triangles overlaying the Square of Nine, you construct Ptolemy's monochord diameter. This is the side of a hexagon and Gann students know well how important the hexagon chart was to Gann. The monochord diameter of

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120 creates a radius of 60, and 60×60 is 3,600. The square bisects this chord at 60 and the trine cuts that chord at the musical fifth. The trine also sets up an inscribed hexagon (equal to the radius) as it rotates around the circle. Where the angles of the square and the trine cross, you find musical harmonics in the Square of Nine and major time and price changes in stocks...but that's another course.

Chapter 10

GANN'S ASTROLOGICAL METHODS

Gann believed in numerology and astrology. The two are not the same. A Numerologist espouses that numbers are alive and carry with them a sort of magical power. We believe the same when in a religious ceremony we name our children or change a name due to illness. The numbers that relate to the letters in a name grant powers to the individual. The Hebrew alphabet is entirely interchangeable as to numbers and letters. That is a key to the Bible in that the words are numbers and vice versa. Gann used numbers to predict stock prices but he felt the energy was also coming from the planet. In particular he believed in a theory that had been around since the early 1800's, that in the eclipse cycle of the sun and moon, they act as large electromagnets and as the eclipses take place electromagnetic radiation fluxes on the earth, and that people buy and sell stocks according to the energy released. Most of Gann's writings were disguised through the use of angles and buzzwords like "cycles" that stood for planetary movements. It is not my purpose to teach you astrology here, as that would take several books, but I will mention the basics well enough so that you will understand the Gann method and will be able to do research on your own. We will go through some of the basics that you'll need to know in order to comprehend the theory and put it into practice. If you're a skeptic and do not believe in astrology, all I can say is take the time to read through the material and then make up your mind. It's been my experience that after 30 years of trading the markets, and

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20 years of studying astrological methods, only the astrological material is worthwhile. This course, however, concentrates on basic principles that will help you to make money, whether or not you truly understand the origin of square roots, astrology, or trendlines, etc.

The Bible states that there are twelve tribes of Israel, and twelve Disciples of Christ, and these represent the twelve signs of the zodiac. The zodiac (circle of animals) is a circle drawn about the earth following the sun's path (ecliptic) that is divided into twelve 30-degree segments. Each of these 30-degree segments, or "houses," rule an area of life like health, money, marriage, career, etc. As planets pass through these areas as they circle the earth, the energy of the planets manifests, in accordance with the strength and "rulership" of the particular planet. The zero or starting point has been set at Greenwich, England for reasons too esoteric to explain for this work. This is the same longitude system shown on any map which starts 0 degrees at Greenwich. Each 30 degrees is a sign of the zodiac, but on maps in our time system we have 24 hours in a day and the earth (sun) makes a circle in one day, so that each hour of time is 15 degrees ($360/24\text{hr}=15$). This is why the Gann square has 15-degree segments that can be used for hourly trading. New York City is 75-west longitude from England so the time difference is 75 divided by 15 degrees, or 5 hours difference.

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The names of the twelve houses of the zodiac are as follows along with their symbolic rulers and meanings:

Sign/Degree	Symbolic Meaning	Planetary Ruler
Aries 0-29	Who You Are, Health, Temperament	Mars
Taurus 30-59	Money, Business, Wealth	Venus
Gemini 60-89	Communication, Transportation	Mercury
Cancer 90-119	Property, Mining, Exploration	Moon
Leo 120-149	Speculation, Advertising, Amusements	Sun
Virgo 150-179	Army & Navy, Labor, Food, Health	Mercury
Libra 180-209	International Relations, Partnerships, Law, Spouse	Venus
Scorpio 210-239	Taxes, Death, Foreign Finance, Portfolio Mgmt	Mars
Sagittarius 240-269	Courts, Religion, Shipping, Insurance	Jupiter
Capricorn 270-299	President, Career, Business Conditions	Saturn
Aquarius 300-329	Ideals, Bonds, Policies, Good-will	Saturn, Uranus
Pisces 330-359	Secrets, Limitations, Jail, Hospitals, Research	Jupiter, Neptune

Most of the above concerns symbolic interpretation and is not necessary for first principles in stock trading. Later you will see that it makes a big difference whether Jupiter is in the second money house or Saturn is. For now, you just need to be able to observe what happens when a planet goes from one sign to another to see a change.

In the previous chart most of the planets, except Uranus, can be seen with the naked eye and the days of the week are named after them. They are, in order of the weekdays: Sun, Moon, Mars, Mercury, Jupiter, Venus, and Saturn. Saturn is the last one visible with the naked eye, and Uranus wasn't discovered until the last two hundred years.

After Uranus come Neptune and Pluto, which were only discovered in the past one hundred years. These have effects on the market, but the ancients couldn't see them, and therefore the older writings don't mention them. All seven planets out to Saturn, which can be seen with the naked eye, have a joint orbital period of 60 years, at which point all seven again return to the same zodiac position. Therefore, the 60-year cycle was always considered the "Master" cycle. I might add that Uranus, the next planet after Saturn, has an orbital period of 84 years. This seems a strange coincidence since there are 12 signs of the zodiac, and the seven previous planets would each get to spend a year in each of the twelve signs by the time Uranus next comes around ($12 \times 7 = 84$).

Many traders start off studying astrology by getting an ephemeris and looking up the planets to see when the planets are making contact, or have angular differences, or are just changing signs. An ephemeris is simply a thick book that contains planetary listings and is available in most bookstores or libraries (although it may be in the occult section). Most are computer-generated listings showing each date from January 1, 1900, to January 1, 2000. The updated ephemerides for the next century are coming out now, but you'll need the old one to study past market movements during this century. They cost about \$15-\$18, and of course, you can also buy computer programs to run on your own computer. An example of a typical ephemeris page is shown in the charts. It should be noted that there are at least three types of ephemerides that you would use as an astrologer in the stock market. The most common is the "Geocentric" or *earth centered* that is the standard for 90% of this type of work and for all horoscopes. The "Heliocentric" is *sun centered* and shows planetary positions as viewed from the sun. This shows the earth as a planet, but does not show the moon. You need the heliocentric positions since the planets always go around the sun in a circle and their orbital periods are quite precise. Conjunctions between planets in heliocentric terms can only *occur once* each orbital return, whereas

with geocentric coordinates the planets appear to go backwards (retrograde) and forwards (stationary direct) for up to nine months at a time and you may find multiple conjunctions of the same planetary pairs. This is why Gann had a rule that a stock could make a double or triple bottom, but the fourth time it always went through. Two planets frequently conjunct three times then they usually go on their way. The third type of ephemeris is the Sidereal ephemeris, which is used in India, and is based on a geocentric *fixed star system that places the zodiac where it was about 400 AD*. Our modern day system is about 24 degrees ahead of this, so that when Saturn is at zero Aries in our geocentric tropical system it is only about 6 degrees of Pisces in the geocentric Sidereal system. Note that both tropical and sidereal systems are earth centered or geocentric, and not heliocentric. Interestingly, all three systems produce excellent results even though the placements are quite different.

Planets are useful for stock trading purposes because their orbits are precise and as they return to the same orbital location, stocks frequently work out the same patterns they did in the past. To the uninitiated this is not noticeable, since many of the time periods are of great lengths like 84 years or 30 years and most traders don't have old stock records. The orbital periods of the planets are as follows:

Sun	365.25 days
Moon	29.5 days
Mercury	88 days
Venus	225 days
Mars	687 days
Jupiter	4,332 days (11.86 years)
Saturn	10,759 days (29.46 years)
Uranus	30,706 days (84.07 years)
Neptune	60,199 days (164.82 years)
Pluto	90,801 days (248.6 years)

If the stock market followed these simple orbits it would be easy, but in reality it is combinations of planets that are important. We are incapable of completely knowing the influence of the planets, since we can think in only two or three dimensions (like planetary pairs). In reality there is a simultaneous attraction by gravitational forces on each and every planet all the time, and at all big stock market turns you will find multiple aspects between all the planets in multiple dimensions. Try conceptualizing a twelve dimensional structure and you can see the human limitation. Planetary pairs in two dimensions, however, do work very well and are well worth studying. My personal philosophical approach is to use the energy "footprints" the planets leave behind on charts. Regardless of how hard it may be for the human mind to comprehend the intricacies of all the planets, the complete system produces arcs and trendlines and patterns that repeat. If we can identify one or two pairs of planets, we can analyze the pattern in the charts and still come up with a good interpretation by looking at the past pattern when the two were similarly situated.

To understand how Gann used all this, you need to know how to calculate planetary conjunctions and combination aspects. The word "aspect" simply refers to an angle between two planets such as 30 degrees, 60 degrees or even 17 degrees. In theory each and every aspect from 1 to 360 degrees means something, but by and large we stick to the 15 degree harmonics of 15, 30, 45, 60, 75, 90, 105, 120, 135, 150, 165, 180, ...360.

We call the 0 aspect the conjunction, the 30 degree the semi-sextile, the 45 degree the semi-square, the 60 the sextile, the 90 a square, the 120 a trine, the 135 the sesquiquadrate, the 150 an inconjunct, and the 180 the opposition. The 0, 45, 90, and 180 aspects are considered bad, while the 30, 60, and 120 good.

When two planets come within an orb of influence of one of these aspects, things usually change. Stocks also change directions when individual planets change sign, or go from one zodiac sign to another, or when planets go retrograde, or return direct.

In order to watch for planetary pairs, such as combinations between Jupiter and Saturn, we need to note their differing orbital speeds. In the chart previously shown Jupiter had an orbital period of 11.86 years and Saturn 29.46 years. Jupiter is faster, since it takes less time to complete one full orbit of the Sun. These periods are based on earth years of 365.25 days per year. The question that presents itself is this: what is the period of time between conjunctions (0 degree aspect, or both at the same longitude) of Jupiter and Saturn? This combined periodicity is called the synodic period. You can calculate synodic periods by subtracting the ratio of one over each separate orbital period and subtracting each from each other ($1/P_1 - 1/P_2 = 1/\text{combined}$). The resulting fraction is then divided into the number one to get the combined frequency. For example, Jupiter's period is 11.86(4,332 days) and Saturn's is 29.46(10,759). The ratios are $1/11.86$ and $1/29.46$. One divided by 11.86=.084317 and one divided by 29.46=.033944. Subtracting one fraction from the other we get .0503727. Dividing this number into 1 we get 19.852 years, or 7,251 days. This means that every 19.852 years, or 7,251 days from each Jupiter/Saturn conjunction, there will be another one. The other aspects will also repeat with that frequency, but not because of differences in their placements in the orbit. Obviously, this is the 20-year cycle and you should be able to just mark off on your chart paper every 20 years to see the result, but it's not quite so simple. This is due to the retrograde positions of both planets in the year in question, and they could go back and forth, yielding one to three (rarely more but sometimes) conjunctions that year. Those conjunctions could give all highs, all lows, or a combination of highs and lows on each date. Of course the heliocentric (Sun centered) conjunction occurs only once and that's the one you want to locate for pure timing purposes and long range forecasting.

In astrological terms when we talk about "cycles" we really mean planetary periods. This has always been a secret buzzword among knowledgeable traders. The famous

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ten-year cycle is largely the Jupiter/Saturn cycle of 20 years, since you can only have angular separations between planets of up to 180 degrees and then you repeat, since 179 degrees is the same as 181 degrees. Another harmonic of the ten-year cycle is that it is 120 months, and Saturn moves at approximately one degree per month on the average, therefore it goes 120 degrees in ten years. Gann often talked about angles of one point per month. This was a veiled message in which he meant the average Saturn movement. Listed below are several well-known cycles and some of their causes:

Cycle:	Possible cause:
5 years	90 degree Jupiter/Saturn
7 years, 7 1/2	Uranus 30 deg., Sat 90 deg.
10 years	180 Jup/Sat, 120 deg Sat
12 years, 12.46, 12.78, 13.81 years	Jupiter, Jup/Plu, Jup/Nep, Jup/Ura
15 years	270 Jup/Sat, Mars, 180 Sat
20 years	Jup/Sat
30 years	Saturn
33 years	Sun
33.42 years	Saturn/Pluto
35.87 years	Saturn/Neptune
45.362 years	Saturn/Uranus
60 years	3x Jup/Sat, also 1 st 7 planets return
84 years	Uranus

Most traders who use astrology simply take a major high or low and write down the planetary positions on that date both geo and helio, and then calculate when in the

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future individual planets or combinations will form with those degrees. You could spot Saturn at 14 degrees Aries at a market high and watch for 14 degrees of all the other signs, or you could work on pairs like Jupiter and Saturn being separated by 17 degrees, or any other separation they made at a high or low, and watch when they move apart 15, 30, 45, etc. degrees from that 17 degree origin, or in other words when they were 17+15, 17+30, 17+45 degrees apart from the origin. This works all the time, particularly with helio positions. Others cast horoscopes, but I find the subjectivity of that too difficult to teach others until they have had several years experience. If you do cast a horoscope, use the first day of actual trading when the buying and selling start, and not, as is commonly thought, the date of incorporation. The examples at the end of this section give some astrological methods to follow.

Gann believed the subconscious or unconscious mind of the masses somehow kept track of planetary positions. We know many animals relate to moon cycles, and even women's menstrual cycles are lunar cycles, so it could follow that some innate biological system keeps track of planetary energies. To Gann's way of thinking people knew exactly where the positions of the planets were, and converted those positions into prices. For instance, suppose some trader is sitting at his desk watching IBM trade all day. If the planet Saturn affected IBM and Saturn was located at zero degrees Cancer, or 90 degrees into the zodiac (see chart for degrees), then the trader would start trading IBM at a \$90 price. As Saturn increased one degree the price of IBM would go up \$1. Similarly, if a planet was located at 14 Aquarius (314 degrees into the circle of 360), then the price could be \$314 or \$31.40, or \$3.14 for possibly, wheat. Gann found that planetary positions translated into prices in a direct proportion to their longitudes and moved point for point. The difficulty was that not all translations were dollar for degree, but some involved fractions. Proportions were the key. Sometimes the minimum movement of a stock of an

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eighth (before the recent change) was related to a degree, so that it took 8 degrees to move the stock \$1. The universal constant was the fact that all circles have 360 degrees, like the zodiac, and the price range of the stock or commodity should be translated into that 360-degree range. Sometimes that took the form of the range between the life of contract high and the life of contract low to be equivalent to 360, or the long-term high and low of a stock being divided into 360 segments. An index like the Dow Jones would be in complete cycles of 360, so that at current levels near 9,000 we would have 25 full cycles of 360 ($360 \times 25 = 9,000$). This past summer, on July 17, 1998, the market topped at approximately 9,358. My hot-wire listeners heard me forecast for a few weeks that this would be the final high on that date and at that price for the following reason: 9,358 is 25 full cycles of 360 or 9,000 and 358 left over. That 358 in zodiac terms is 358 degrees or 28 degrees Pisces. On that date the great bull planet Jupiter was located at 28 degrees Pisces and furthermore, that night it was dead stopped, stationary in the sky, going retrograde. It did a very similar thing at the final high in August 1987. I knew for a number of reasons that as Jupiter went "backwards" at 9,358 the market would reverse and do the same. The rest is history. Many may ask why Jupiter and not Saturn or Mars? Well the answer is simple but slightly more complex to explain. It has to do with prior highs and lows and multiple harmonics from the past. For instance, Jupiter was the "trigger" on this July 17th, but exactly 8 years earlier there was a solar eclipse and the market topped prior to the Gulf War. The planet Venus makes an exact return to the same degree every 8 years, and was at the same position in 1998 and in 1990 at the final high. There were several other combinations, but we want to return now to our study of the Gann Square of Nine, or the square of 24, or square of 36. These are all astrological conversion dials.

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Our first step is to convert the degrees of the zodiac to numbers or dollars so we have:

Deg:	1 st Cyc	2 nd	3 rd	4 th	5 th
Aries	0-29	360-389	720-749	1,080	1,440 ETC
Tau	30-59	390-419	750-779	ETC	ETC
Gem	60-89	420-449	780-809		
Can	90-119	450-479	810-839		
Leo	120-149	480-509	840-869		
Vir	150-179	510-539	870-899		
Lib	180-219	540-569	900-929		
Sco	220-239	570-599	930-959		
Sag	240-269	600-629	960-989		
Cap	270-299	630-659	990-1019		
Aqu	300-329	660-689	1,020-1,049		
Pis	330-359	690-719	1,050-1,079		

The table is self-explanatory but you simply start another cycle after 360, 720, 1,080 etc. You can make a large spreadsheet on excel or such, or just subtract the number 360 from your number until the remainder is in the first column. If your stock is 84, it's 24 Gemini (30+30+24); if the Index is 1,180, it's (1,180-1,080=100) 10 degrees Cancer. If the Dow Jones is 8,950 (8,950-24x360=310), it's 10 Aquarius.

To use this you take your number and convert it to a zodiac position and look in the ephemeris to see if anything is at that location. If not, try an aspect to that location like 30, 60, 90, or 180 degrees away. Using the Gann wheel, you spin the plastic overlays of a square and a triangle to point to the outer circle with the days of the year (degrees of the

zodiac), and the other corners of the square and triangle will show you the other degrees along the outer circle that may be the cause. For instance, if you set the triangle point to 17 degrees (April 7-8th, 17 Aries) then the other trines will be $120+17=137$ and $240+17=257$, and those dates are 17 Leo on August 10, and 17 Sagittarius on December 10th. The square points are 107 degrees and 197 degrees and the dates are July 10th and October 11th. These other dates are important, since if the current date is a high or low it will most likely make an angle to a prior date of another high or low which would fall on one of those calculated dates. Since this may be confusing, let's try some examples. Your stock appears to be topping and you want to check it out. The stock's price is \$30 and today's date is November 1, 1998. You look in the ephemeris and see under November 1, 1998 that Saturn is exactly square Neptune at 29 degrees Aries 30 minutes (there are 60 minutes to a degree, i.e. 30 min is $\frac{1}{2}$ degree) and Neptune is 29 Capricorn 30 minutes. This tells us that a major astrological event is taking place that day at about \$30 (29 $\frac{1}{2}$ Aries) and therefore a major change in direction would be warranted (hard angular aspect between two major planets). To go further you would look up the last aspect between Saturn and Neptune and see if your stock reacted to it. As mentioned earlier, most traders just want to make a quick buck so they will look up the ephemeris page for the current day and note any major planetary aspect, planets changing sign, or unusual degree locations from prior highs or lows in history they may have noted or have circled on the Gann wheel. This exercise will usually prepare them for the day, and since most turns come out within 5 minutes of the expected aspect, they are quite ready to watch the tape at that time and just go with the trend after the aspect hits, or planet changes sign. In theory, if planets work this way (planetary positions convert to price levels), then after an aspect of change occurs the long-term trend should start to deviate. On major indexes and averages like the Dow Jones that are made up of many diverse stocks this change in trend is often very subtle and

the prices may not move much for a day or two. The basic rule to follow is this: mark on your charts the closing price of the Dow Jones, or your individual stock, on the date of the planetary aspect. If over the next day or two the price trades above or below that price level, you go with that trend, putting a stop just above or below the price on the date of the aspect. That new trend will usually stay in effect until the next major planetary aspect, which could be days to weeks away. Even if you can't find a specific price correspondence between a planet and a price on a given date, know that the combinations of the planets are indeed summing up to that price that day, and until that price is regained the trend has changed as the planets have moved on.

If planets were being translated into numbers by the unconscious minds of the masses so that Saturn at 90 degrees represented \$90, then we should be able to plot on our chart paper a line moving each day with the longitude of Saturn for that day. We could then watch the stock go up and down following that line. As the stock's price hit the line, changes in trend would manifest just like a trendline, and that line would either become support if found below the stock's price, or resistance if found above. The real key, however, to spotting change in trend was not just the line of Saturn, but what would happen when Saturn made an aspect like 30, 45, 90 degrees etc., with another planet. If Saturn was at 90 degrees and Mars was moving faster going at a rate of 1 degree per day, while Saturn was 1 degree per month, at some date the Mars line would go up and cross the Saturn line. That crossing point would often pinpoint the stock's price projection for that date and its price. The aspect between the two planets would change the energy at the moment of contact, and the stock's cycle would change and the stock would change direction. Gann kept his charts by hand and overlaid all price charts with these planetary lines of longitudes. The only difficulty here was the translation of degree of longitude for each dollar of price. On slow moving planets like Saturn it might be one dollar of each quarter

degree, while with fast moving Venus it might be 25 cents in price for each degree. Once you found the fit, however, it would be consistent for years to come on that particular stock or commodity. Gann preferred commodities like wheat, since only one or two planets were needed, while with stocks you have hundreds of differing industrial groups and many different ruling planets. Sometimes Jupiter doesn't do anything for a stock and only the Sun and Mercury do. Sometimes it is Uranus and Pluto. The combinations are endless and that is why you should specialize in a handful of stocks that you know well and work out the planets that rule them.

Years ago, I discovered that Motorola only moved to combinations of Venus and Pluto (see Chart #144), and all I had to do was track those aspects, especially the trines and sextiles, for very big moves. In addition, when Venus was exalted in the sign of Pisces, things really went wild! The key here would be to know the stock moved to the cycle of Venus and Pluto, and to look for upcoming dates when those planets would be in aspect, and then translate those longitudes into prices to get the stock's target price. That translation could be done on the Square of Nine wheel, or another Gann square, but the best approach utilizes many different disciplines that give the same result. The best of these would be to simply look at the chart of Motorola for the last time those two planets were at the same aspect and see if the chart pattern was similar. It often was the case, and if the exact price levels weren't repeating, the same percentage moves up or down from recent highs and lows would be evident and could be projected onto the current case.

Now I know many of you who are unfamiliar with this will be skeptical, so I will now go through a full planetary cycle of Jupiter and Saturn as Gann would. There are numerous other aspects, time periods and sign changes that are significant, but these are not included in this course. I'll point out some techniques for further research, but for now I really just want to cover the fundamental principles.

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I mentioned earlier that the 60-year cycle was the master and also that all 7 planets come back to the same signs every 60 years. The 60-year cycle is the third 20-year cycle of conjunctions of Jupiter and Saturn, and these are mentioned numerous times in the Bible as being the keys. Jupiter and Saturn have three 20-year conjunctions in like quality signs and then they move on to another group. At the 60-year interval most of the qualities like Air, Earth, Fire, or Water would be the same and the market's characteristics would be similar. Much could be said about the "Great Mutation" of 240 years duration wherein Jupiter and Saturn have 12 twenty-year conjunctions and complete a full cycle, but I'll leave that for your research. The last one occurred in 1842 and is good until the year 2082.

Throughout the Bible you'll find many references to time periods that are multiples of the Jupiter (Jehovah) Saturn periods, such as 20, 40, 60, 120, 240, 360, 480, 800, 840, 900 etc. and these are meant to point out significant astrological events. In stock trading, the primary swings are usually Jupiter and Saturn in combinations and this is what causes the big economic cycles in the economy. Other combinations are Jupiter or Saturn with Uranus, Neptune, Pluto, or the Nodes of the Moon. To demonstrate this technique we will look at the Jupiter Saturn conjunction of 1921, and the resulting 1929 crash and Great Depression.

To start our lesson we review the first postulate of all cycle work; know where the cycle starts from to project the cycle forward. Many beginning traders use a cycle such as 10 years, and just look every 10 years from every high and low, indiscriminately, thinking the cycle will come out. This sometimes works, but it's strictly hit or miss. In astrological forecasting the cycles always start at the conjunction or zero aspect between two planetary pairs. To further simplify things we will use the helio conjunction at first, as there's only one of these and can be no debate about what period to start the count from. The geocentric conjunction often has three different starting points and all give good results, but one starting point is much easier to keep track of. The helio conjunction of Jupiter/Saturn for the 1920's occurred on August 23, 1921 and would be operative until the next one in 1941. The degree of the Zodiac was 27.2 Virgo (.2 means 2 minutes or 2/60 in decimal). The charts on the next few pages show the Dow Jones and the location of each

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15-degree separation. You would have to be a very hardened skeptic not to see that every major swing of significance was timed almost perfectly by this combination. For clarification, I left unmarked, moves correlating to other combinations coming out.

Chart 114

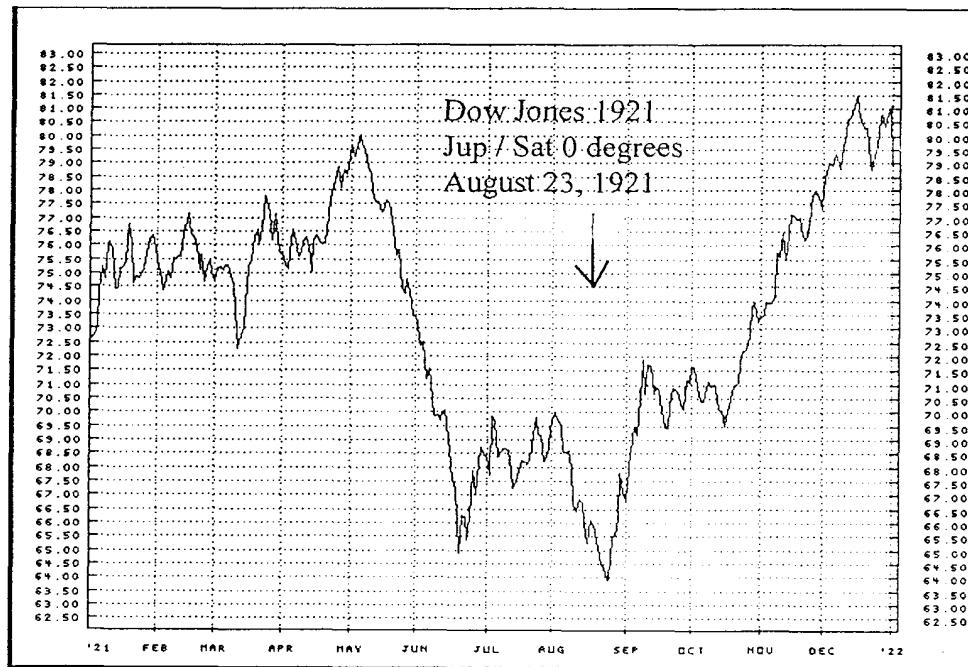
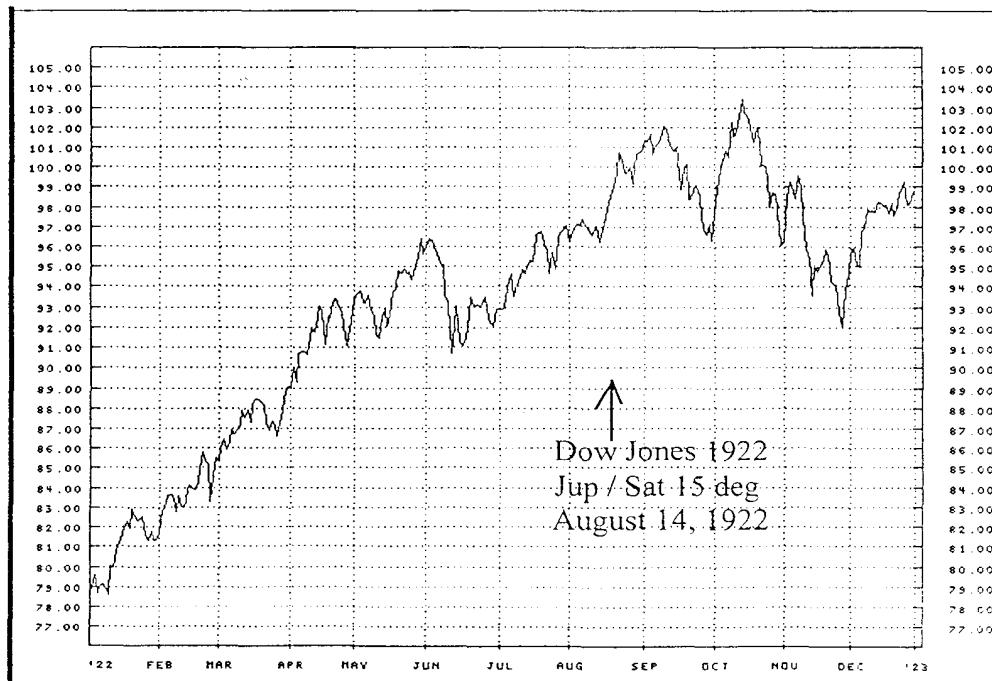


Chart 115



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

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Chart 116

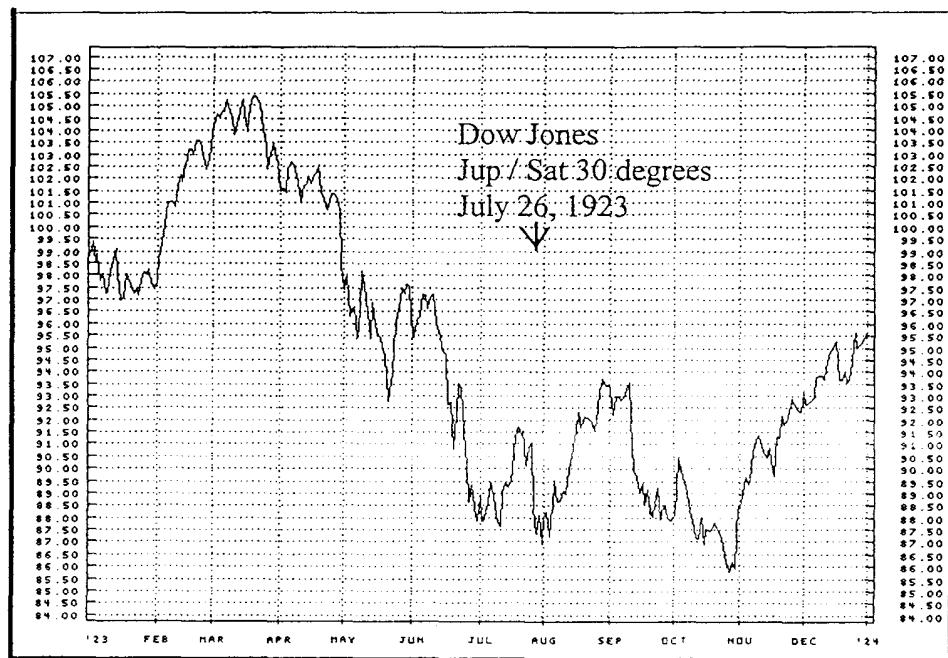
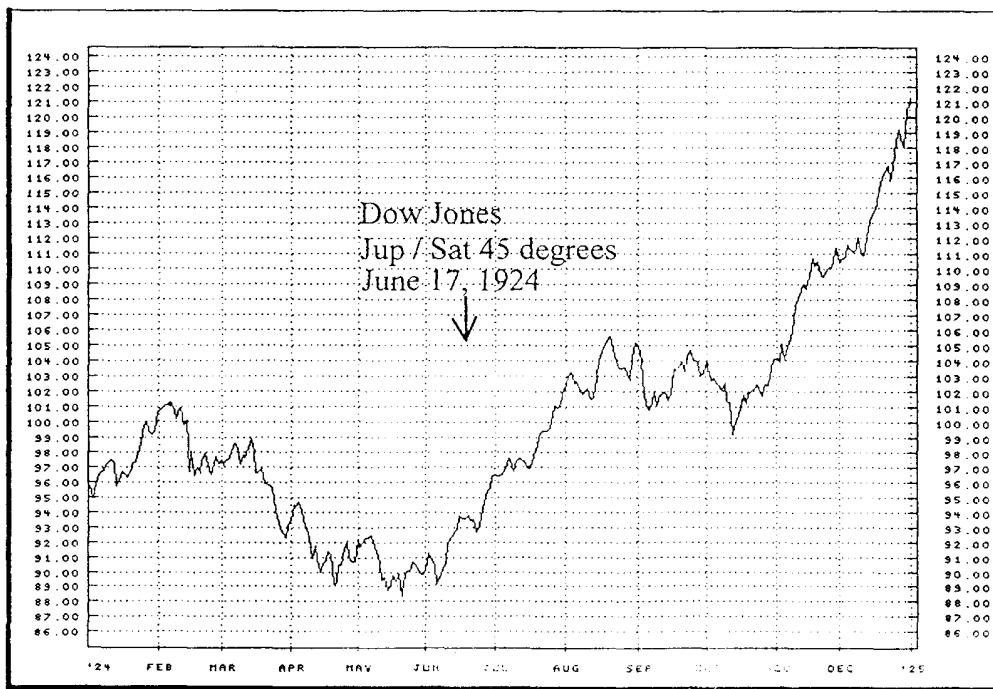


Chart 117



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

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Chart 118

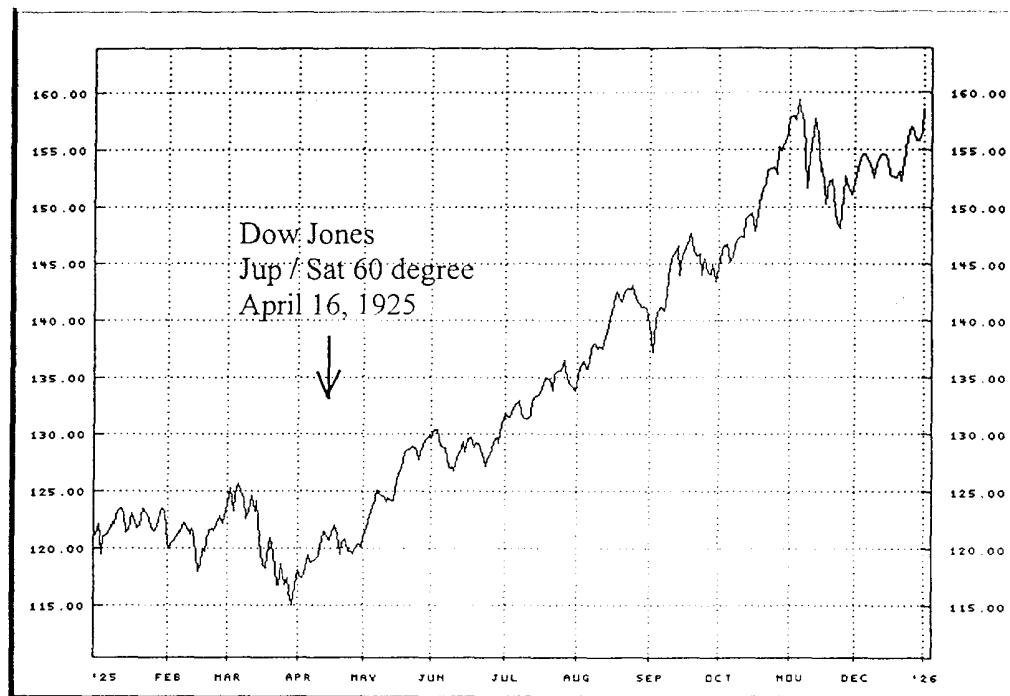
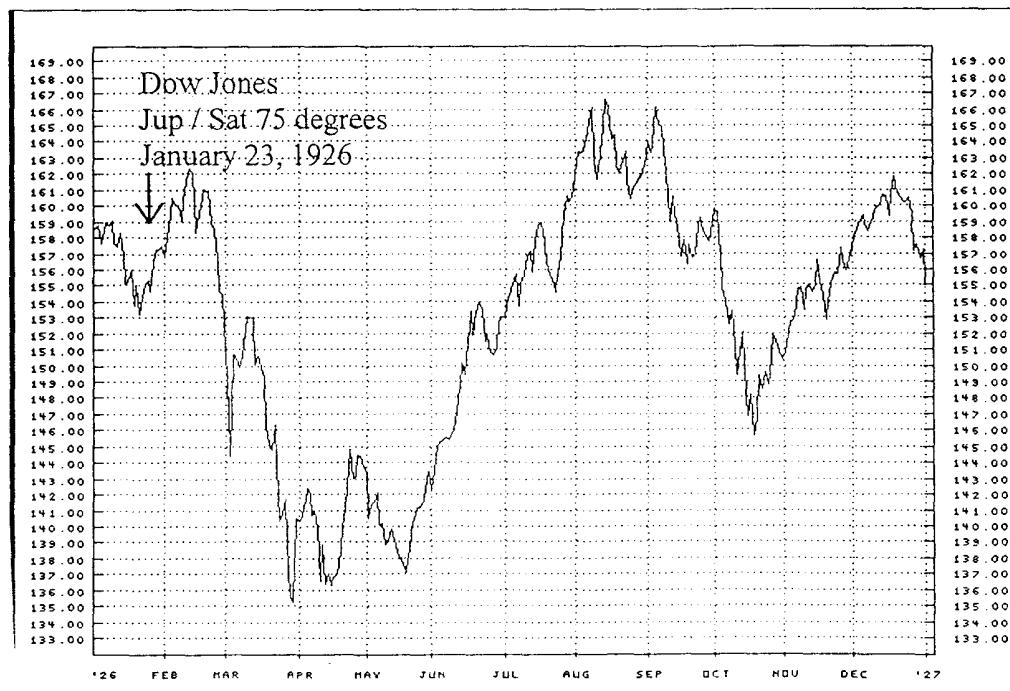


Chart 119



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 120

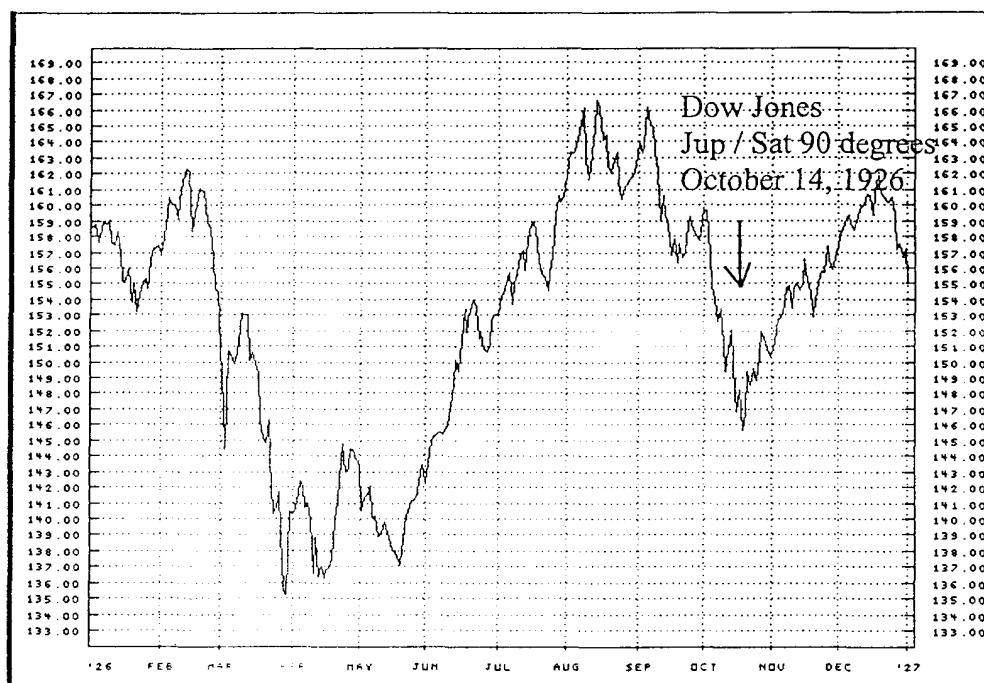
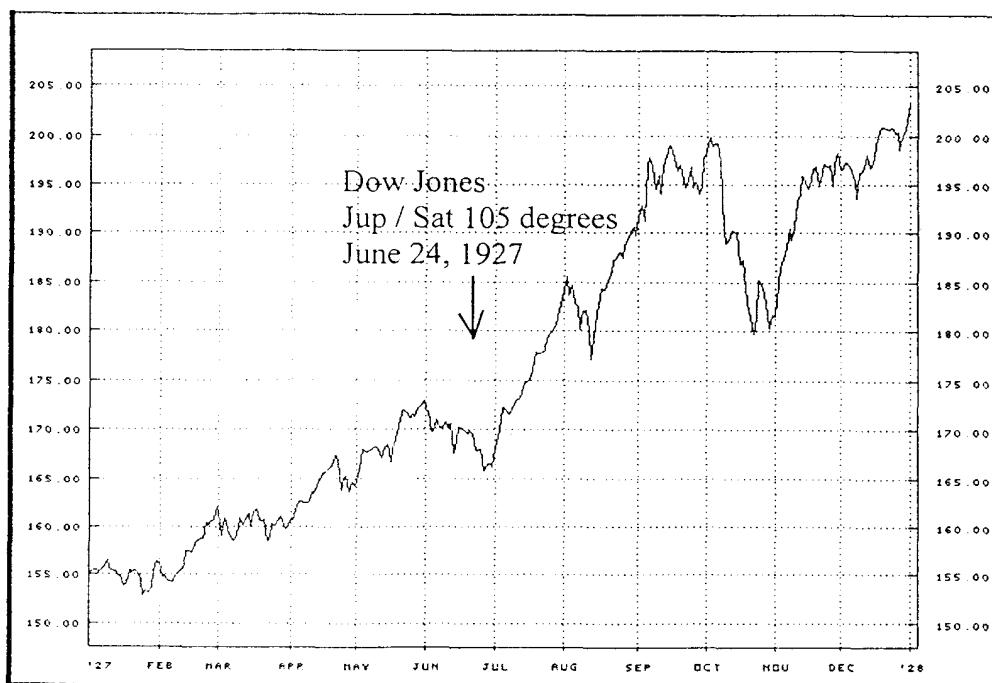


Chart 121



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

CHART 122

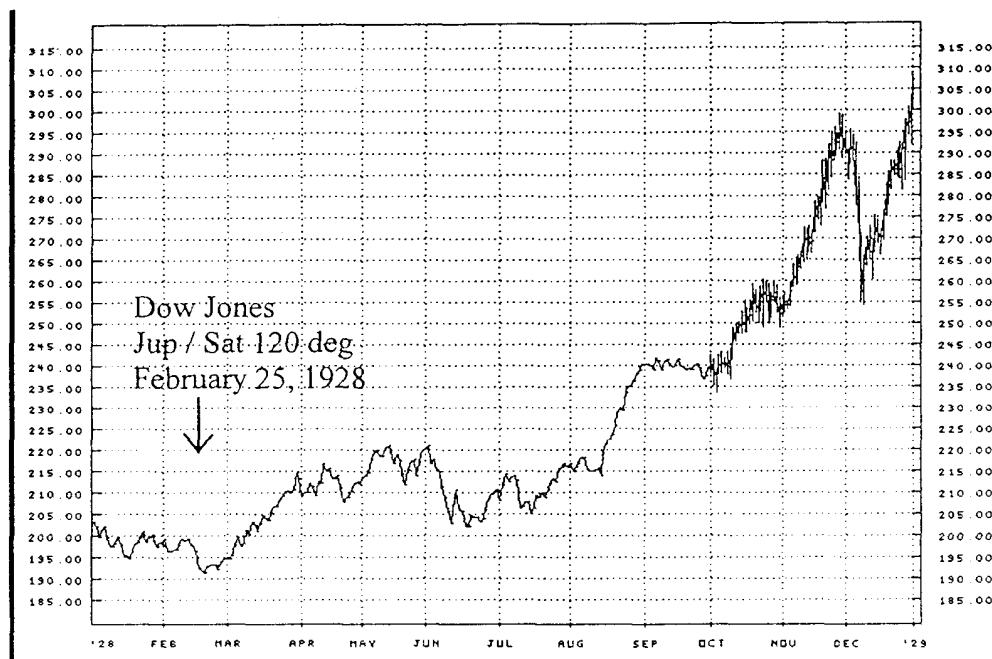
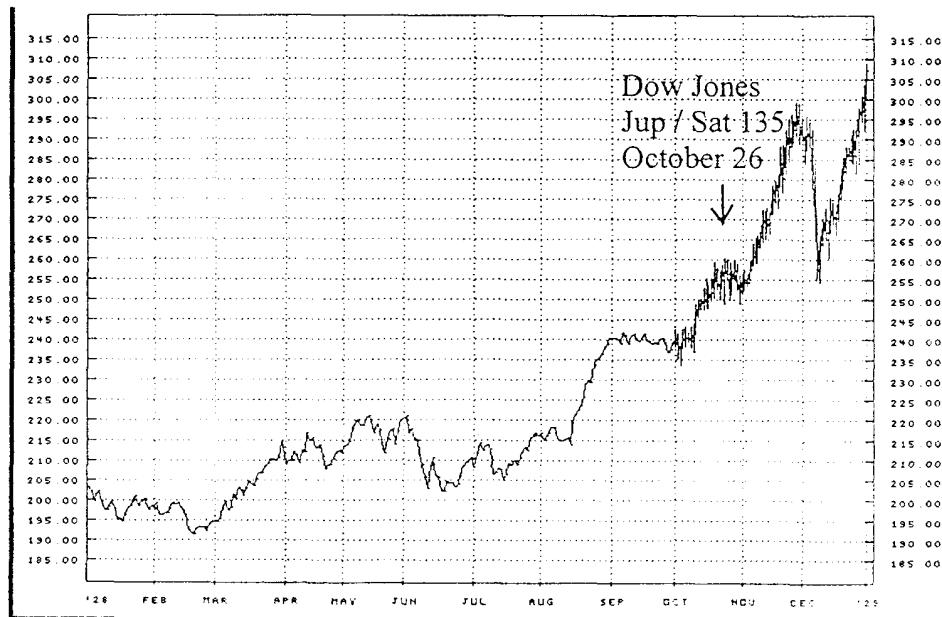


Chart 123



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 124

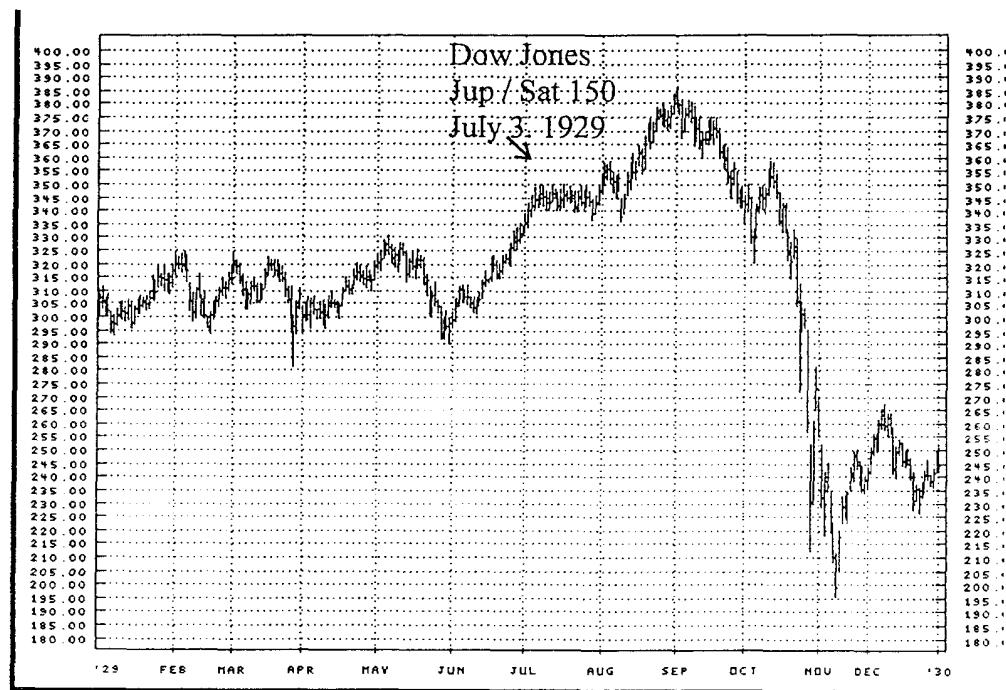
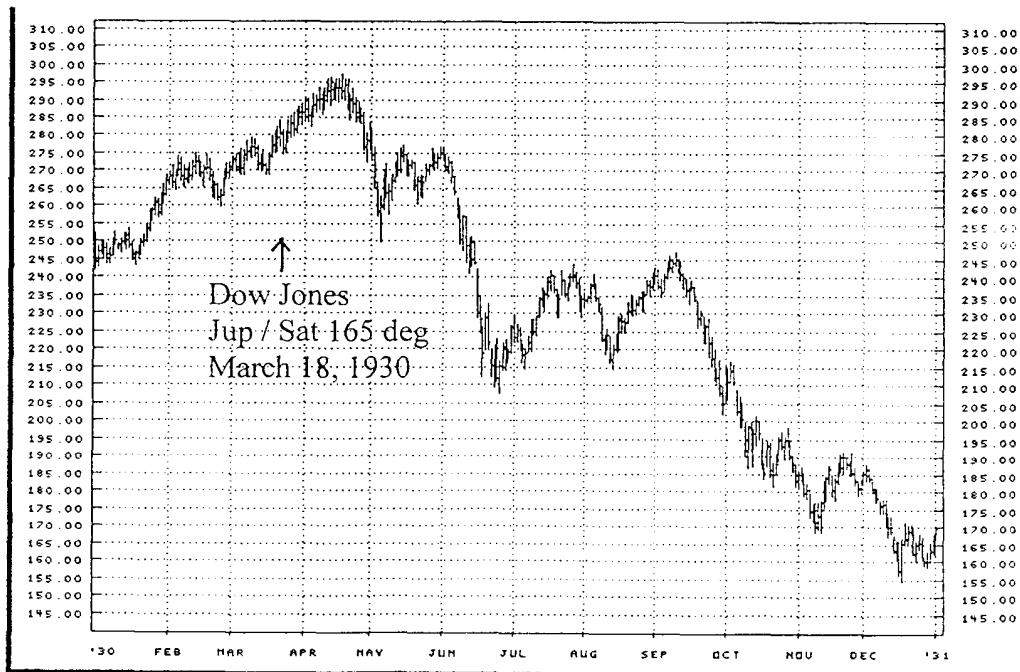


Chart 125



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 126

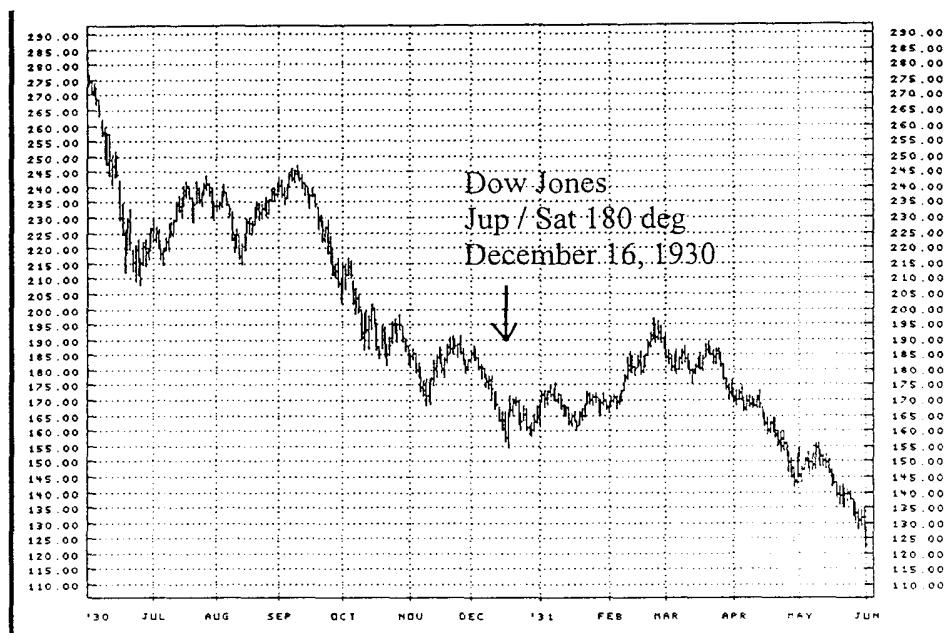
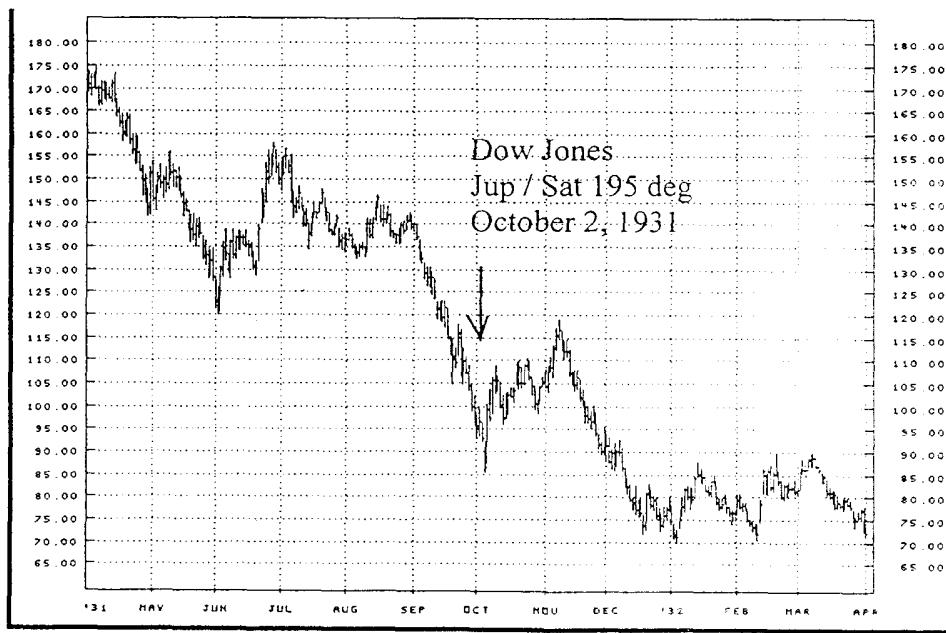


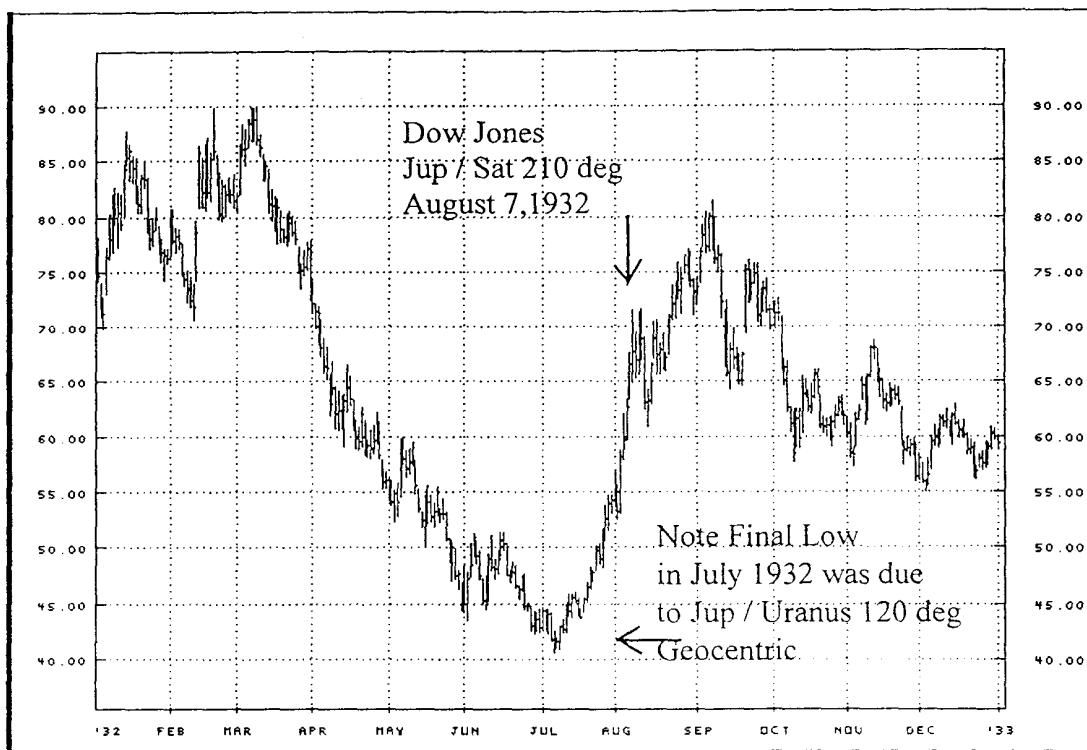
Chart 127



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 128



I've stopped here at 210 degrees of the Jupiter Saturn cycle only to save room for more examples of another technique, but these should be sufficient to see that they are all near important turns and are the causative agent. As you study these charts, remember that you're looking for big swing moves in the market, from each aspect to the next. In all the above, most of these were truly significant from a trading perspective and led to good forecasts for the next several months. In the cases where the aspect seemed to just miss by a few weeks, remember that there are many other planetary configurations involved, and my purpose here is only to highlight the Jupiter Saturn combinations and to emphasize that they are one of the primary cycles in the market.

MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

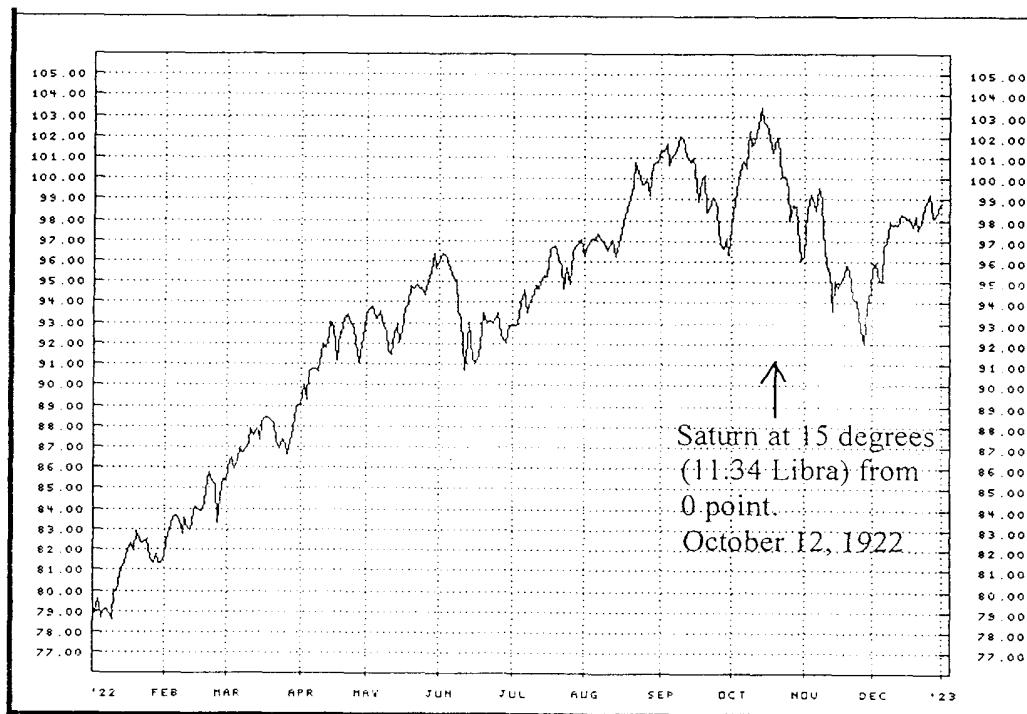
We'll now turn to another Gann technique that ties in the Square of Nine and the wheel methods more directly. In astrological theory, when a cycle starts by a conjunction of two planets it's like throwing on a big electrical switch, and that specific conjunction point becomes a permanent "hot spot" until the next conjunction. For Jupiter/Saturn it's 20 years, but to a lesser extent 60 years and also 240 years. Solar eclipses also form hot spots that are good until the next eclipse. The method involves looking for a "triggering planet" that crosses the hot spot sometime after the aspect event. The most famous instance that comes to mind was the start of World War I, with the assassination of the Archduke on the day that Mars (martial, war planet) hit the eclipse point set up a few months earlier. At the same kind of Mars conjunct, the eclipse point triggered off the October 1987 stock market crash. On a day to day basis you can record the points of the Solar and Lunar eclipses, and then watch daily for any planet to contact that point, especially hard aspects like conjunctions, squares and oppositions. These bring about very good market trades.

This technique is the basis of Gann's wheels and greatly facilitates the use of Jupiter and Saturn in the stock market. I'll illustrate this by using the geocentric conjunction of Jupiter and Saturn, which occurred on September 10, 1921 at 26.34 Virgo. Note that the helio conjunction was 27.2 Virgo. We now place this hot spot point on a Gann wheel and set our squares and trines to this 26.34 Virgo. The 15 degree aspects will now be 11.34 Libra, 26.34 Libra, 11.34 Scorpio, 26.34 Scorpio, 11.34 Sagittarius, 26.34 Sagittarius, 11.34 Capricorn, 26.34 Capricorn, 11.34 Aquarius, 26.34 Aquarius etc., all around the wheel. We now watch for daily transits of the big planets as they aspect these points. Mars, Uranus and Neptune make for nice moves, but for this study we'll limit our observations to just Saturn. When you're dealing with geocentric aspects the retrograde movements cause each planet to often make at least three contacts with each 15 degree angle and soon the charts get cluttered up. If you try this yourself and follow the path of Saturn

Gann's Astrological Methods

or Jupiter in the ephemeris you'll see why Gann made a wheel where he could record the aspects on the outer circle. Keeping track of all those forwards and backwards transits can be very confusing without circling those hot spots on circular graph paper. Now, we can use computer programs to quickly print out a listing of all transits to specific points and the dates they occur. Easier, though more time-consuming, the Gann wheel is still more graphical and makes it easier to see what's going on. With the first helio examples, I took you through the 1932 low and the aspect between Jupiter and Saturn was 210 degrees. When we use transits of the individual planets, their orbital periods may only make it possible to go through a few angles before the whole cycle is over. Saturn has a 30 year orbit, so that it won't complete a full circle to all the conjunction points before the next 20 year conjunction occurs. In this example the 1932 low (ten years out) is only 120 degrees of Saturn's orbit. The next several charts will show the Saturn transits.

Chart 129



Gann's Astrological Methods

Chart 130

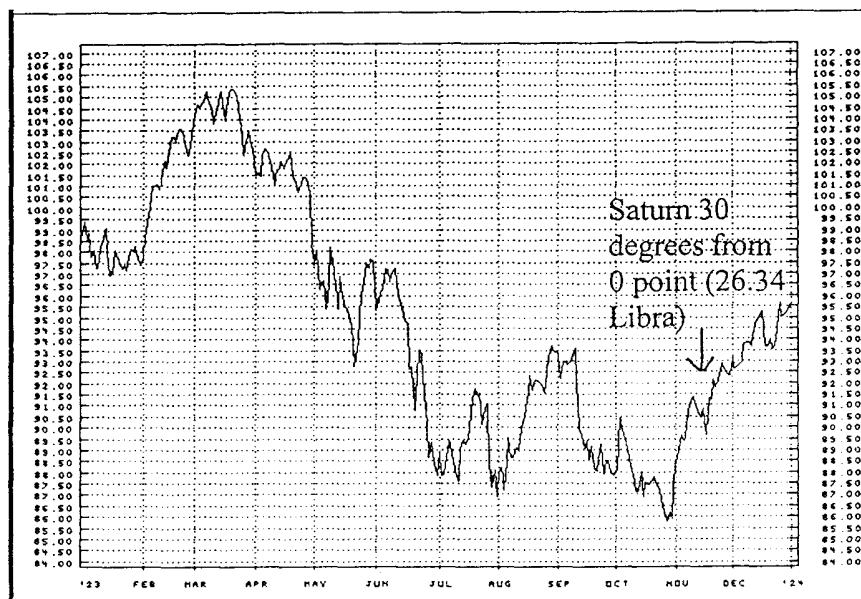
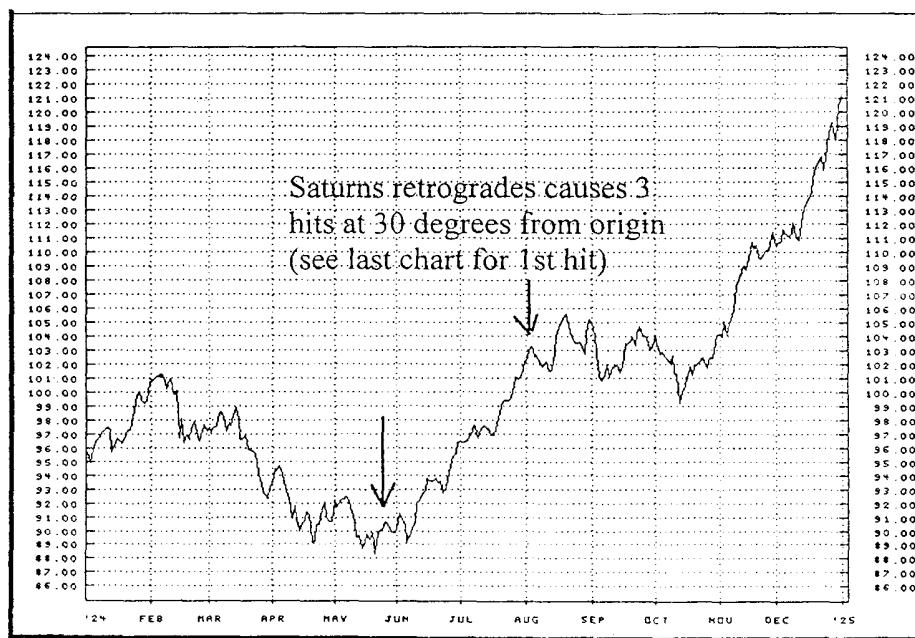


Chart 131



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 132

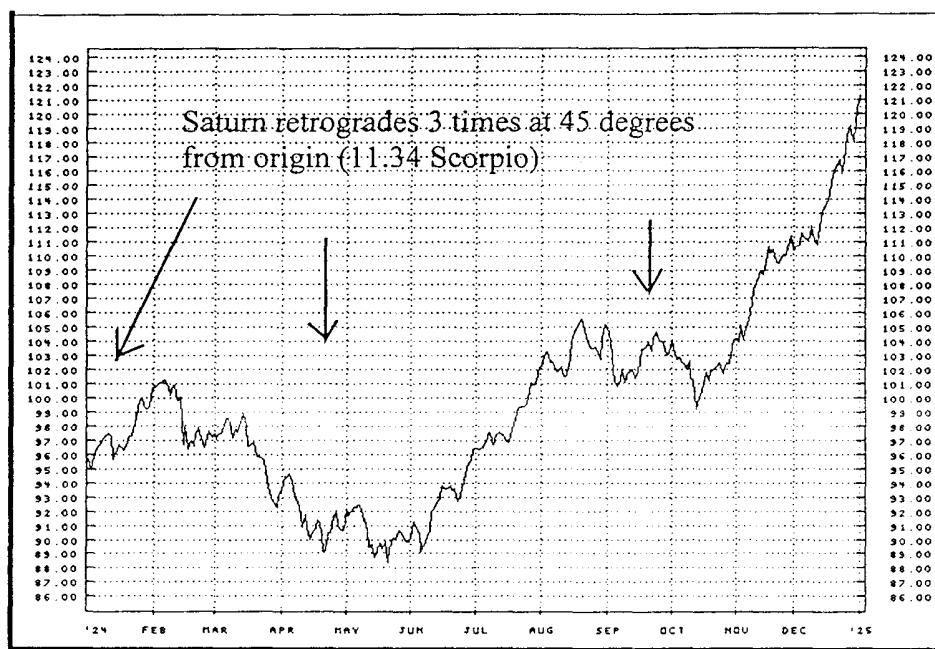
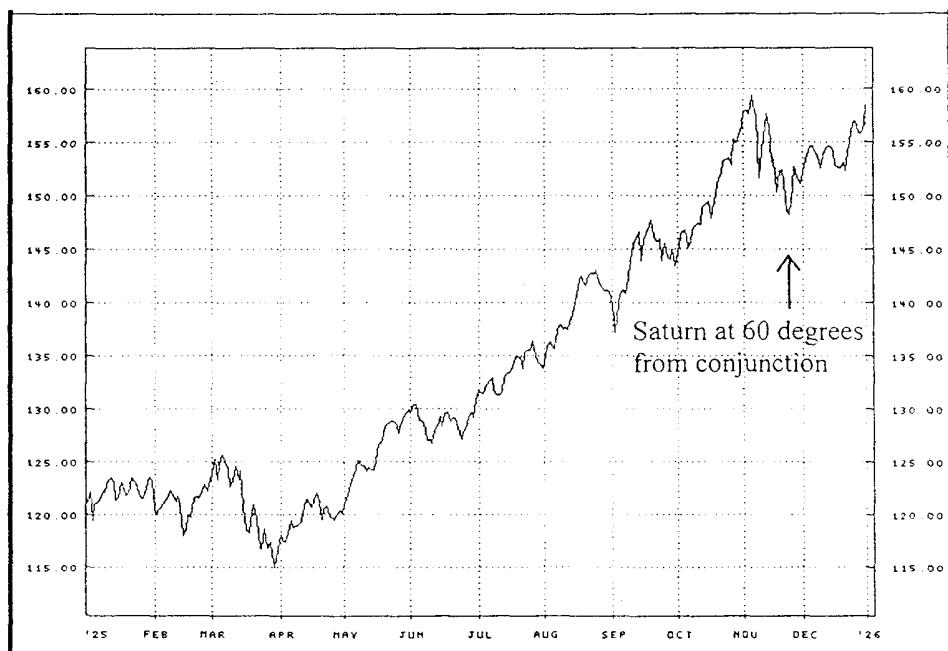


Chart 133



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

Chart 134

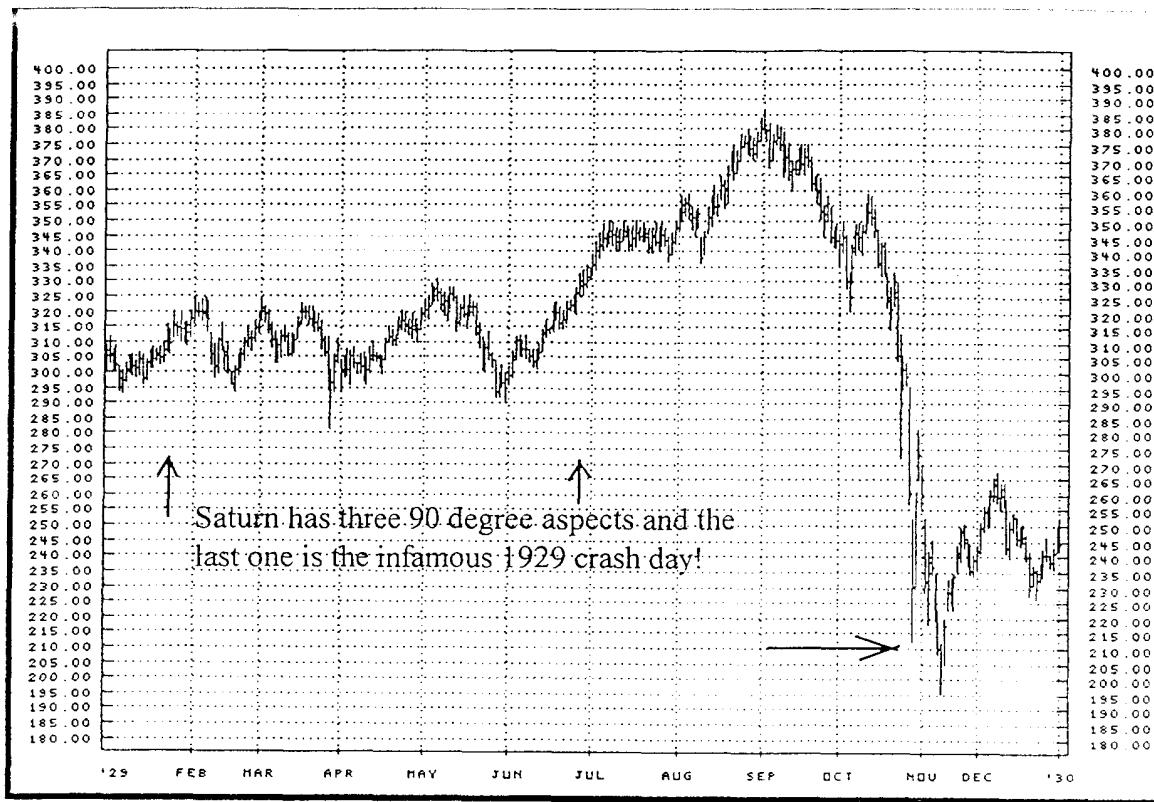
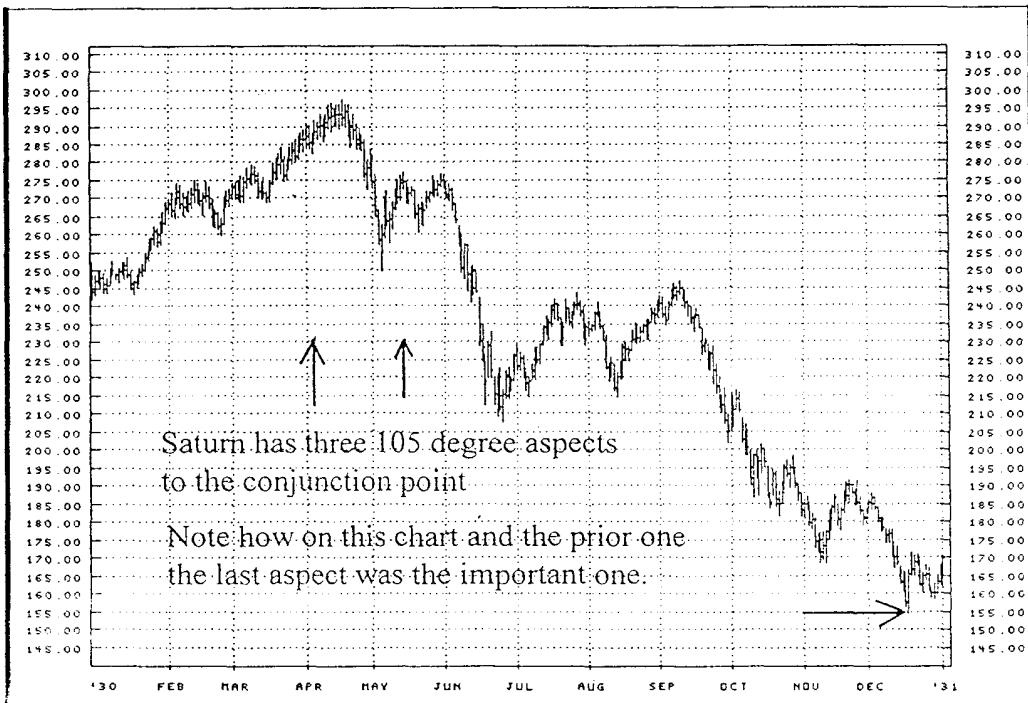


Chart 135



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

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Suffice it to say that when the planets aspect the major conjunction and opposition points of the big planetary pairs (Jup/Sat, Jup/Ura, Sat/Ura, Jup/Nep, Sat/Nep, Ura/Nep, and Pluto) the market changes direction. Major bull and bear markets begin and end on multiple combinations of such aspects.

Separating what is important from what is not in using astrology and the planets with trading stocks can be very frustrating. That's why I've tried to emphasize the fundamental principles such as the Jupiter Saturn conjunction cycle. One very important and closely kept secret that Gann, Jensen, Bayer, and a number of others used, was the 9-degree separations of Jupiter and Saturn. Recall that the full 20-year cycle is 360 degrees, so that one individual year will average 18 degrees of movement, and half of that is 9 degrees, and that could be another reason why the square of 9 is so important. Although each 9-degree separation is important, the full year cycles of 18 degrees breaks down as follows into very reliable predictive aspects:

Bullish Angles of Jup/Sat:

18	27
36	54
72	126
90	180
162	

Bearish Angles of Jup/Sat:

These work both in geocentric and heliocentric systems and if you check them out on the prior charts you'll see some great trades. You might also want to experiment with the idea that the above chart gives rise to a technique of "one year up," "one half year down," "one half year up," "one year down" etc.

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I might add here that in general, the favorable aspects are 30, 60, 120, and 150 degrees, the unfavorable being 45, 90, 180, and 0, and the Quintiles (1/5 of 360) are the “triggers” for big moves. The root quintiles are 72, 144, 216, 288. These divided by 8 gives the 9-degree root of the above table ($72/8=9$).

Much has been said of the Jupiter/Saturn combinations and the use of the “big” planets, but I would be remiss if I didn’t mention one of the great modern astrological forecasters of the day who just recently passed away. LCdr. David Williams (*Financial Astrology*) relied quite heavily on the Mars/Jupiter combinations that had an average synodic period of 2.2353 years giving rise to alternating conjunctions and oppositions that created the well-known stock market cycle of four to four and a half years. I had the privilege of seeing Mr. Williams’ forecasts for a number of years and the accuracy of these Mars/Jupiter aspects made a believer out of me. Mars is the great giver of energy to the markets and whenever it’s around money making moves are at hand. All the standard aspects of 0, 30, 45, 60, 90, and 180 work well and time the market beautifully. I never overlook an upcoming Mars/Jupiter contact.

Before leaving Mars, I might also mention that the simple changing signs of Mars from one house of the zodiac to another, every month and a half, always energizes the market within one day, and those stocks or commodities that vibrate to that house rulership are the ones that really take off.

Additionally, Mars and Uranus are considered “bad guys,” and when they get together there are always big market crashes. All the major collapses are Mars/Uranus cycles, the 180-degree opposition in particular. Mars should not be overlooked in your work for short-term trades of three to six weeks, even if it doesn’t affect the very long-term picture, as do Jupiter, Saturn and the outer planets.

Chart 136

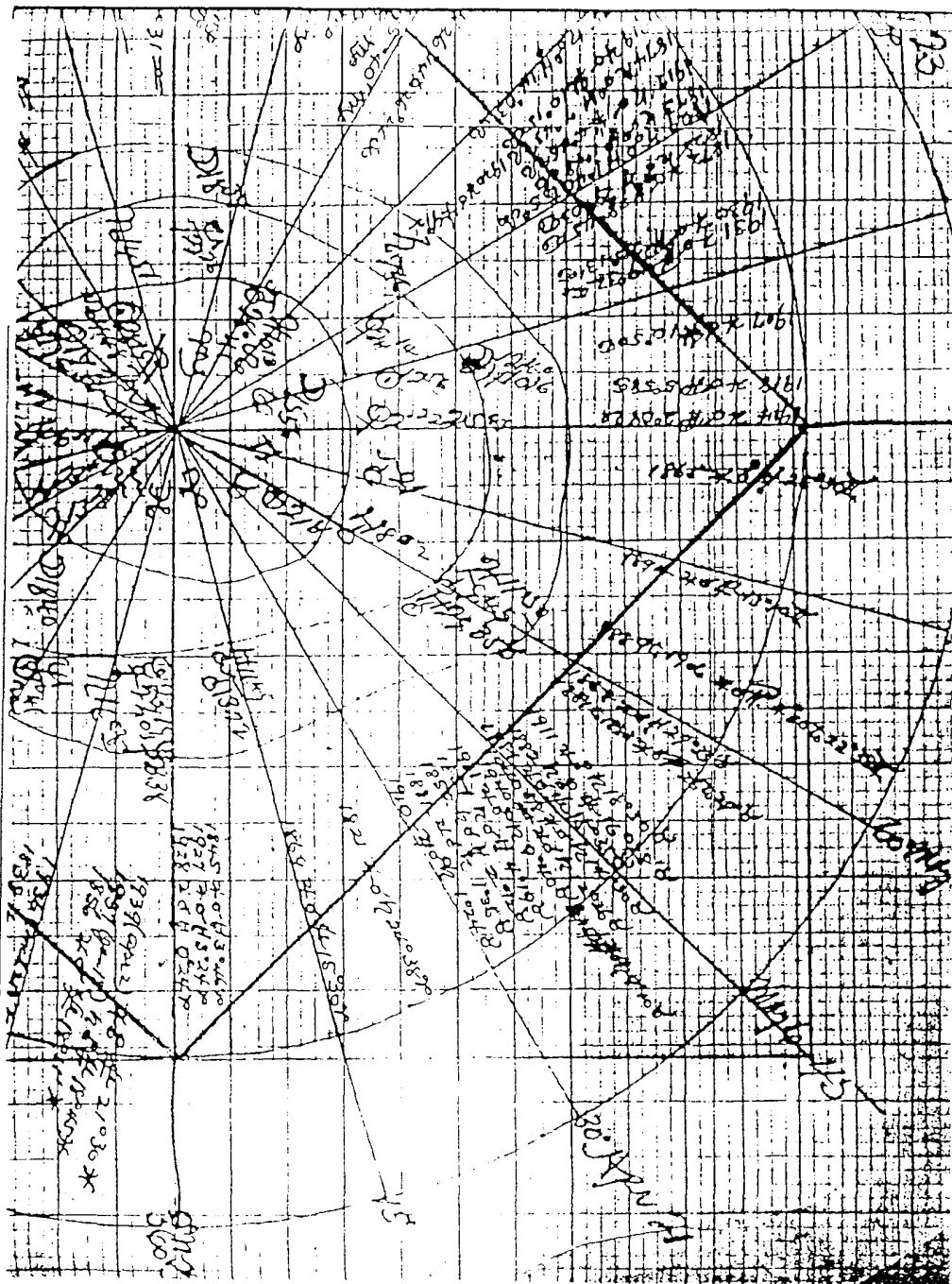


Chart #136 is a partial copy of one of Mr. Gann's personal charts showing the wheel with 15-degree spokes and all the conjunctions and oppositions of the large outer planets are clearly recorded going back 100 years.

MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

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TYPICAL EPHEMERIS PAGE SHOWING JUPITER'S PLACE ON JULY 17, 1998

Chart 137

JULY 1998

LONGITUDE

Day	Sid. Time	⊕	☽	12 hr ☽	True ☽	☽	♀	♂	☿	♃	♄	♅	♆	♇	♈	♉	♊
1 W	18 35 23	8 58 56	0 27 25	6 24 24	21 55.9	0 0.6	7 II 41.9	26 II 21.1	27 H 35.4	1 052.7	11 59.8	1 = 22.5	5 250.1				
2 Th	18 39 19	9 56 9	12 20 14	18 15 34	2R56.1	1 36.8	8 53.3	27 1.9	27 38.6	1 57.0	11 R57.9	1 R21.0	5 R48.8				
3 F	18 43 16	10 53 21	24 11 2	0 m 7 16	2 54.8	3 10.8	10 4.7	27 42.7	27 41.6	2 1.3	11 58.0	1 19.5	5 47.5				
4 Sa	18 47 13	10 50 32	6 m 4 49	12 4 15	2 51.7	4 42.5	11 16.2	28 23.4	27 44.4	2 6.5	11 54.0	1 18.0	5 48.3				
5 Su	18 51 9	12 47 44	18 6 4	24 10 43	2 46.7	6 11.9	12 27.8	29 4.1	27 47.0	2 9.6	11 52.0	1 16.5	5 45.0				
6 M	18 55 6	13 44 55	0 18 35	6 29 58	2 40.0	7 39.1	13 39.4	29 44.8	27 49.4	2 13.6	11 50.0	1 15.0	5 43.6				
7 Tu	18 59 2	14 42 6	12 45 9	4 18	2 32.2	9 3.9	14 51.0	0 25.4	27 51.6	2 17.5	11 48.0	1 13.4	5 42.7				
8 W	19 2 59	15 39 17	25 27 31	1 354 49	2 24.0	10 26.4	16 2.7	1 5.8	27 53.7	2 21.4	11 46.0	1 11.9	5 41.5				
9 Th	19 6 55	16 36 28	8 128 11	1 30	2 16.2	11 48.5	17 14.4	1 46.4	27 55.5	2 25.2	11 43.9	1 10.4	5 40.4				
10 F	19 10 52	17 33 40	21 40 35	28 23 15	2 8.7	3 4.2	18 26.1	2 26.9	27 57.2	2 28.8	11 41.8	1 8.8	5 39.3				
11 Sa	19 14 48	18 30 51	5 9 14	11=58 16	2 5.0	14 19.4	19 37.9	3 7.3	27 58.7	2 32.4	11 39.7	1 7.2	5 38.2				
12 Su	19 18 45	19 28 3	18 50 5	25 44 23	2 D 2.3	15 32.1	20 47.2	3 47.7	28 0.0	2 35.9	11 37.5	1 5.7	5 37.1				
13 M	19 22 42	20 25 14	2 40 55	9 39 23	2 16.6	16 42.2	22 1.7	4 28.0	28 1.1	2 39.3	11 35.4	1 4.1	5 36.1				
14 Tu	19 26 38	21 22 27	16 39 35	23 41 18	2 2.3	17 49.8	23 13.6	5 8.3	28 2.0	2 42.7	11 33.2	1 2.5	5 35.1				
15 W	19 30 33	22 18 40	0 7 44 13	7 T 48 15	2 3.6	18 54.2	24 25.6	5 48.5	28 2.7	2 45.8	11 31.0	1 0.8	5 34.1				
16 Th	19 34 31	23 16 63	14 53 9	21 58 44	2 R 4.7	19 56.1	25 37.6	6 28.7	28 3.2	2 49.0	11 28.8	0 59.3	5 33.1				
17 F	19 38 28	24 14 7	29 4 45	6 10 58	2 4.8	20 64.9	26 49.7	7 8.8	28 3.5	2 52.1	11 26.5	0 57.7	5 32.2				
18 Sa	19 42 24	25 11 22	13 0 17 7	20 22 53	2 3.5	21 50.8	28 1.8	7 49.0	28 R 3.6	2 65.0	11 24.3	0 56.0	5 31.2				
19 Su	19 46 21	26 8 38	27 27 55	4 31 50	2 0.6	22 43.5	29 14.0	8 29.1	28 3.5	2 57.9	11 22.0	0 54.4	5 30.4				
20 M	19 50 17	27 5 54	11 II 34 14	18 34 41	1 56.4	23 32.9	0 26.2	9 9.1	28 3.2	3 0.7	11 19.7	0 52.8	5 29.5				
21 Tu	19 54 14	28 3 11	25 32 44	2 27 59	1 51.4	24 18.9	1 38.5	9 49.1	28 2.7	3 3.3	11 17.4	0 51.2	5 28.7				
22 W	19 58 14	29 0 29	8 20 0	8 25	1 46.4	25 1.3	2 50.8	10 29.0	28 2.1	3 5.8	11 15.1	0 49.6	5 27.9				
23 Th	20 2 7	28 57 47	22 62 64	29 33 12	1 42.1	25 40.0	4 3.1	11 8.9	28 1.2	3 8.4	11 12.8	0 47.8	5 27.1				
24 F	20 6 4	0 55.6	6 0 9 7	12 40 33	1 38.8	26 14.8	5 15.5	11 48.8	28 0.1	3 10.8	11 10.4	0 46.3	5 26.4				
25 Sa	20 10 0	1 52 25	19 7 27	25 29 53	1D37.0	26 45.6	6 27.9	12 28.6	27 58.9	3 13.1	11 8.1	0 44.7	5 25.6				
26 Su	20 13 57	2 49 46	1 IV 47 58	8 7 15 55	1 36.6	22 12.2	7 40.4	13 8.4	27 54.7	3 15.3	11 5.7	0 43.1	5 25.0				
27 M	20 17 53	3 47 6	14 12 1	20 18 37	1 37.3	27 34.4	8 52.9	13 48.1	27 55.7	3 17.3	11 3.3	0 41.4	5 24.3				
28 Tu	20 21 50	4 44 27	26 22 7	2 22 58	1 38.7	27 52.0	10 5.4	14 27.8	27 53.9	3 19.3	11 1.0	0 39.8	5 23.7				
29 W	20 25 46	5 41 48	8 23 41	18 14 48	1 40.4	28 9	11 18.0	15 7.4	27 51.8	3 21.2	10 54.6	0 38.2	5 23.1				
30 Th	20 29 43	6 39 10	20 14 53	26 10 32	1 41.8	28 13.0	12 30.6	15 47.0	27 49.6	3 23.0	10 58.2	0 36.6	5 22.5				
31 F	20 33 40	7 36 33	2 6 19	8 25 1	1R42.5	28R 16.0	13 43.3	16 26.6	27 47.2	3 24.7	10 53.8	0 35.0	5 22.0				

Chart 138

AUGUST 1998

LONGITUDE

Day	Sid. Time	⊕	☽	12 hr ☽	True ☽	☽	♀	♂	☿	♃	♄	♅	♆	♇	♈	♉	♊
1 Sa	20 37 36	8 33 56	14 R 0 45	20 3 0 34	17 42.3	28 14.0	14 56.0	17 5 6.1	27 H 44.5	3 026.3	10 = 51.4	0 = 33.3	5 / 21.5				
2 Su	20 41 33	9 31 20	2 7 6	2 6 22	1R41.2	28 R 6.8	16 8.7	17 45.6	27 R 41.7	3 27.8	10 R45.0	0 R31.7	6 R21.0				
3 M	20 45 26	10 28 44	8 17 20	14 30 18	1 39.2	27 54.4	17 21.5	18 25.0	27 38.7	3 32.1	10 45.6	0 30.1	5 20.5				
4 Tu	20 49 26	11 26 9	20 47 40	27 9 45	1 35.6	27 36.0	18 34.2	19 13.3	27 35.6	3 30.4	10 44.2	0 28.6	5 20.1				
5 W	20 53 22	12 23 35	10 35 49	10 0 54	0 1.0	27 31.0	19 47.0	19 43.7	27 32.2	3 31.6	10 41.8	0 27.5	5 19.7				
6 Th	20 57 18	13 21 2	16 46 22	23 28 54	1 31.4	26 45.5	21 0.4	20 23.0	27 28.6	3 32.7	10 39.4	0 25.4	5 19.4				
7 F	21 0 15	14 18 29	0 16 27	7 = 8 46	1 23.3	26 12.2	22 13.0	21 27.2	27 24.9	3 33.6	10 37.1	0 23.8	5 19.1				
8 Sa	21 5 12	15 15 58	14 5 37	21 6 29	1 28.0	25 37.6	23 26.0	21 41.4	27 24.9	3 34.5	10 34.7	0 22.3	5 18.6				
9 Su	21 9 9	16 13 27	28 10 58	5 K 18 21	10 27.5	24 57.2	27 39.0	22 20.6	27 16.8	3 35.3	10 32.3	0 20.7	5 18.5				
10 M	21 13 13	17 10 57	12 K 28 21	19 40 8	1 27.7	24 13.5	25 52.1	22 53.7	27 12.7	3 35.9	10 29.8	0 19.2	5 18.3				
11 Tu	21 17 2	18 8 29	25 5 38	4 T 6 46	1 26.3	23 27.2	27 5.2	23 38.8	27 8.2	3 36.5	10 27.5	0 17.6	5 18.1				
12 W	21 20 58	19 6 2	11 27 20	18 33 39	1 28.2	23 38.9	28 18.3	24 17.9	27 3.6	3 36.9	10 25.2	0 16.1	5 18.0				
13 Th	21 24 55	20 3 30	2 35 45	18 25 55	1 28.9	21 49.7	29 31.5	25 58.9	27 3.7	3 37.3	10 22.8	0 14.6	5 17.8				
14 F	21 28 51	21 1 12	10 0 53 4	17 12 21	1R30.4	21 0.3	0 314.6	25 35.9	27 3.6	3 37.5	10 20.5	0 13.1	5 17.7				
15 Sa	21 32 48	21 58 50	24 16 41	1 I 18 20	1 30.4	21 18.8	1 51.8	26 46.8	3R7.6	10 18.1	0 11.6	5 17.7					
16 Su	21 36 44	22 56 29	8 K 17 7	15 12 52	1 30.0	19 25.0	3 11.4	26 53.7	26 43.6	3 37.7	10 15.6	0 10.1	5 17.7				
17 M	21 40 41	23 54 10	22 5 26	25 45 45	1 29.4	18 41.0	4 24.6	27 32.6	26 36.2	3 37.6	10 13.5	0 8.7	5 17.7				
18 Tu	21 44 38	24 51 52	5 K 40 42	12 23 15	1 28.6	18 0.7	5 38.2	26 11.4	25 32.6	3 37.4	10 11.2	0 7.2	5 17.7				
19 W	21 48 34	26 40 35	18 2 20	25 37 55	1 27.9	17 24.8	6 5 5	26 50.2	26 26.8	3 37.1	10 8.9	0 5.8	5 17.8				
20 Th	21 52 31	26 47 21	2 20 10 0	8 38 34	1 27.5	16 54.3	6 5 1	26 28.9	26 21.0	3 36.7	10 6.7	0 4.4	5 17.9				
21 F	21 56 27	27 45 7	15 3 38	21 25 16	1 27.2	19 28.9	0 47.6	27 26.0	36.2	10 4.4	0 3.0	5 18.0					
22 Sa	22 0 28	28 42 55	27 43 31	2 37 45	16 11.9	30 12.2	0 46.3	26 8.9	35.6	10 2.2	0 1.6	5 18.2					
23 Su	22 4 20	29 40 45	10 7 10 17	16 19 6	1 27.4	16 0 1.1	1 4.58	2 4.48	26 2.8	3 34.9	10 0.0	0 0.2	5 18.4				
24 M	22 8 17	0 38 36	22 25 7	28 35	1 27.5	16 27.9	1 57.7	2 3.5	26 56.2	3 34.1	9 57.6	0 28.5	5 18.7				
25 Tu	22 12																

Gann's Astrological Methods

There are many old Gann courses around that he sold throughout the 1930's until his death. Even in the Great Depression he was getting \$5,000 for these courses, so he knew they were quite valuable. Because many people couldn't afford them, he sometimes made smaller courses that were cheaper, but left out the real "secrets." I have several original courses of his and they are all a little different, but basically say the same thing. Gann never openly talked about astrology, except to his course buyers, and he hid the meanings in the body of the text. He did, however, leave plenty of clues for serious students to find the real meaning, such as 60 months or degrees as the 5-year cycle, which referred to Saturn's average movement of one degree per month, or about 60 degrees in five years. The cycle wasn't to go 5 years to 5 years, but from an important longitude that Saturn was in five years ago to the one exactly 60 degrees further in the next five-year period (like the Jup/Sat conjunction point). What follows is a good example of Gann's use of astrology in which there can be no doubt as to his veiled code. I quote the following from his course of 1935:

"Figuring \$100, or par, as a basis for stock prices and *changing these prices to degrees* (my italics), $12\frac{1}{2}$ equals 45 degrees, 25 equals 90 degrees, $37\frac{1}{2}$ equals 135 degrees, 50 equals 180 degrees, $62\frac{1}{2}$ equals 225 degrees, 75 equals 270 degrees, $82\frac{1}{2}$ equals 315 degrees, and 100 equals 360 degrees. For example:

When a stock sells at 50 on the 180th day, week, or month, it is on the degree of its time angle.

On February 1, 1915, U.S. Steel made a low at 38, which is the closest to a price of $37\frac{1}{2}$, which is $3/8$ of 100 and equals 135-degree angle. Steel was 14 years or 168 months old on February 25, 1915, and hit the angle of 135 degrees, which showed that Steel was behind time, but that it was in a strong position, holding at 38 above the 135 degree angle or the price of $37\frac{1}{2}$."

Gann's Astrological Methods

Now what does all this mean? First, it means he is translating a price to a degree, and each quarter of a dollar, or quarter of 100 dollars is 90 degrees of the zodiac. He then says U.S. Steel hit a low (found support) at 38, which was 135 degrees. This doesn't make a lot of sense unless you know about his planetary conversions of price to longitude, but you also have to know which planet to use. He says, "Steel was 14 years or 168 months." One *point per month* is Saturn's movement and it moved 168 degrees since Steel's first day of trading, but the stock was only at 135 or *behind time* as he says.

Chart 139

LONGITUDE JANUARY 1915

Day	Std. Time	○	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽	☽
1	8:15	8:29:29	3:36:20	9:55:33	27=26.5	8:14:49.6	0:28:6	7:12:27.1	22=22.4	27:15:59.2	8:51:1.6	29:55:15.6	1:52:1.7						
2	4:21	10:30:47	1:15:27	22:27:12	27R20.4	8:20:7.7	0:54.6	8:13:1	22:34.8	27R54.4	8:54.7	29R34.0	1R 0:5						
3	4:41	11:31:54	2:48:49	5:11:45.2	27 14.4	9:58.8	1:29.0	8:58.0	22:47.4	27 49.7	9:57.9	29 32.4	0 59.4						
4	6:41	12:33:13	11:42:42	18:13:33.2	27 10.7	11:33.3	2:1.5	8:44.6	23:0.0	27 44.9	10:1.1	29 30.9	0 58.2						
5	6:42	12:34:22	12:47:16	8:19:23.4	22D 9.7	13:16.1	2:35.6	10:30.5	23:12.6	27 40.2	10:4.3	29 29.2	0 57.0						
6	6:43	12:34:32	12:48:29	12:48:29	24:1.7	13:16.2	2:35.7	10:30.6	23:12.7	27 40.3	10:4.4	29 28.1	0 56.8						
7	5:54	15:34:33	21:32:28	28:21:20	27 11.0	16:25.0	3:47.8	12:23.2	23:34.2	27 31.0	10:10.7	29 26.0	0 54.7						
8	7:51	16:37:37	5:0:13:58	12:0:10.5	5:2/R12.3	16:3:1	4:25.9	12:44.2	23:51.1	27 28.4	10:14.7	29 24.4	0 53.5						
9	7:47	17:38:44	19:9:36	26:12:26	27 12.8	19:41.5	5:58	13:34.2	24:4.0	27 21.9	10:17.3	29 22.7	0 52.4						
10	7:51	17:40:11	19:10:27	26:12:26	27 13.0	19:41.5	5:58	13:34.2	24:4.0	27 21.9	10:17.3	29 22.7	0 52.4						
11	7:53	17:41:44	19:11:57	10:48:13	27 11.8	21:20.4	5:45.0	14:20.2	24:17.0	27 17.5	10:20.6	29 21.1	0 51.2						
12	7:54	17:42:15	17:42:15	24:54:34	27 9.2	22:59.7	6:27.7	15:6.3	24:30.1	27 13.1	10:23.9	29 19.4	0 50.0						
13	7:55	17:42:47	17:42:47	10:48:13	27 11.8	21:20.4	5:45.0	14:20.2	24:17.0	27 17.5	10:20.6	29 21.1	0 51.2						
14	7:56	17:43:24	17:43:24	16:45.3	24:1.55	26:59.7	6:10.8	13:26.5	25:2.5	26:30.8	26:34.3	10:54.4	29 4.2	0 40.3					
15	7:57	17:43:28	17:43:28	8:13:20	24:54.1	26:59.7	6:10.8	13:26.5	25:2.5	26:32.5	10:57.9	29 2.5	0 39.2						
16	7:58	17:43:45	15:41:16	22:47:58	29:49.1	9:25.5	14:10.5	25:2.1	27 5.9	26:29.9	11:1.3	29 0.8	0 34.2						
17	7:59	17:43:47	15:41:16	24:45.2	1:22.5	10:12.3	14:57.3	24:25.5	11:2.7	25.3	11:4.8	24:59.1	0 37.2						
18	7:41	25:47:59	13:39:45	20:25:12	29:22.0	3:4.2	11:0.1	19:43.5	25:49.9	26:47.9	10:44.2	29 6.3	0 43.4						
19	7:41	25:49:48	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
20	7:42	25:49:50	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
21	7:43	25:49:51	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
22	7:43	25:49:52	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
23	7:43	25:49:53	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
24	7:44	25:49:54	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
25	7:45	25:49:55	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
26	7:46	25:49:56	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
27	7:47	25:49:57	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
28	7:48	25:49:58	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
29	7:49	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
30	7:50	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
31	7:51	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
1	7:52	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
2	7:53	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
3	7:54	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
4	7:55	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
5	7:56	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
6	7:57	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
7	7:58	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
8	7:59	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
9	8:00	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
10	8:01	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
11	8:02	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
12	8:03	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
13	8:04	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
14	8:05	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
15	8:06	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
16	8:07	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
17	8:08	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
18	8:09	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
19	8:10	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
20	8:11	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
21	8:12	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
22	8:13	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
23	8:14	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
24	8:15	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
25	8:16	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
26	8:17	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8	20:29.5	26:47.9	10:44.2	29 7.3	0 43.4							
27	8:18	25:49:59	2:45:53	3:41:47	26:42.2	4:2.2	11:48.8												

Saturn in mythology is Kronos, or father "time." If Steel was *behind* time why was it in a strong position at 135? Chart #139 is the ephemeris page for January and February 1915 and it clearly shows that *Saturn was exactly 135 degrees from Uranus on January 26, 1915!* Why did Gann mention the low was made on February 1, 1915? If you look you will see Mars (iron and steel, martial arts, etc.) changing sign to Aquarius on February 1st and, combined with Saturn (ruler of things in the ground and minerals) and Uranus, a big change in trend is due. As long as steel doesn't break that "hot spot" of 135 from the aspect of its ruler, it *is* in a strong position! What we really see here is Gann's attempt to steer the student in the right direction to find the planets, but if he doesn't, he can still trade by using an angle of one point per month on his charts, which is Saturn's average longitude and the stock should follow that angle, both up and down, as Saturn turns in the sky. Every several months Saturn will make contact with another planet and at that point a change in trend will occur, and if the stock breaks below the angle it will show a downtrend, and if it goes above it will be an uptrend. Gann was a long-term swing trader and always held positions for weeks to months at a time based on these long-term angles. Although there are many books on Gann angles, most of the authors confuse the numerology of 1x1, 1x2, 1x4 angles and one point per day, week, and month. Although you can use these angles for squareouts and trendlines, Gann basically used them for *timing lines* to keep track of planetary movements in degrees from highs and lows. One point per day is the Sun (some months Mars); one point per week is Jupiter on the average (or a quarter Moon), and one point per month, Saturn. Gann *always* advised using an *average* of the five outer planets after Mars, or the six with Mars to confirm major support and resistance. He added up all the longitudes and divided by 5 or 6 to get the average and then he plotted that average line on his papers.

Two more examples of Gann's planetary conversions should make the use and

purpose of the Square of Nine perfectly clear. Please refer to the "Gann Square of Nine Example #1 Chart #142" as we go through this example. The chart shows the stock of Sealed Air Corp. for 1998 and the stock hits a high near \$70 in the first week of March and then declines continuously until the first week in October, when it hits a price of \$30 and then goes up. It's every trader's dream to short a stock like this at \$70 and hold till the low at \$30. Is this possible or just a pipe dream? Using the Gann method and the Square of Nine properly it should be easy, once you know what planets control your stock. In the chart you see a small cutout of the Square of Nine with an astrological dial around the outer circle. This was the real key to Gann's method on converting planetary longitudes to numbers for stock trading. At the high we see that Mars was 0 degrees of Aries, or right on the Cardinal Cross of the square and the number that corresponds with that degree is \$69. The stock shot up to barely \$70 and then started down to meet its destiny price of \$67-\$68 on April 2, as Mars would conjunct Saturn at 22 degrees Aries and on the wheel that number is just above 67. That astrological aspect between Mars and Saturn is important for this stock, as a gap occurred on the chart that day and it headed down. It continued down until Mars again made a big aspect with Saturn, this time the trine on October 9th at 1 degree Virgo, and the wheel requires a number of 30 for that longitude. The price was hit and the aspect changed the trend from down to up. Note also that Mars went 150 degrees in 180 calendar days, both of which are angles on the Sun and tie in another change in trend possibility. Clearly the key is the planetary rulers (Saturn and Mars) and the Square of Nine longitude conversion. Without this wheel you normally would not think that 0 Aries would be a number like 69, or 0 Virgo 30, but there it is, and it works beautifully. This is not an isolated example. Gann successfully used this wheel daily for 50 years. The difficulty with stocks, however, is that there are many influences in the market besides simple supply and demand as in commodities, and finding the rulers for thousands of

Gann's Astrological Methods

stocks is much more difficult than just dealing in wheat, corn, or soybeans. That's why Gann preferred commodities. He also developed other wheels for conversions to handle the other patterns of stocks and grains. These wheels had inner circles of 4, 6, 12, 24, 30, and 36. One of these wheels was bound to work and once you found the right conversion for the planetary movement, it would work for years.

The next example is our old friend U.S. Steel, revisited in 1998 from the last example in 1915. Please refer to "Square of Nine Example #2 Chart #143." Here we see U.S. Steel making two tops in March and April 1998. The first top was \$42, then a plunge to \$38, then a final top at \$43. The complication here is that there were multiple large planetary aspects to cloud the issue. On April 9, 1998 Saturn again made a 135-degree aspect, as the prior example in 1915 showed, and this time the stock again traded at \$38, just like in 1915! A week later, however, Jupiter made a 45-degree contact with Neptune and the stock went up to meet it. On the chart I wrote 45 deg=\$45 as a potential conversion factor, but if we look at the wheel we see a better conversion. Neptune is at 2 degrees Aquarius with Jupiter at almost 17 degrees Pisces. The wheel shows those two prices as being \$44 and \$41. The corner of the wheel, in-between the two is where the stock hit at \$43. Was this a miss, or lost momentum? The chart actually shows a several day period of trading at \$41, so it looks as though the wheel is right again. The low on October 4th was a Jupiter 45 degrees to Uranus, and Uranus was located at almost 9 degrees Aquarius, this translates into a price of \$21 that was a hit (it's not shown on the wheel but you should verify it for yourself). On November 1st, Saturn squared Neptune (90 deg), and on the chart I wrote Gann's 1915 conversion of \$25 for 90 degrees (1/4 of \$100, ¼ of 360). The stock did leap up to \$25 that day, but came down, and if you check the wheel you'll see that Neptune was at 29.5 Capricorn and the angle on the wheel for that degree is between \$22 and \$23!

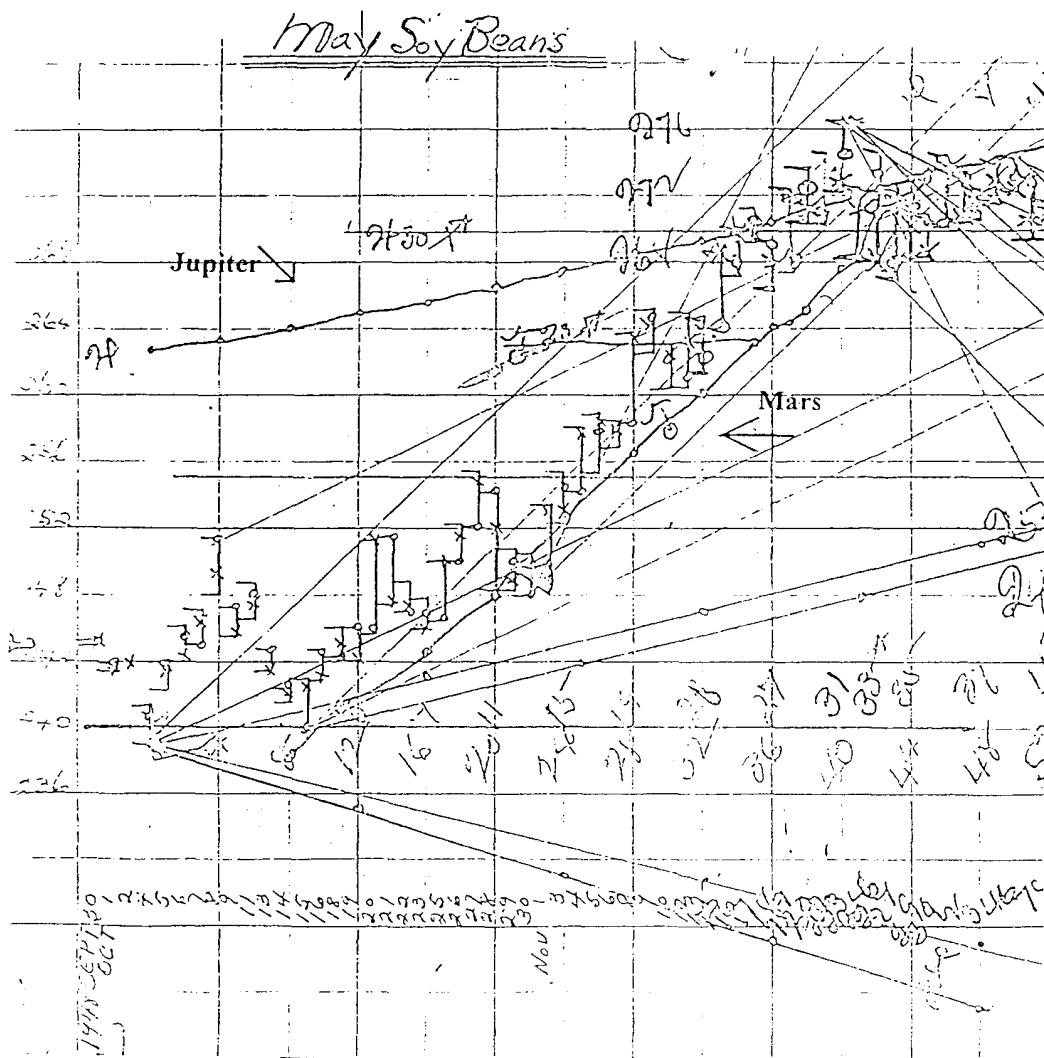
Now many of you may still be shaking your heads with this "astro" stuff, but it is there for everyone to see and if you do the work you'll become a believer. In any case, I am just here to point out trading solutions for you to examine. Gann used this and much more

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elaborate horoscopic forecasting for 50 years, and no one has ever come close to replicating his success.

Chart #140 is a rare chart of W.D. Gann's that conclusively shows his use of planetary longitudes for charting. Directly below the word "Soy" you will see the glyph for Jupiter and 30 and the symbol for Sagittarius. The bottom of the chart shows the date as November 1948 and the ephemeris shows Jupiter at 30 Sag or 0 Cap on November 16th. He then plots Jupiter's daily movement with a trendline.

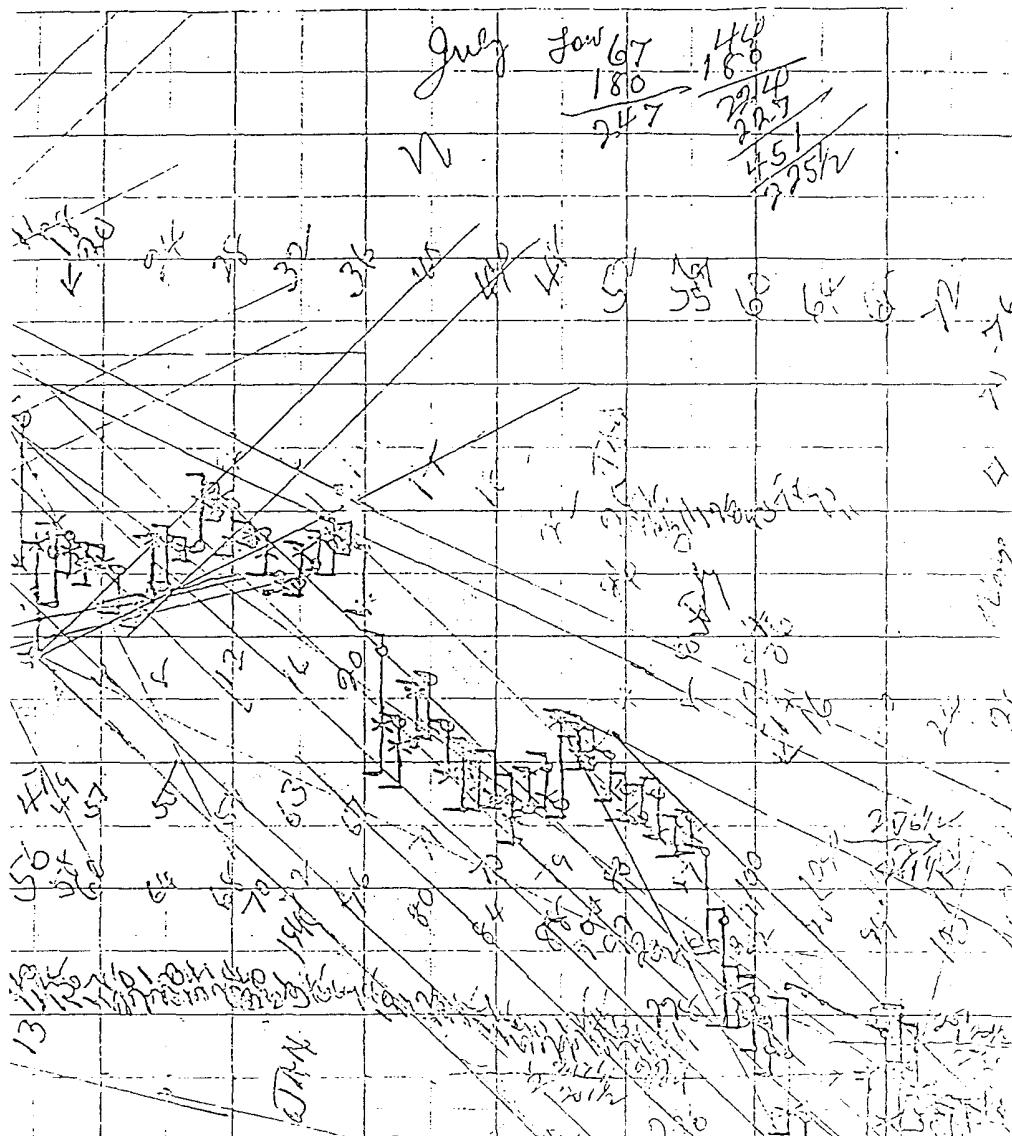
Chart 140



Gann's Astrological Methods

Mars was also leaving Sagittarius in November 1948 and conjuncted Jupiter on December 1st. If you look closely you will see a plot of Mars going up just under the prices and as it intersects the Jupiter line, Beans top out and go down.

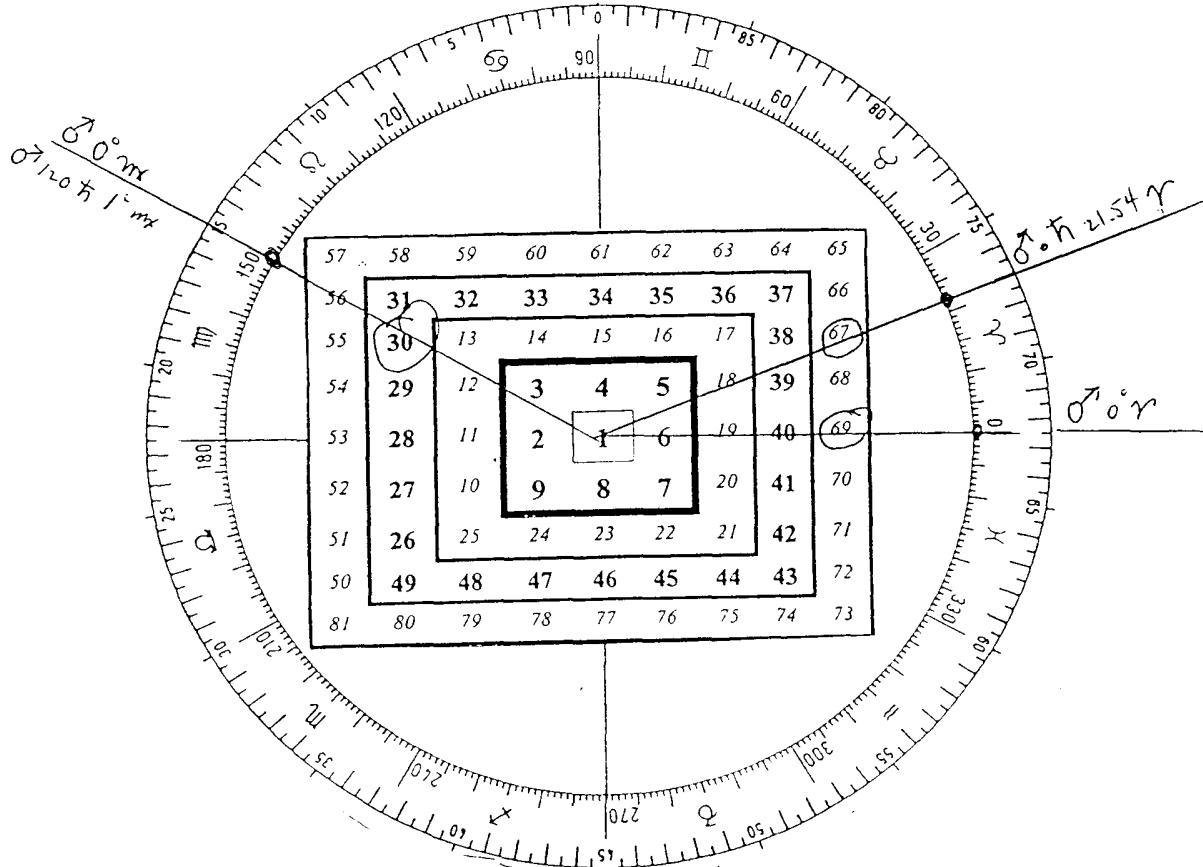
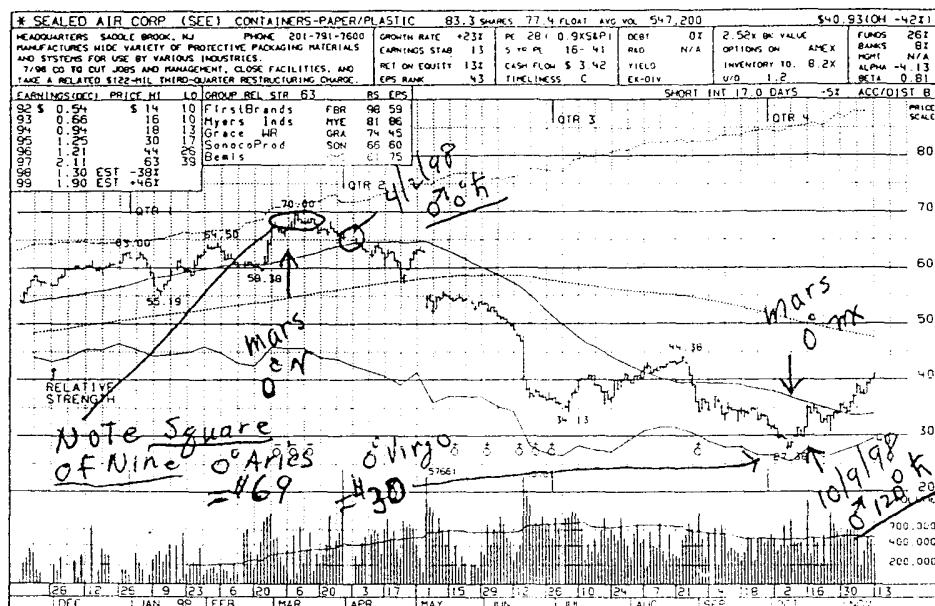
Chart 141



Gann's Astrological Methods

GANN SQUARE OF NINE EXAMPLE #1

Chart 142

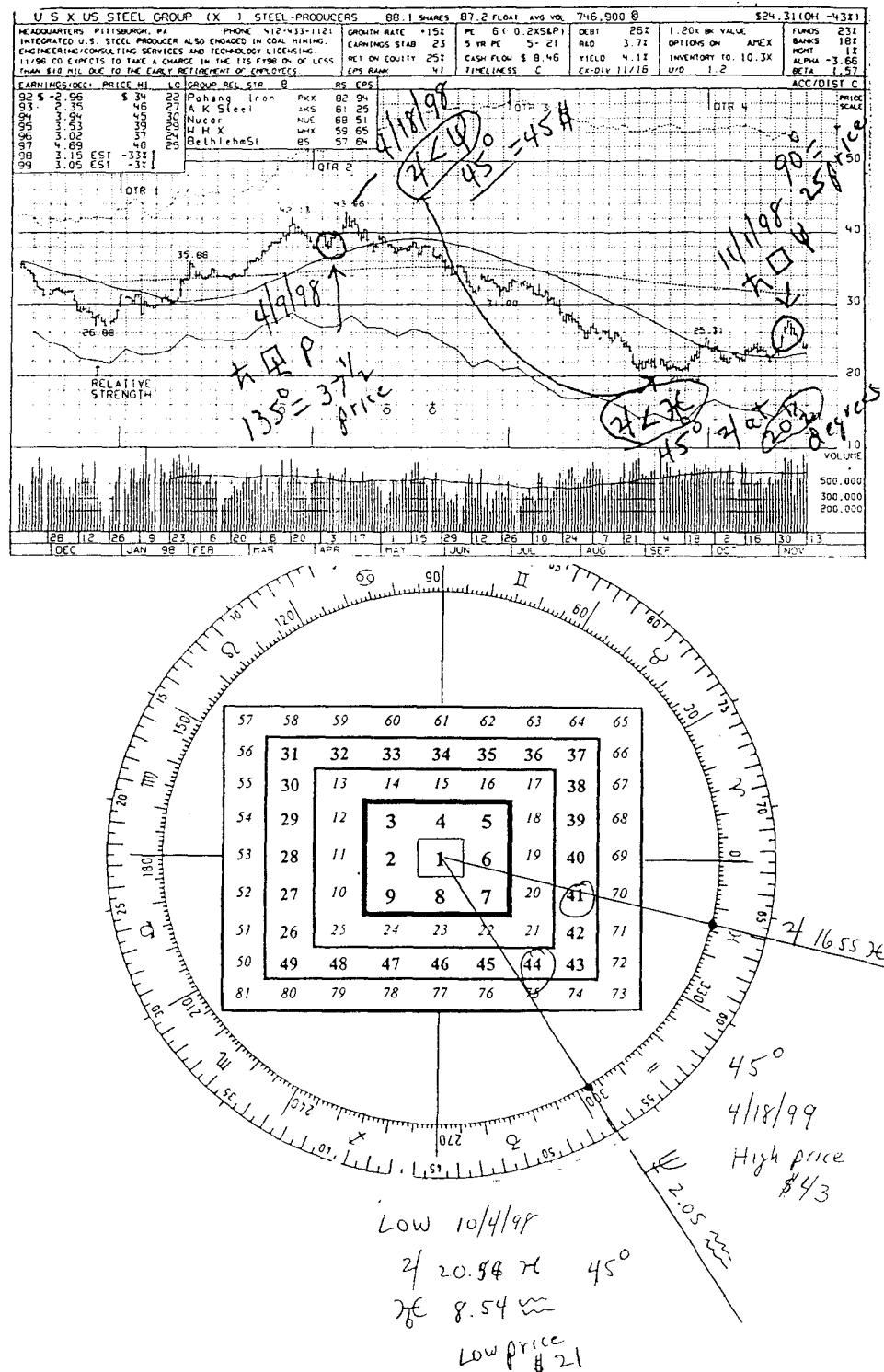


MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

GANN SQUARE OF NINE EXAMPLE #2

Chart 143

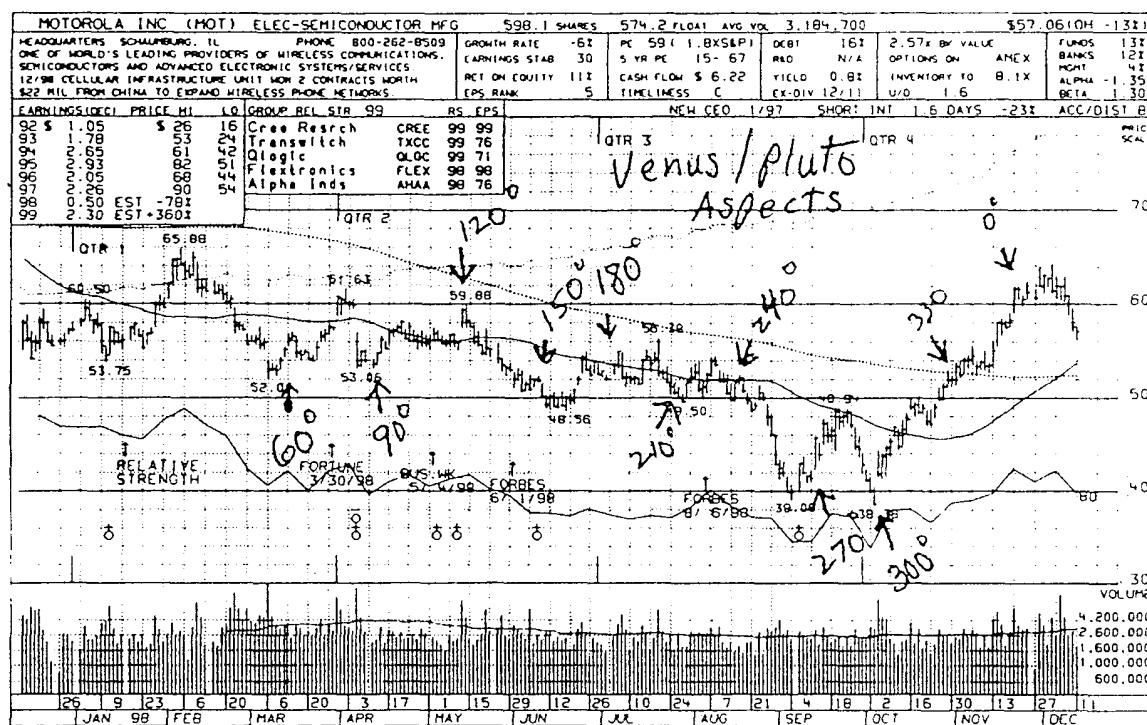


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Gann's Astrological Methods

Chart #144 is the chart of Motorola for 1998 with the Venus/Pluto aspects listed. These are simple geocentric aspects, and you would also like to include helio aspects, and note strength of rulerships like Venus ruling in Taurus and Libra and exalted in Pisces. You can get these rulerships in any book if you are interested. To be complete, you would also translate the angles into price levels to find a target on the date of the aspect.

Chart 144



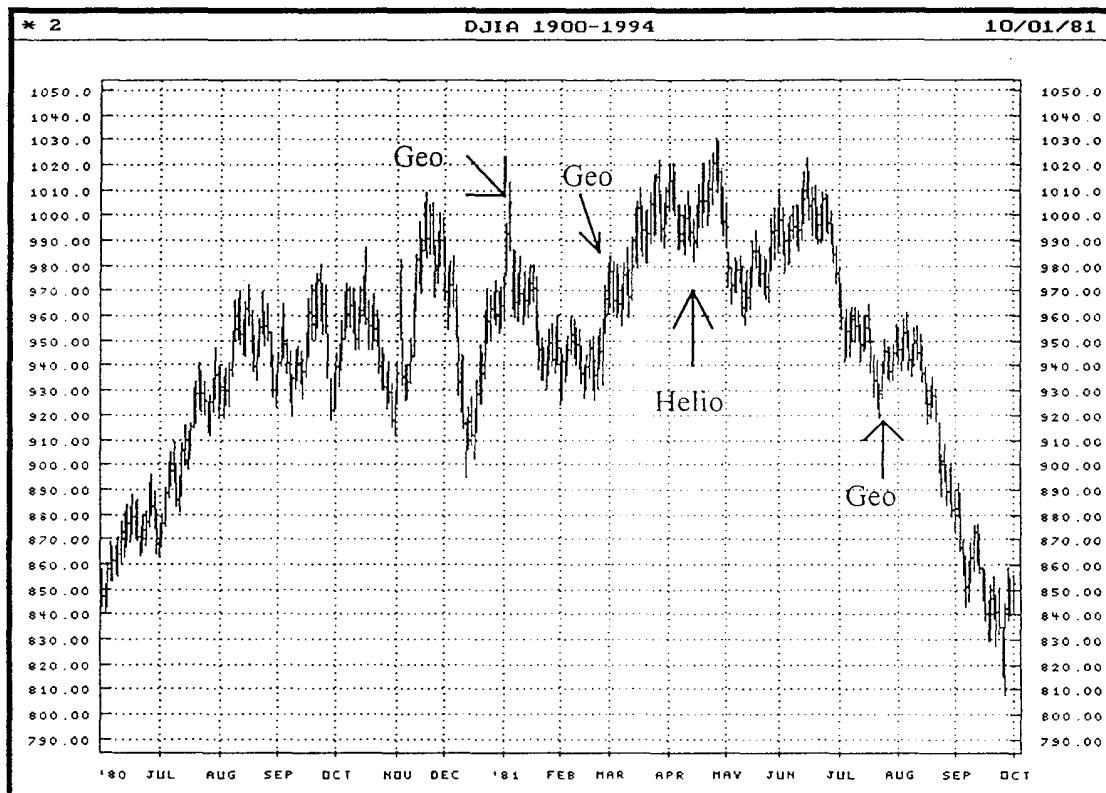
Gann's Astrological Methods

LAST SERIES OF JUPITER/SATURN CONJUNCTIONS IN 1981:

GEO: 12/31/80, 3/04/81, 7/24/81

HELIOS: 4/16/81 (NOTE HOW HELIO TIMED THE TOP FOR FORECASTING PURPOSES.)

Chart 145

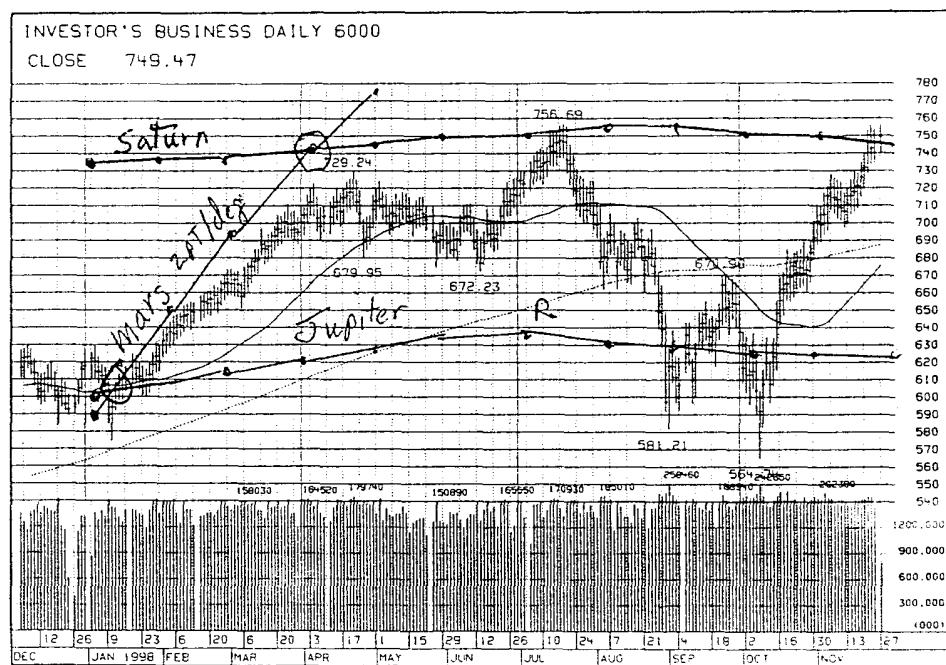


MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Gann's Astrological Methods

A very rough plot of Gann's planetary support and resistance lines is shown in Chart #146. I have only drawn in Saturn, Jupiter, and Mars, but you could use as many as you think are applicable to your stock or commodity. Though most computer programs have elaborate plots for this, only the "ruler" planets are relevant, and it takes a lot of work to examine 30 years of past highs and lows to see who was doing what at the time. The major problem that has not been adequately solved to this day is the price translation. Many computer programs just force fit the slope of the data and hope that is what's causing the movement. Only long-term study of individual issues will tell the true story.

Chart 146



Gann's Astrological Methods

Here I did an obvious direct translation of Saturn in Aries (0, 360, 720) and went point for point at the 720 level. For Jupiter I used the Square of Nine translation for 22 Aquarius @ = 600 and then went point for point with the planet's motion. Mars, the cause of most of the activity, needed a translation of 2 points per degree to fit the facts, which were Mars conjunct Jupiter in January to start the big advance, and Mars conjunct Saturn in early April to start the top. As long as the translation is true to those facts it will usually work. By the way, this is a *very typical* observation that the Mars conjunct Jupiter is bullish and *will go until* Mars hits Saturn. The meaning of the plot is that prices will trade back and forth between these planetary lines of support and resistance, and cyclic change comes about when planets make aspects to one another (lines intersect).

Chapter 11

TIME CYCLES

No forecasting method can be complete without a discussion of common time cycles in the stock market and how to find which ones are operative. Projections can be made with arcs, angles and price squareouts, but recurring time cycles are most reliable, and price patterns from the past repeat with remarkable similarity. In this section we'll discuss well-known cycles and how to apply them to both forecasting and trading. We'll sometimes discuss the astrological causes if not obvious and we'll want to develop very practical methods that won't require elaborate calculations or the use of computers.

Cycles can be of two or three types. There are fixed length natural cycles such as the year, and numerological cycles such as 100 years, and there are variable length cycles such as the ten year cycle that can be ten years plus or minus a few months depending on the retrograde positions of the planets making the aspects that time that particular cycle. Some cycles grow by ratios, such as the Fibonacci series that grows by 1.618 times the prior length, and many other cycles expand through various different proportions.

Gann continually referred to cycle analysis by saying that you must look in the past to see what cycles were working out or simply put, look back on anniversary dates of past planetary aspects to see what patterns looked similar and would repeat. I mentioned that I correctly forecasted the 1998 July top in the market with the Jupiter retrograde point of 9,358, but I also knew of the master cycle of 60 years and was looking at 1937 and 1938

Time Cycles

to see a similar pattern. Nineteen hundred thirty-seven had the perfect fit and was a global commodity deflationary collapse, but 1938 also was similar. The clincher was that Saturn went retrograde on July 17, 1937, and I've seen different planets react similarly. They go retrograde, or turn direct on the same anniversary date, and a similar outcome in the market would be seen even though the planets would be different. At any rate, knowledge of cycles is important to know where to start looking.

We will start with the smallest cycles and work our way up, so that you can see their interplay. The very smallest practical cycle is 4 minutes, since the earth has a 24-hour rotation to go through 360 degrees, so that one degree of that circle is 4 minutes in time. I often use 4-minute charts when I trade commodities and S&P futures, since the trendlines come out nice and straight, and by counting the bars you get full degrees of earth movement. Four-minute charts are good for scalping, but not forecasting. The smallest practical chart or cycle for forecasting purposes is the hourly chart. Remember that this is another of those 15-degree rotations, but it's also 15 times our four-minute chart.

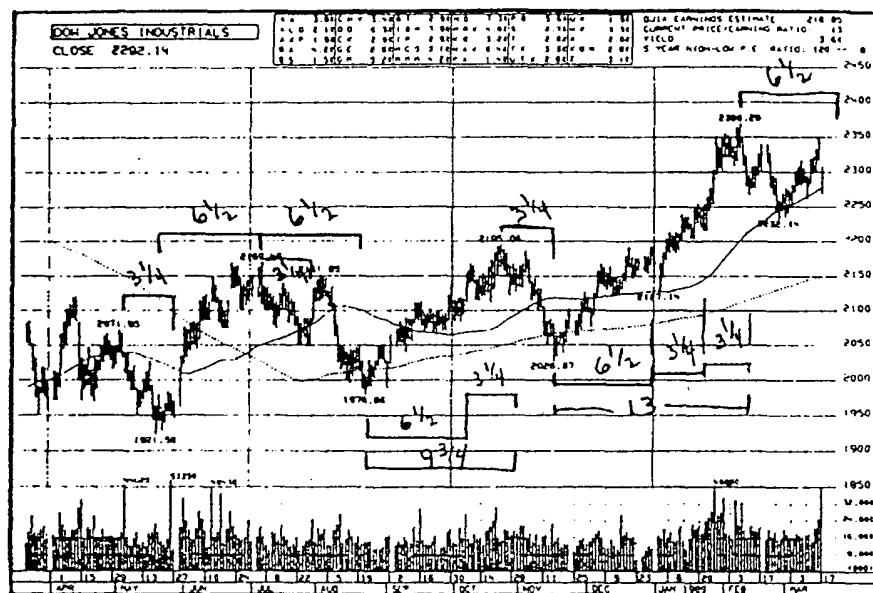
One important concept to understand is the idea that cycles vibrate to frequencies, and the harmonics of those frequencies create other cycles. If you pluck a string instrument you can see the vibration, but on a large string you can also see dead spots called nodes where there are no vibrations. These nodes are frequency intersection points where different frequencies add together and cancel themselves out to make a dead spot. In the musical scale you can divide a tone in half to double it to get octaves, but the other notes are ratios such as $5/4$ or $3/4$. To be more precise, the musical scale of C, D, E, F, G, A, B, C is composed of ratios of the first tone or fundamental unit 1, as follows 1, $9/8$, $5/4$, $4/3$, $3/2$, $5/3$, $15/8$, and 2. These are the basic fractions that control music and also cycles. Harmonics of complete cycles usually break down into subsections along these fractions. The most important however is the twelfth. Remember the Bible mentions the 12 tribes,

Time Cycles

12 disciples, and 12 astrological signs, so that we know that 1/12 is a very important number. It is 30 degrees of a circle ($360/12=30$) and one twenty-fourth, or half of that is also a fundamental unit. One twenty-fourth is 15 degrees, and so we often divide cycle lengths into twelfths and twenty-fourths. When analyzing any cycle for a stock always divide the price or length into these ratios to find which are the dominant ones.

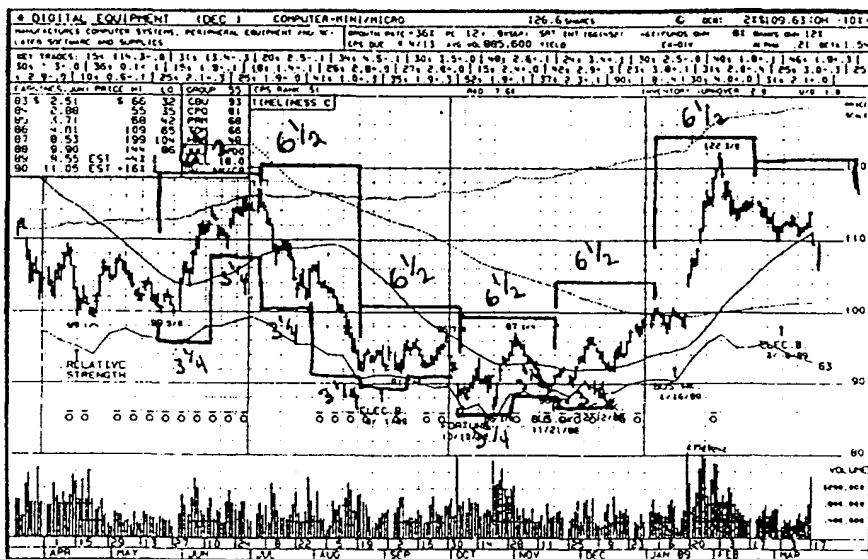
The hour is one twenty-fourth of the day and one twenty-fourth of the year is 15 days. This gives rise to day cycles of 15, 30, 45, 60, etc., calendar days. Closely tied in with these numbers are the natural cycles of the moon. Full moons are approximately 29.5 days apart giving rise to 30-day cycles and the new moon is 15 days after the full moon. These are combined cycles of the sun and moon to achieve a full moon, and since the earth

Chart 147



Time Cycles

Chart 148



All stocks trade in cycles relating to the natural year of 52 weeks.
 The primary divisions are 1/8 and 1/16
 $(\frac{52}{8} = 6 \frac{1}{2} \text{ weeks}, \frac{52}{16} = 3 \frac{1}{4} \text{ weeks})$.

8 16

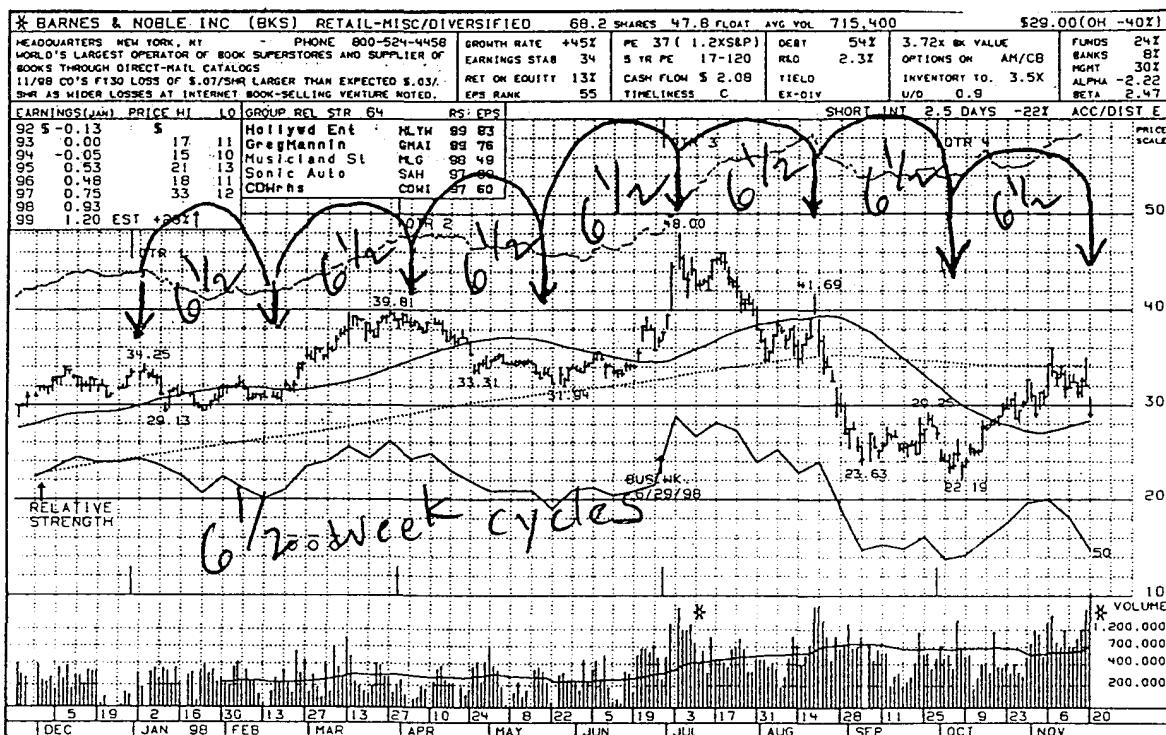
Longer term movements are just these basic cycles strung together.
 Begin your count from any major high or low.

is moving, the actual orbit of the moon from a starting point like 0 degrees Aries back to 0 degrees Aries is less and is approximately 28 calendar days. This is why W.D. Gann said minor changes occurred every seven days, since that would be the cardinal ingress of the moon, or 90-degree rotations starting with Aries, Cancer, Libra, and Capricorn. We do have natural seven calendar day cycles caused by the Moon.

The next bigger cycle, and the one I use the most of all, comes from the natural division of the 52 weeks in a year by 8 to get 6.5 weeks, and by 16 to get 3.25 weeks. The vast majority of common stock movements are 3.25 week segments. The market averages usually go 6.5 weeks and when stocks or averages go longer it is just these subunits strung together. What follows are some 3.25 and 6.5 week examples. I might note that 3.25

Time Cycles

Chart 149

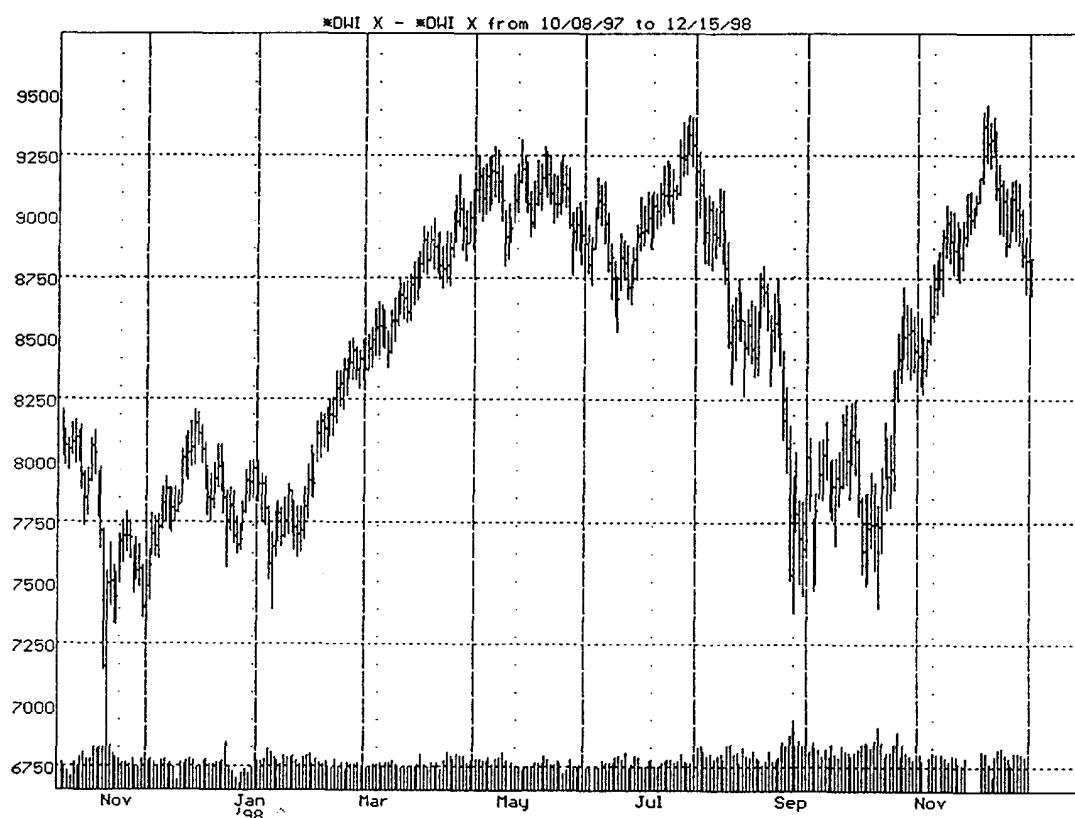


weeks and 6.5 weeks approximate 22.5 days and 45 days, which are 90-degree rotations of the planet Mercury (orbit 88-89 days). On a bar chart 17 and 34 trading day bars also approximate these lengths.

Time Cycles

Chart #150 is the Dow Jones Averages with 34 bar (6.25 week) cycles.

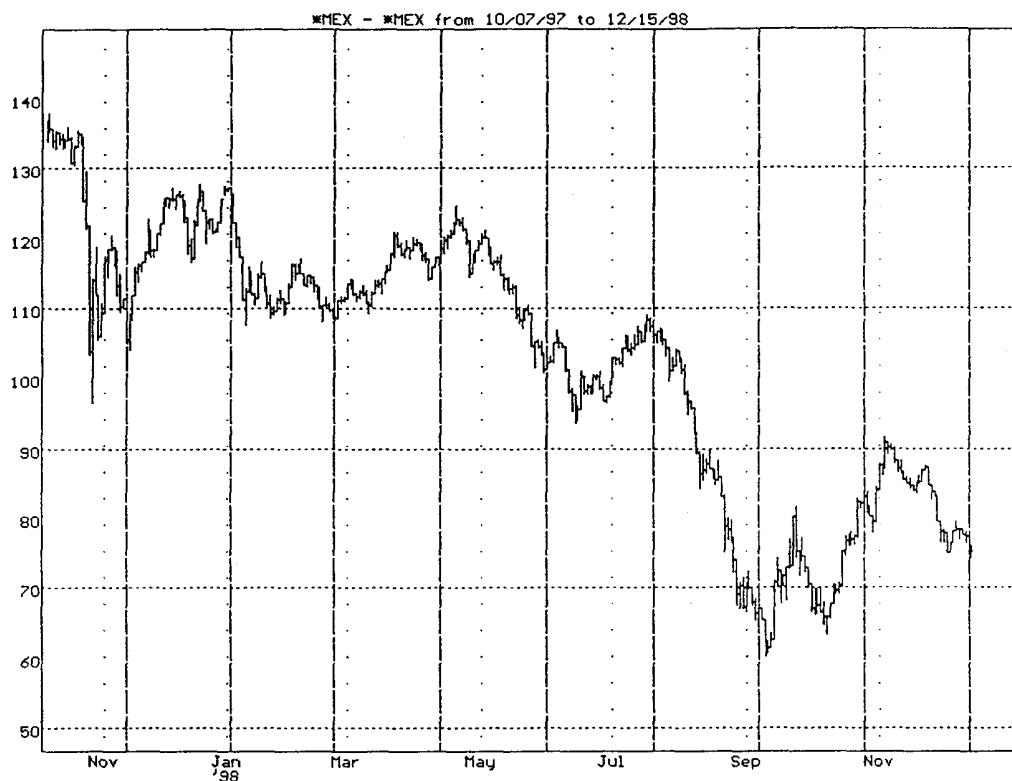
Chart 150



Time Cycles

The Mexican Stock Market Index with 34 bar cycles marked is shown in Chart #151.

Chart 151



The next largest cycle is 90 days, approximately one quarter of the year, and a multiple of 15, and a quarter of the 360-degree circle. Three months is the normal maximum counter trend movement a market will have without changing the main trend. No bull market declines for three full months. In the past two decades just about all declines were 6-7 weeks, sometimes 9 but rarely 12. Even the 1987 crash, which many mistakenly called a bear market, was only an 8-week correction (55 Fibonacci calendar days). One of the rarest exceptions to this three-month rule as defining the maximum counter trend movement was the rally into 1930 after the 1929 crash. Then the rally lasted 6 months before resuming the bear trend, though perhaps that was due to the excessive nature of the col-

Time Cycles

lapse. Six months is a cycle, but it's usually just two 90-day segments tied together.

One year is a basic cycle. The next in importance are 3 years, 5 years, 7 years, 10 years, 15 years, 20 years, 30 years, 45 years, 50 years, 60 years, 90 years, 100 years, 120 years and 180 years.

In the various Gann courses much emphasis is placed on the cycles of 7, 10, 20, 30, 45, 60, and 90 years. Although Gann never said so directly, it has been proven that all the cycles in the Gann courses are astrological in nature. If you see any of Gann's original work papers you will see the astrological notations all over them, especially as to the origin points that are the conjunctions and oppositions of the large planets. In particular, great emphasis was always put on the mysterious "Master Time Factor" that was given to his personal students. The master cycle was nothing more than the great 60-year cycle that contained the three cycles of the 20-year Jupiter Saturn conjunctions. Although in the Gann course you are taught to forecast by comparing the ten-year cycles with the last digits of the years of each decade being compared, in reality you are lining up *20-year segments* of the Jupiter Saturn conjunctions so that the 0 to 180 degree angles will line up on the ten-year segments. In many of Gann's books or courses, he slipped in a starting date for a cycle without saying why, but if you look in an ephemeris you will see the Jupiter Saturn conjunction on that date. You don't need to be an astrologer to use this; you simply line up 20 years in a row on top of each other on a large sheet of paper and compare the monthly anniversary dates for your projected highs and lows. If you want to really master it, however, you'll need to look up the aspects in an ephemeris or on a computer program. Here's a summary of these important dates since 1800 so you can check the record:

Time Cycles

Jupiter Saturn conjunctions:

July 1, 1802	2.17	Virgo
June 19, 1821		24.39 Aries
January 26, 1842		8.54 Capricorn
October 21, 1861		18.22 Virgo
April 18, 1881		1.36 Taurus
November 28, 1901		14.00 Capricorn
September 10, 1921		26.36 Virgo
August 8, 1940		14.27 Taurus
October 20, 1940		12.28 Taurus
February 15, 1941		9.07 Taurus
February 19, 1961		25.21 Capricorn
December 31, 1980		9.30 Libra
March 4, 1981		8.06 Libra
July 24, 1981		4.56 Libra
May 28, 2000		22.43 Taurus
December 21, 2020		0.20 Aquarius

Cycles have a general rule of alternation where highs and lows alternate on each anniversary. This is explained by the 20-year Jupiter Saturn cycle that gives rise to the ten-year cycle and makes it apparent why they alternate. It's the 0 to 180 degree angular separations for the first ten years, and then the fold back from 180 back to 0 over the next ten years to complete high to high or low to low at 20 years and alternates at ten. This is the general theory. The master 60-year cycle doesn't invert so much, but when it does the 120-year cycle is quite reliable.

Time Cycles

Among Gann's personal papers was a special report done by a Professor Weston who first worked out the Fourier analysis numbers for the Jupiter Saturn 20-year cycle and found the 10-year pattern that repeated all the time. The key, as you recall, is that no angular separation between two planets can ever be more than 180 degrees before the separations start repeating again, so that a twenty year conjunction to conjunction cycle is really a ten year conjunction to opposition cycle. He further showed that the 360-degree full cycle over 20 years averaged 18 degrees per year (180 degrees/ten years), and these 18-degree segments were turning point separations. What is most surprising in the Jupiter Saturn cycles is that the "hard" aspects of 90 degrees or 180 degrees separation is almost *always a high*, as it was in July 1990 at the high day. Lows are found at 54 degrees and 126 degrees. Other highs are 18 degrees and 162 degrees. There is also a tendency to have 4-year influences, the first half being highs at 18 degrees, four years later 90 degrees, four years later 162 degrees, and then four year lows at 54 degrees, and 126 degrees. Note that these are not traditional angles with 15-degree separations, but are annual harmonics of a twenty-year cycle. The regular harmonics work too, but this pattern of specific angles is one of the real keys to forecasting. Note the method of dividing the 360-degree full cycle by the total number of years. For instance a Jupiter/Uranus cycle of 14 years between conjunctions would give rise to annual separations of $360/14=25.71$ degrees approximately.

Many cycles are numerological and the number harmonics of the cycle lengths can be used for forecasting. For example, the 100-year cycle often works as well as the 60-year, or the 20-year, for forecasting, and its harmonics of 25 years, 50 years, and 75 years can accurately reflect the anniversary date pivots for the years in question. If you think the 100-year cycle is operative, look back 25 years, 33 years, 50 years, 66 years and 75 years to note the major high and low pivots during the year. If the cycle is operative then those

Time Cycles

anniversary months will have major turns although they will frequently alternate as to being highs or lows.

The basic problem in cycle analysis is always fixing the starting point to begin our calculations. To do this we need a long series of data, such as 30 years, or 100 years, if available. We can then quickly observe the major highs and lows to spot for periodic rhythms. We want to check the price levels to see if they are generating the cycle length (50 days for a price of \$50), or we want to determine if the all time high or low coincided with a well-known astrological aspect and could be part of a cycle consisting of two planetary pairs. In the Gann courses great emphasis is placed on dividing the price levels into eighths and finding proportions, but also on keeping track of monthly and weekly timing angles that will warn us when big cycles are due. For instance, Gann would say to watch for a change in the 90th month, though it could come as early as the 84th, since there are $12 \times 7 = 84$ months in seven years. He was pointing out two different cycles that could be operating, since the 90th month is 90 degrees average movement of the planet Saturn and would be the one-quarter harmonic of the full 30 years. The seven-year cycle is the well-known Uranus cycle, changing signs of extremes every seven years (Joseph's biblical dream of seven fat cows eaten up by seven lean and hungry cows). Gann liked to disguise his methods, but his techniques of using timing angles to keep track of time produced good results, regardless of what was thought to have caused it. If you maintain angles of one point per day, one point per week, and one point per month, and watch when harmonics of 100 or 360 are reached, you usually won't miss much. Remember, that from a heliocentric Sun centered perspective, the planetary cycles are very precise and a 19.86 year cycle of Jupiter and Saturn will come out again almost exactly 19.86 years later. Fifteen degree sections (1/24) of that cycle will also be fairly steady, and if the timing angles are starting from the origin, then your time counts will be correct. In the last section

Time Cycles

I showed one of Gann's personal charts, with all the conjunctions and oppositions of the outer planets. He needed to keep track of all those conjunctions for the past century, since those were the origin points for the cycles. Ninety-nine percent of the time we think that a cycle must start at the lowest price or the highest price. Unfortunately this is not the case. Often, the actual start of the cycle can be a long flat, before or after the extreme spike, and your time counts can be off quite a bit. Gann always used the major planet's conjunctions to start the count and then technical analysis to confirm the expected turn when the cycles were due. By running timing angles up from "zero" under the date of the conjunction and using the angle that approximated the motion of the planet involved, he wouldn't forget when major aspects were due (Sun=1 degree (pt) per day, Jupiter=2 1/2 - 3 per month [30 degrees/yr.], and Saturn 1 degree per month).

The first several cycles mentioned by Gann in his courses are the 30 year, 20 year, 15 year, 10 year, 7 year, 5 year and 3 year. The "Great Cycles" are the 90 year and the 60 year. The 90-year cycle is so powerful because it is 2x45. This clue signifies that it is an astrological cycle of the conjunction of Saturn and Uranus, which takes 45 years, but the first recurrence of the cycle back to the conjunction again is slightly over 90 years. The other "Great" or "Major" cycle is the Jupiter/Saturn third return to conjunction which is 60 years. The other cycles above are Saturn (30 years) and the harmonics of the 20-year Jupiter/Saturn cycle (5,10,15 years are 90 degree aspects). Seven, to seven and a half years are the Uranus cycle of 30 degrees ($12 \times 7 = 84$) and the 90 degrees of Saturn ($30/4 = 7.5$).

Gann chose to hide the astrological nature of his cycles not only to prevent people from stealing and reproducing his courses but also because he wanted students to do the work themselves. In several courses he describes the 10-year cycle in terms of 120 months, hinting that it is 1/3 of the Saturn 30-year cycle, or 120 degrees movement of Saturn. He further says to divide 10 by 2 to get 5 years or 60 months. Again, he means 60 degrees of

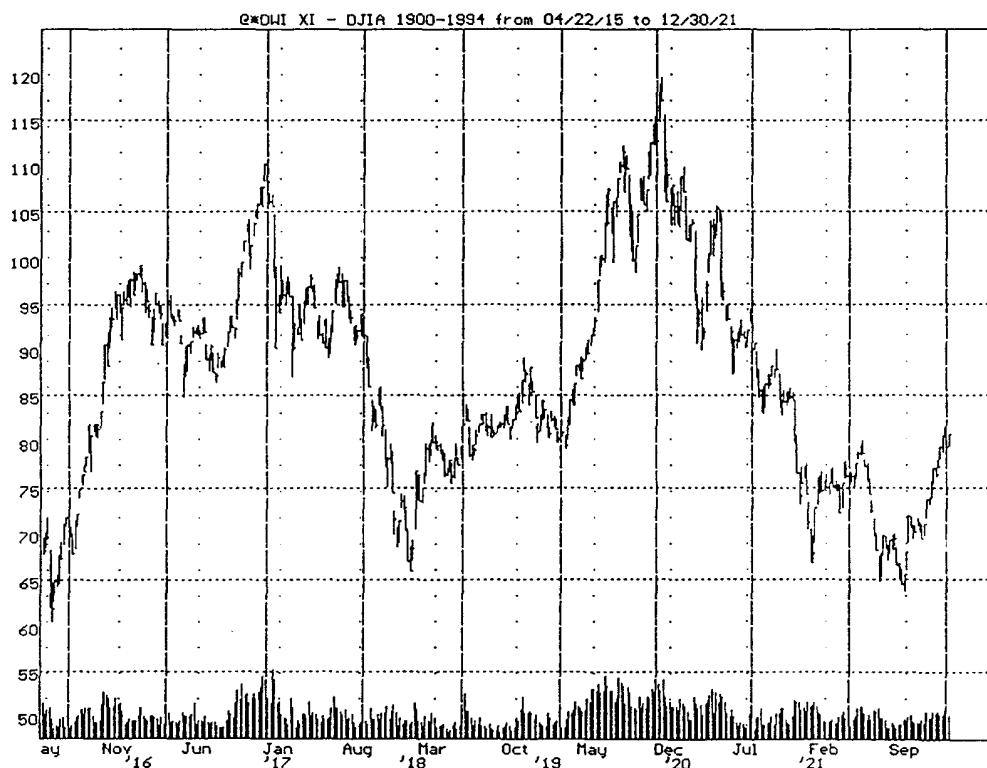
Time Cycles

Saturn's movement. This is only half the truth, of course, because we know that the 10-year cycle is the opposition of the 20-year Jupiter/Saturn combination. In forecasting the 10-year cycle he often said that the year ending in the last digit "9," 1929, 1939, 1949, 1959, etc., were the extremes, since 9 was the highest digit. He actually meant 180 degrees is the greatest angular separation possible, and the opposition of Jupiter and Saturn has occurred in the "9" digit years for about 100 years, although now it has shifted to the "0" last seen in 1990, at the July top, and it will be seen again in 2010. In the traditional Gann forecasting courses, you lined up the ten-year cycles, one on top of the other, by the last digit of the year and noted similarities. The closest patterns would be forecasted for the coming last digit year. This method works remarkably well and the vast majority of big time money managers know of it, and though they profess ignorance of technical analysis and cycles, few will go counter to the strong decennial year patterns. Note that to use this method you don't have to work with astrology, just 10-year periods. The reason is that these synodic heliocentric periods are very stable and straight numbers of days can be added to highs and lows to get very close approximations of the next cycle if you're counting from the right planetary aspect. The 20-year Jupiter/Saturn cycle is about 7,253 days and if you take 15-degree segments (1/24) you get very nice turns every 302 days or just about 10 months (about 43 weeks). Just look in any chart book and you will see very strong highs and lows about every 10 months. Better yet, go back to the last section and use the chart with the Jupiter/Saturn conjunctions from 1921 on, and just look at every 10 month period from those highs and lows. The only problem you could have here is trying to time a top that was caused by, for example, Mars and Uranus, and applying Jupiter/Saturn time counts. The best protection is to check out the cycles going back several repetitions, and ideally to look in an ephemeris to see if Jupiter and Saturn are making an aspect at the time that you want to apply the time count.

Time Cycles

Here we have the Jup/Sat 90 deg square on that 3rd line in Jan 1917 and each next line is approximately 43 weeks. Note how well this 10-month cycle works if lined up correctly on an astrological aspect!

Chart 152



Most planetary cycles run a little longer than the length of the faster moving planet's orbits. If Jupiter has an orbit of 12 years, to come around and catch up with another planet that is also moving forward will take more time, but not too much more time than the very slow moving, outer planets. Jupiter/Uranus is about 14 years; Jupiter/Neptune is about 13 years and Jupiter/Pluto, about 12.5. Mars has an orbit of 687 days, or almost 2 years, and

Time Cycles

its cycles run 1.8 to 2.3 years to catch up with the other planets. The great cycles of the outer planets are very long. Saturn with a 30-year orbit is 33 years to Pluto, 26 years to Neptune, and 45 years to Uranus. Uranus/Pluto is over 127 years, and Uranus/Neptune is 171. Neptune/Pluto is nearly 500 years.

The following table lists some of the basic cycles of a planetary origin and their synodic conjunction periods and 15 degree cycle times:

Mars/Pluto	1.895 years	28.8 days (per 15 degrees)
Mars/Neptune	1.903	28.9
Mars/Uranus	1.92	29.3
Mars/Saturn	2.01	30.6
Mars/Jupiter	2.24	34
Jupiter/Pluto	12.46	189.6
Jupiter/Neptune	12.78	194.5
Jupiter/Uranus	13.81	210
Jupiter/Saturn	19.86	302
Saturn/Pluto	33.44	509
Saturn/Neptune	35.87	546
Saturn/Uranus	45.36	690
Uranus/Pluto	127.3	1,937

Venus is very powerful and is usually just a straight 225 days, and Mercury also has great influence and has an orbit of 89 (Fibonacci, Calendar Qtr) days.

Most traders just take these synodic periods and tick them off on the charts, but to be accurate you should start your counts from major planetary aspects of the series you are about to apply. This is less obvious than it seems. This is due to the fact that *every*

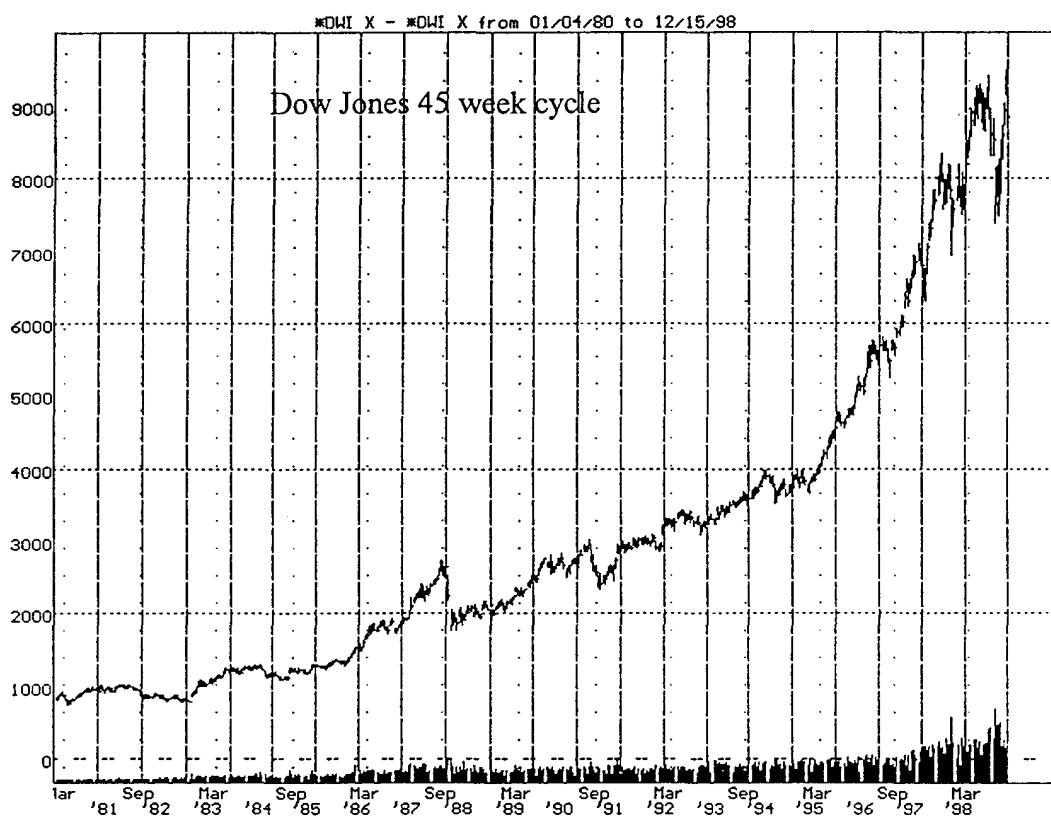
Time Cycles

aspect, not just the traditional 30, 45, 60 etc., has meaning. For example, at a high where Jupiter and Saturn are apart by 17 degrees and you might want to apply Jupiter/Saturn time counts, I can't tell you that's wrong. Jupiter and Saturn may well be causing that high and 17 degrees may have great numerological significance. Only if I were sure it was due to Mars, or something else, would I apply another factor. Indeed, one of the best methods for keeping track of cycles is to discover these "odd ball" angles at major tops and bottoms for all the outer planetary pairs, and then increment them by 15 degrees to watch for the next. In other words, assume Jupiter and Saturn did make a top at 17 degrees, and add 15 degrees to that separation to get 32 degrees, and then calculate when Jupiter and Saturn will be 32 degrees apart and that will be your next top. After that, advance to $32+15=47$ degrees separation. This almost always works! You should also test for 22.5 degree additions as well as the 15. This is another reason why Gann used his Square of Nine method to circle the degrees on the wheel of each planet on the date of the top, and then the angles would remind him of up-coming aspects to that prior top. The wheel method also helps because of all the confusion geocentric positions cause. The always forward moving helio positions are easy enough to keep track of, but when you start having two or more important planets reversing directions and going back and forth a number of times over important aspects, it's easy to get lost. The wheel method at least has all the hot spots noted, and as you spin your angle overlay over the wheel each day, you won't overlook too much.

Besides these classical timing and forecasting cycles there are others to trade with and make note of. In my personal day trading I frequently use the harmonics of the 360-week cycle, specifically the 45-week cycle. There is a very strong propensity for the market to repeat identically or identically backwards every 45 weeks. To test it you would look back 45, 90, 135, 180 weeks and go with the most similar pattern. For a great many years I used 45 weeks as a primary tool every day. As I have noted, numerology is significant in the market, and as I showed you with resistance levels it also works with time.

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Chart 153



For instance, 9 is the highest digit and all others are usually reduced to a single digit for use. Forty-five weeks is a $4+5=9$. It's also 315 calendar days and that's $3+1+5=9$. It's been my experience that all good cycles reduce down to 9 as a final digit.

Chart #153 shows The Dow Jones with 45-week lines. Note the '87 crash was 270 weeks from the August '82 low. Now count 6 more periods-you'll get the point.

Time Cycles

Chart 154

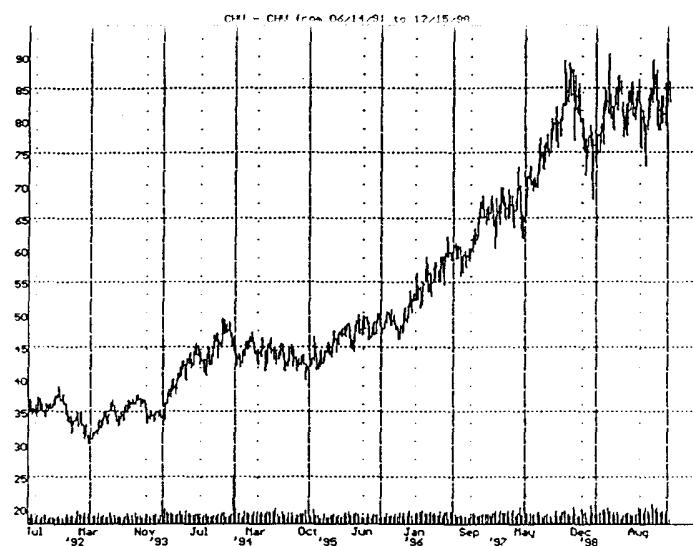


Chart #154 is Chevron showing good 45-week cycle turns. Note how the 6th line from the second low in Nov '92 gave rise to a "crash" in Dec '97 just like the prior Dow Jones chart.

Chart 155

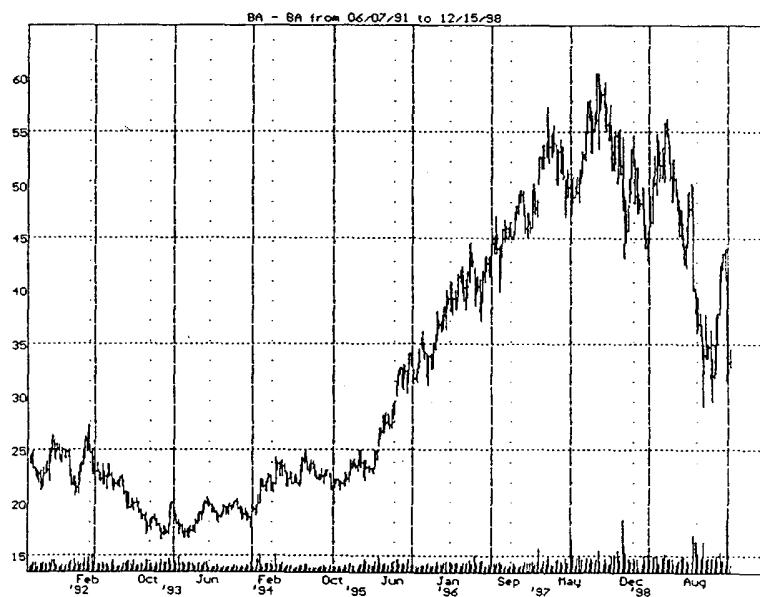


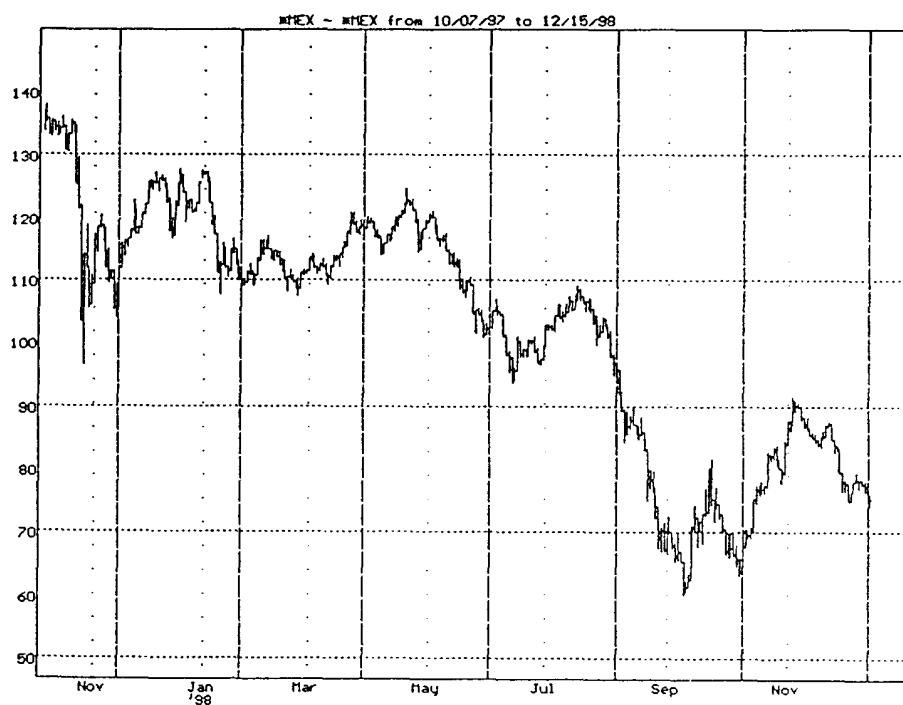
Chart #155 shows a chart for Boeing with nice 45-week harmonics.

MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time Cycles

The effects of numerology with a daily chart showing 45 *bar* separations is illustrated in Chart #156.

Chart 156



Two hundred and twenty-five days is another “9” I love to trade. It’s 32 weeks and the difference between 45 weeks and 32 weeks is 90 days. Two hundred twenty-five is also a natural square (15×15), but most importantly it is the orbital period of the planet Venus, the money sign ruler. Venus also causes the Fibonacci ratio of perfect beauty and harmony ($225/365.25 = .618$). My favorite technique is to watch 32 weeks *and* 45 weeks back, and *when they both go in the same direction* for the next few weeks into the future, go with that cycle as a projection of future prices. Perhaps 70% or more of all the money I have made in my life comes from using the 45 and 32-week cycles in combination! You might want to try it.

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Lunar cycles are important, but the eclipses are most important. I also like to count from full moons or new moons in a numerological fashion like 15 full moons, 30, 45, or 60 moons. These work quite well, as do Fibonacci expansions of full moon time periods. The eclipse cycle is 19 years, although individual eclipses have to occur at least every six months, but come back to the same longitude at 19-year intervals. An adjunct to this is the lunar Jewish calendar. Almost all Jewish holidays are astrological in origin, and years where the holidays fall on the same dates usually give an accurate forecast to the stock market.

The moon's nodes are the positional points in the moon's orbit where it crosses the ecliptic, or sun's path. They're not like planets, but the location is always a primary hot spot. They move backwards around the Zodiac and complete the full cycle in 18.6 years. It has long been thought that the very significant 9.3-year cycle in stock prices noted by the academics is caused by this cycle as it makes its opposition points. Gann also used a series of three cycles of 18.6 years to come up with a master calculator of about 55.8 years that could be the cause of the long-term Kondratieff cycle in economics.

Eclipses occur at least every six months and sometimes there are four or five in a year. Gann's theory was that as the moon blocked the sun's rays to the earth, it acted as a big electromagnet and major changes occurred that affected all living things. The location in the zodiac of the eclipse point was a particularly useful hotspot for forecasting, and any planet that subsequently came along and hit that spot again produced a result. The 1987 and 1998 crash lows were produced when Mars hit the prior month's eclipse points. The following charts show two stocks with the September 1997 eclipse noted by the first vertical dotted line and then all subsequent vertical lines are 30-degree aspects of Mars to that eclipse point. You would have to be the world's biggest skeptic not to scratch your head looking at these charts when you see how each 30-degree contact with Mars brought about dramatic change precise to the day! Take a moment and study these charts and look in an ephemeris to see the transits. I have only used Mars here since that planet is known

Time Cycles

for quick bouts of energy, but if you look over a year or two and watch the Saturn, Jupiter, or Uranus contacts with the eclipse point, you'll see the major swings in the market. If you use the Sun you'll get the familiar 30, 60, 90, 120 calendar day cycles that appear all the time.

MARS AT 30 DEG. ECLIPSE POINT

Chart 157

Mars at 30 deg. Eclipse Point

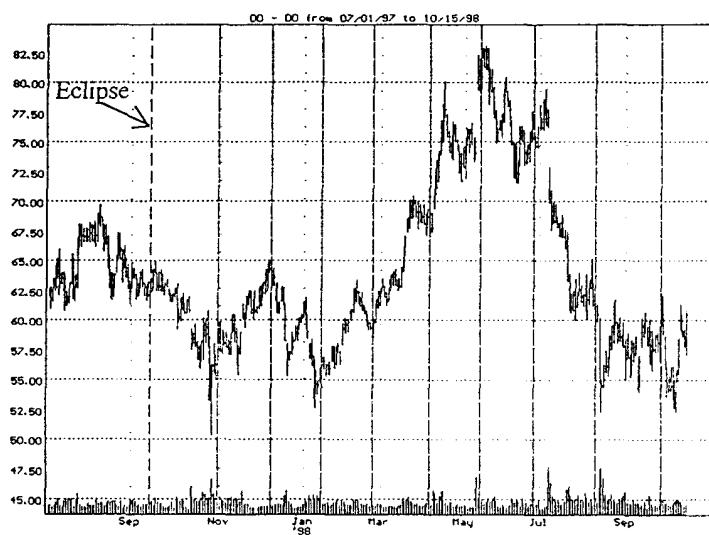
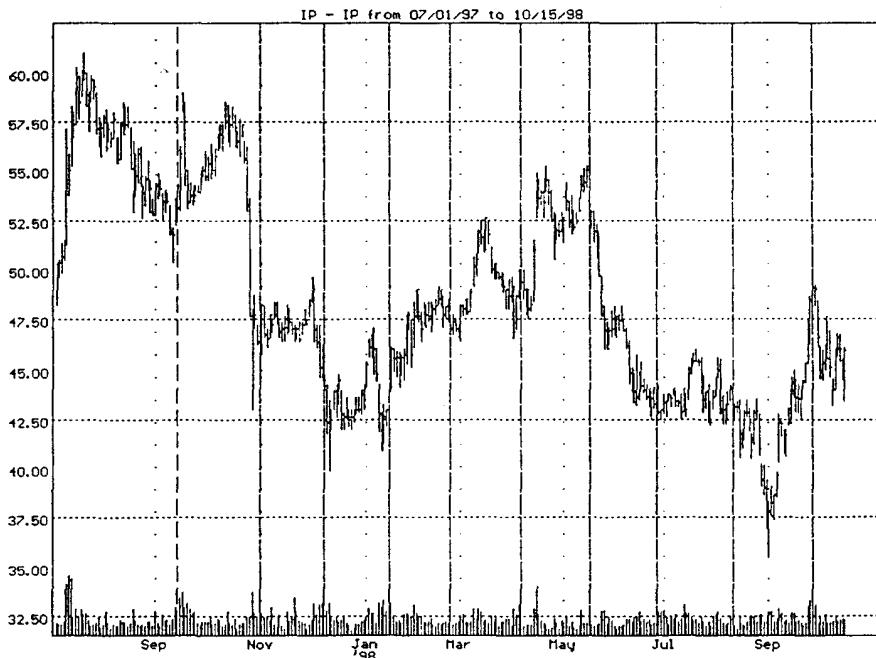


Chart 158



MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time Cycles

Venus has an orbital period of 225 days, but it returns to the exact same longitude at almost an exact 8-year cycle to the day. Other planets likewise have cycles that return them to the same degree on the same day of the year, and these are very interesting and well known especially in commodity circles. Mercury and Mars come back at 79-year intervals and Jupiter at 83. Saturn has a period of 59 years, where it comes back on the same date, but one and a half degrees farther along. This too could be a cause of the 60-year cycle's dominance. By the way, in terms of numerology, 9 times the cycle of Mars of 687 days is almost exactly 17 years. I have often noted in Gann's notes and scribbles on work papers that he occasionally used multiple cycles of orbits, particularly Mars. Seven times, 10 times, and especially 12 times the orbital periods were frequently used.

Besides obvious planetary cycles, there are growth cycles like the Fibonacci series, or expansions like the square root of two (1.414), three (1.73), and five (2.236). The Fibonacci is an additive series and consists of adding any two consecutive numbers together to get the third in the series, and then adding the second and third to get the fourth. Most are familiar with the usual start of 1, 1, 2, 3, 5, 8, 13, 21, 34, 55 etc., but it should be noted that it applies to *any* two numbers. As the numbers are added to get the next in sequence, the ratio of each number to the before and after number is .618 and 1.618. Since most natural growth patterns like tree limbs or sunflower seed rings follow this sequence, its use in the stock market is substantial. The greatest mind there ever was, Sir Isaac Newton, had the Fibonacci spiral carved into his headboard so he could think about it every night as he went to bed (He also was an avid astrologer!). Because this is an additive series you can use it everyday to make quick trades in the market whenever you have two or three highs or lows on your chart. For instance, if you have a low then a high and the time between is four weeks, and then you get another low three weeks later, you can add the time periods of four weeks and three weeks and know the next turn is seven weeks away. This usually works, as does a simple count of the distance and a ratio applied, such as 50 days from low to high and then you multiply 50 by .382, .618, and 1.618 to get time periods in the future that will be in perfect proportion. For years I did this with great success on hourly charts in day trading S&P futures, but I still prefer natural squareouts of price ranges and price square

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Time Cycles

roots because they give more powerful turns.

Natural square root cycles are still one of the best approaches to cycles and a geometric approach is the easiest to apply. Knowing that the diagonal of a square forms a right triangle, we have a simple exercise for the Pythagorean theorem, where side A squared plus side B squared is equal to side C squared (C is the diagonal). In a box of 1 unit on a side we have $1+1=C$ squared or the square root of two. If we make two boxes side by side, and draw a diagonal from the first to the second and swing it down we get the square root of 5. We can keep expanding these boxes as far as we like to see turns on our stock. An example will make this very clear.

Chart 159

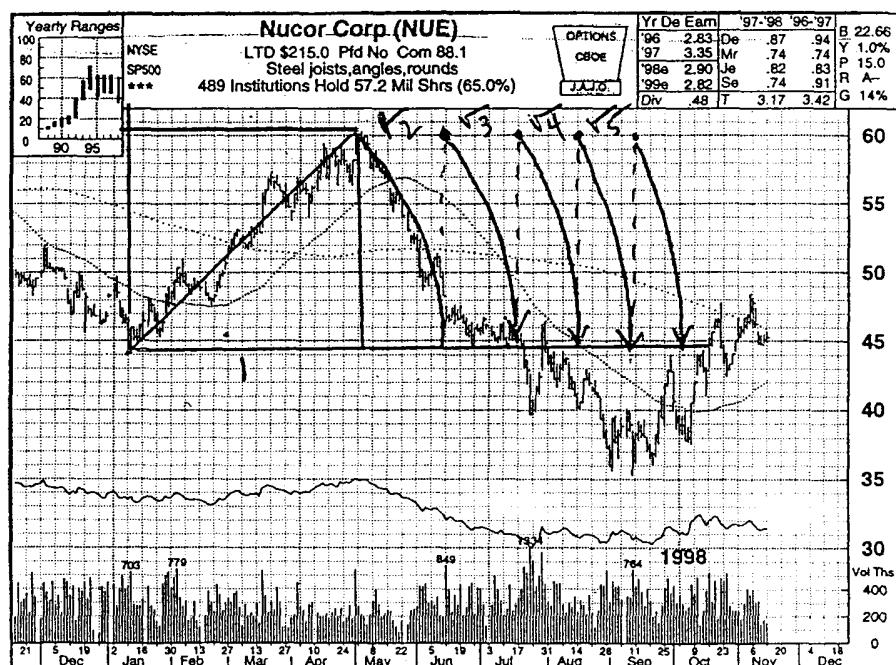


Chart #159 shows a square drawn about a low to high swing, and the diagonal is swung down so that the baseline is now the length of the square root of two. A line goes straight up from that point, expanding the original square by the square root of 2. The process is repeated for the square root of three, four and five and successive diagonals are swung down from each new expansion.

Time Cycles

Chart 160

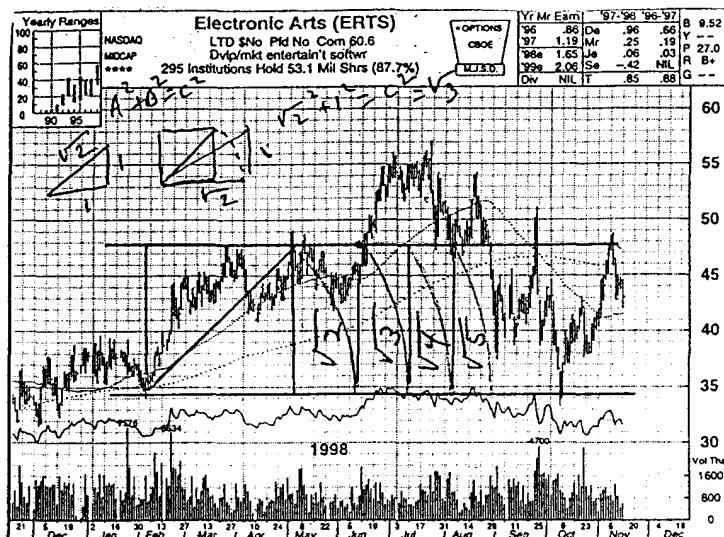
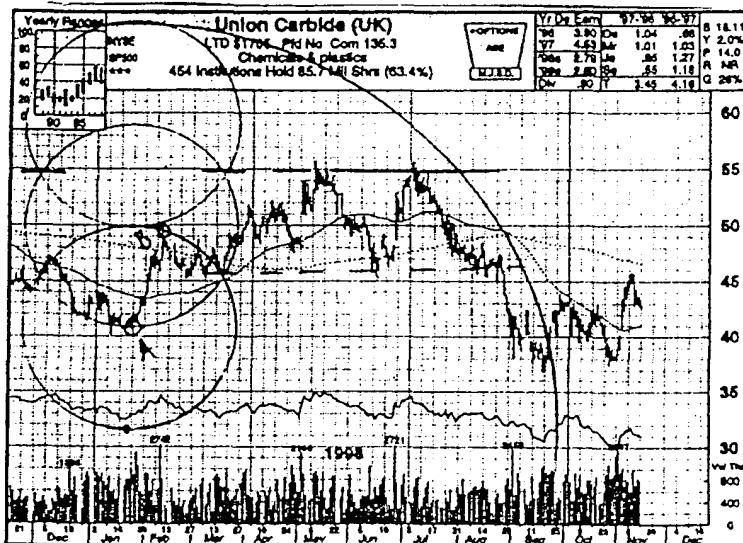


Chart 161



Another example of square root expansion is shown in Chart #160.

Chart #161 shows a circular arc from A to B and then expanded using the point directly above A but on B's circumference. That creates a second circle and then a third. Finally, an arc from the bottom below A to the top completes a 4xAB arc. With practice

Time Cycles

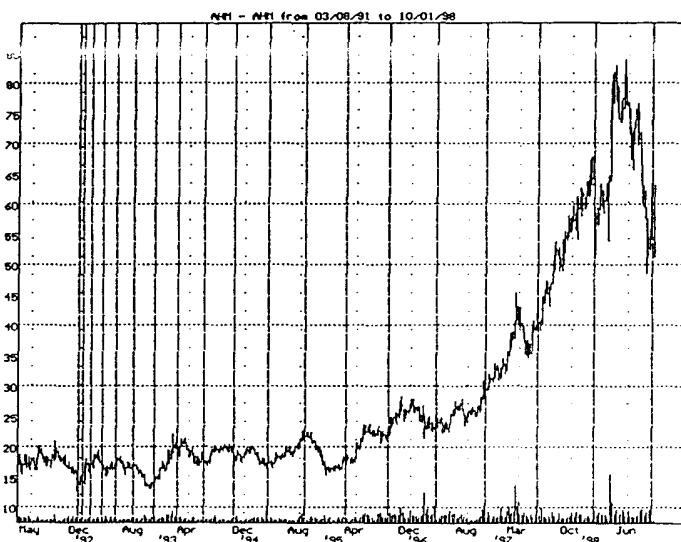
you will see that most charts expand through these geometric figures and the most important ratios are the square roots of two, three, and five. I might add that the square root of five is most important and is the basic derivative of the Fibonacci ratio.

I don't want to waste too much time in this book on Fibonacci numbers, since there are literally hundreds of books written on trading the market by these numbers, but I will mention a fact that most charge thousands of dollars to tell. That is, that most expansions in the market terminate at a Fibonacci ratio of Phi cubed or $1.618 \times 1.618 \times 1.618 = 4.236$ times the original impulse wave amount. If the first thrust goes \$5 then the top is \$21 from the low (5×4.236). This ratio is also applied to *time*.

The natural integers 1, 2, 3, 4, 5...*squared* (1, 4, 9, 16, 25...) provide some of the easiest and most dynamic cycles you'll find and if you wait for them big trades are almost always certain. From any major high or low you just maintain a daily, weekly, and monthly count of 3, 9, 16, 25, 36, 49... cycles and watch to see what happens. They will usually coincide with other measured moves, or 45-week harmonics, or planetary movements and then the trade will be certain. These cycles can go both forwards, and backwards. The easiest way to keep track is with a spreadsheet, or computer program, or a "tape ruler" made from the bottom of the chart you are maintaining. When you slide this tape back and forth over your chart the cycles will line up and you can mark cluster points on your chart for the time in the future when many cycles will come out in a short span of time. The next few charts show natural square cycles from low points both forwards and backwards. Note that most of these cycles actually get stronger as they go further away from the origin point! This also ties in with the Gann Square of Nine idea that odd squares starting new cycles cause bigger movements on the wheel as the price advances.

Time Cycles

Chart 162



We see in Chart #162 vertical lines representing natural squared weeks from a low. The "hits" are pretty close, but also note that sometimes the mid-point between the squares is a turn.

Chart 163

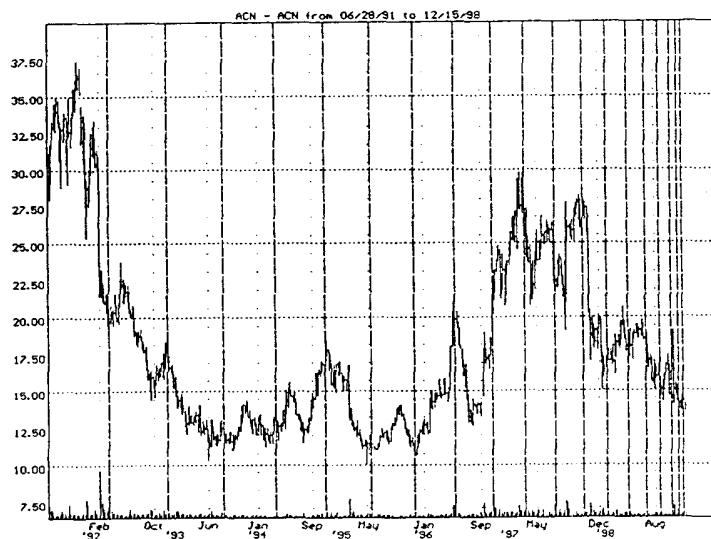
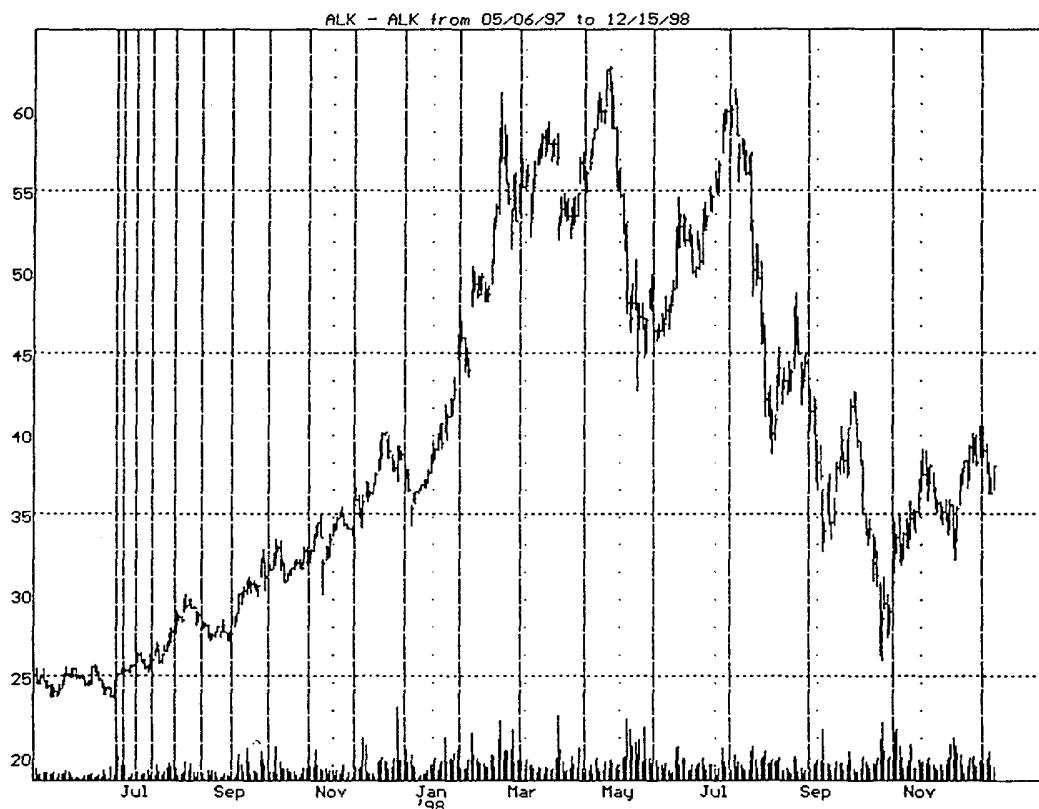


Chart #163 shows natural squared weeks going *backwards* from today's date. This implies a new cycle is just about to begin, and from the looks of the chart it could be a nice higher bottom and a new bull move.

Time Cycles

Chart #164 is the typical chart of natural *days squared* going forward from a major low. Note again how as you get farther away from the origin the cycles get stronger and give greater moves in both time and price.

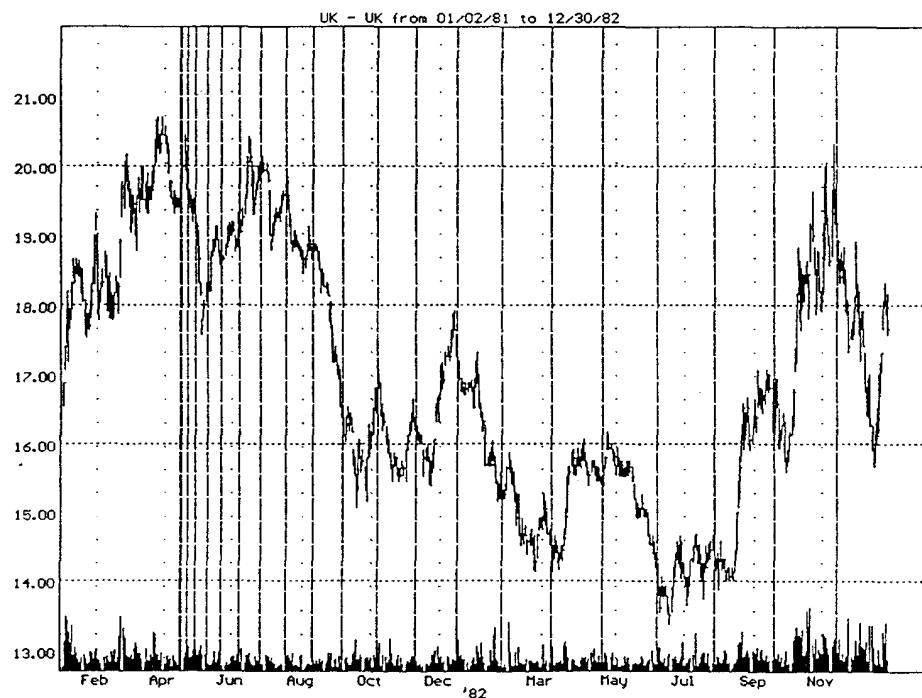
Chart 164



Time Cycles

The prior charts show a simple method to keep track of cycles by just using natural squares, but many of us want more. We want to know why? The answer may never be proven but to Gann and to myself the answer lies with the planets. Orbital periods are squares and the formula for gravity is an inverse one demonstrating a square of the distance force. It's reasonable to assume the planetary movements are the cause, especially if you study the next several charts. On the next charts, instead of just starting the natural square cycle from the date of the high or low, it is started from a planetary aspect, in this case the Jupiter/Saturn conjunction of April 15, 1981. In some cases you'll note (like IBM) there was no discernible high or low on that date. I mentioned this problem with cycles previously in that the difficulty is always finding the origin and if it doesn't come from an extreme you might not locate it unless you use planetary aspects. As you'll see in the charts, however, almost all the future cycles come out very closely if you use the planetary starting date. Chart #165 is Union Carbide from April 15, 1981. I'd say those daily turns are pretty close for a simple natural square method!

Chart 165

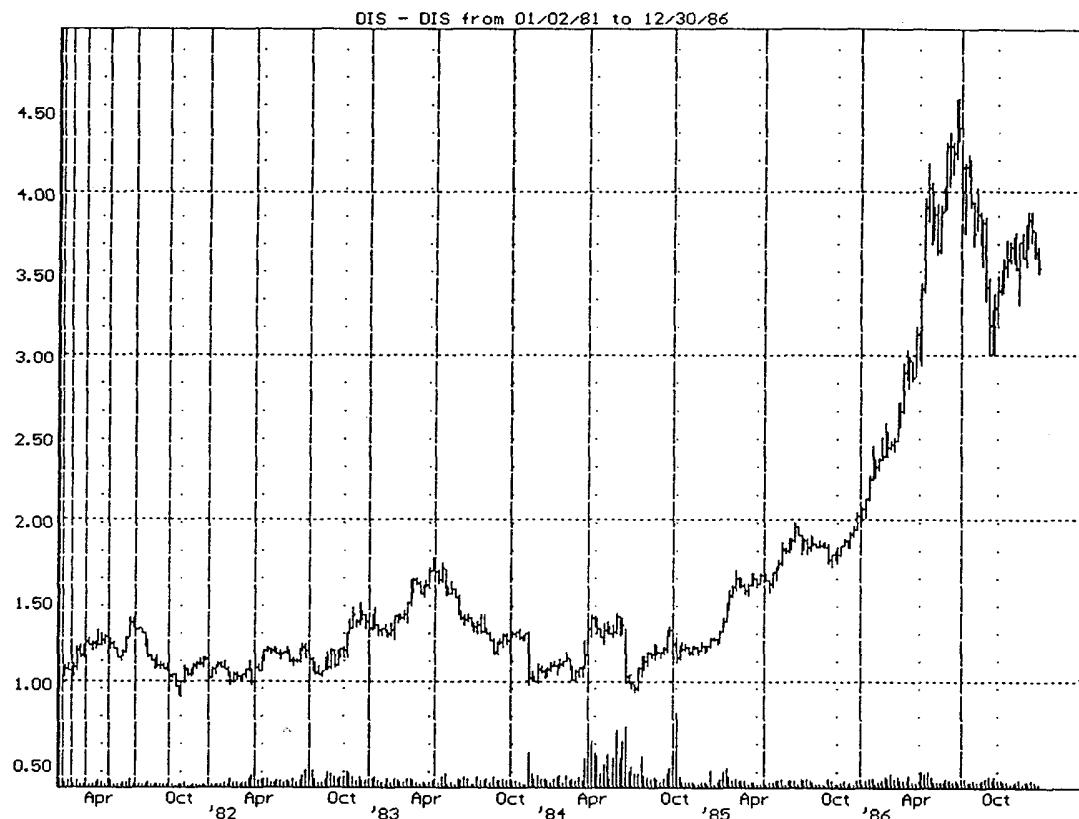


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Time Cycles

We see Disney in Chart #166 on a weekly basis with natural squared weeks from April 15, 1981 through the end of 1986. The turns were off by about a week at times, but there were very big moves just before or after the turning point dates.

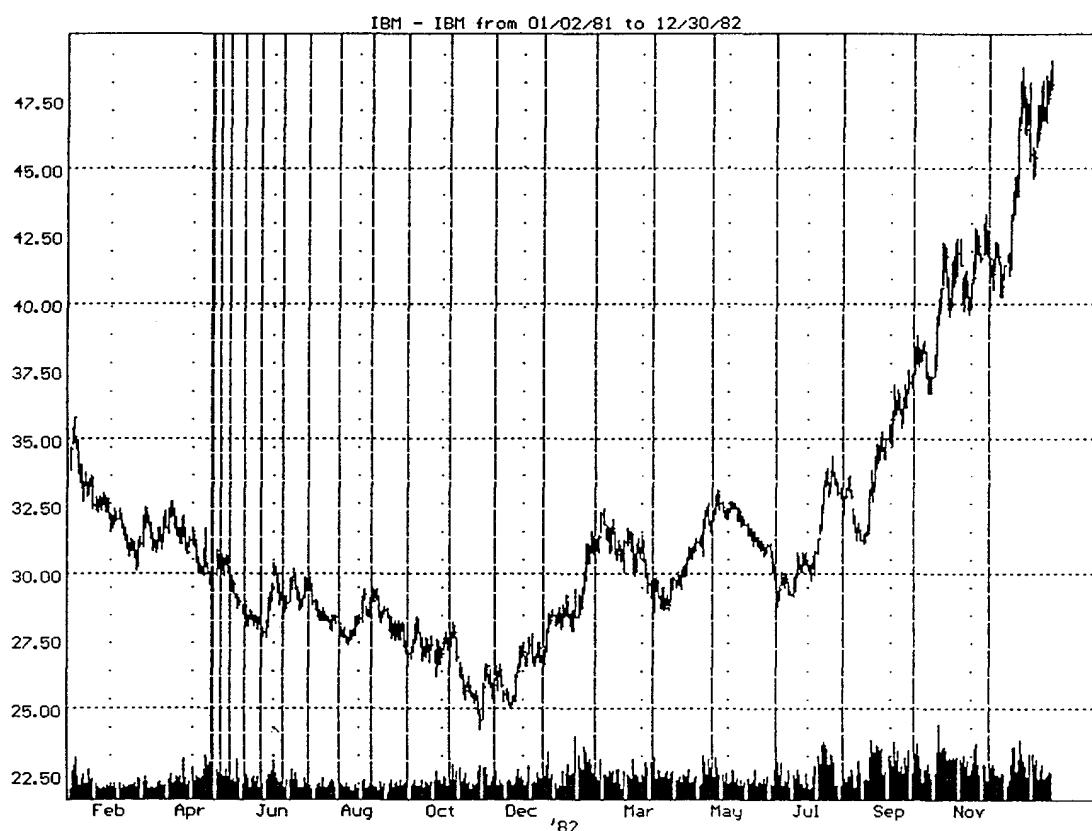
Chart 166



Time Cycles

IBM going into the October '81 low is shown in Chart #167. Note how April '81 was a nondescript point on the chart, but nevertheless does spin out adequate natural squares in day cycles from that origin.

Chart 167



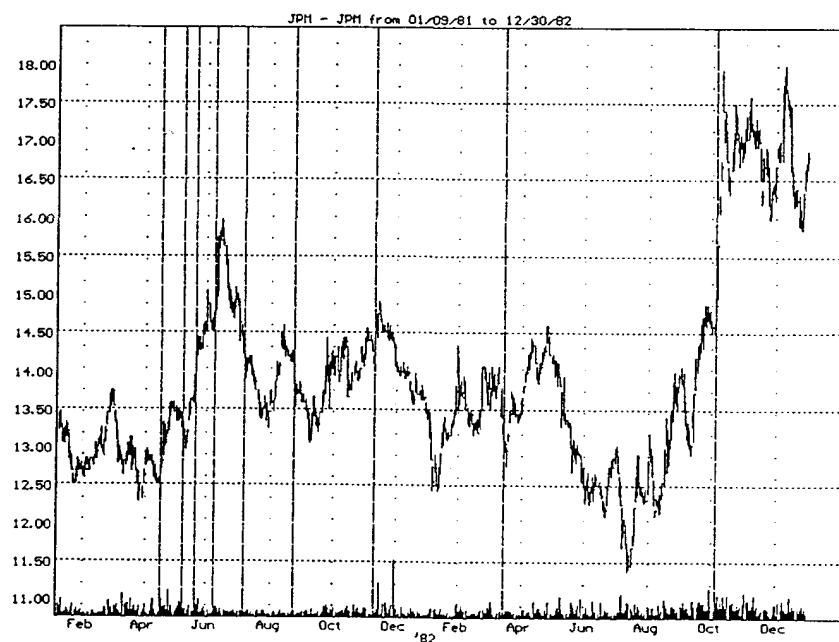
I've mentioned Fibonacci numbers and the golden ratio appears everywhere in nature, with various studies linking this ratio to planetary combinations apart from the obvious Venus orbital period. If you will recall the whole Gann idea was to translate planetary longitudes into prices on the date of the planetary aspects. If the planets are expand-

Time Cycles

ing at Fibonacci ratios, and if they have translated a stock's price into orbital information, then we should see a Fibonacci price/time expansion in the chart. We take the price of low, which by definition was a translation of longitudes on that date of the aspect between two planets, and then we expand it by 1.618 and take that expanded number as a *time* period. If the price were 10, *after the first square of ten* we then expand it to 16.18 and *16.18 days later* is our next time cycle. We then expand that 16.18 days by 1.618 to get our next time cycle date (26 days). This is what I have done in the next charts and you can check by measuring with a ruler the distance between the vertical lines, which should be 1.618 ratios. The important thing to think about is that the *origin is a planetary aspect*, specifically the Jupiter/Saturn conjunction of April 1981 (*helio 4/15/81, geo 3/04/81*). The implication is that the planets are indeed the cause of these cycles. You be the judge, here are the charts:

1.618 TIMES PRICE ON 4/15/81 EXPANDED IN TERMS OF DAYS.

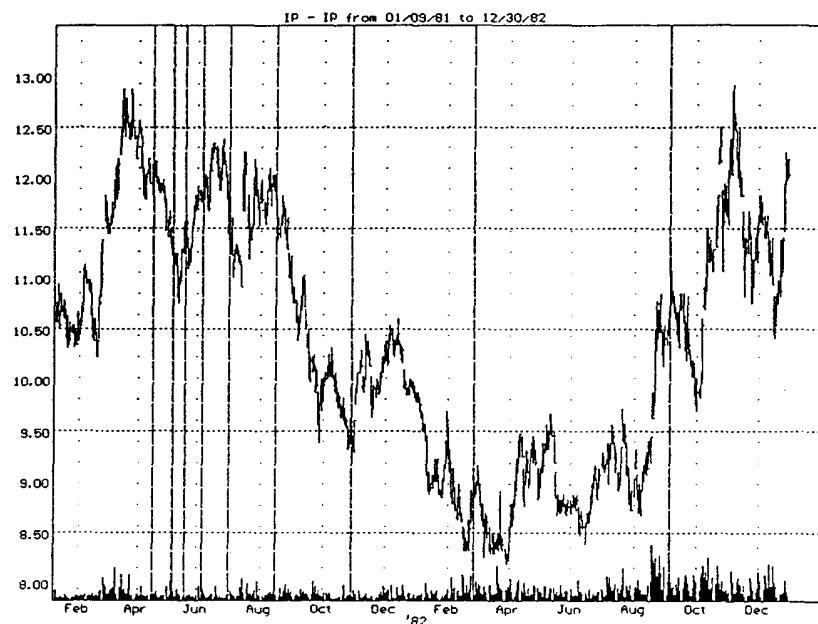
Chart 168



Time Cycles

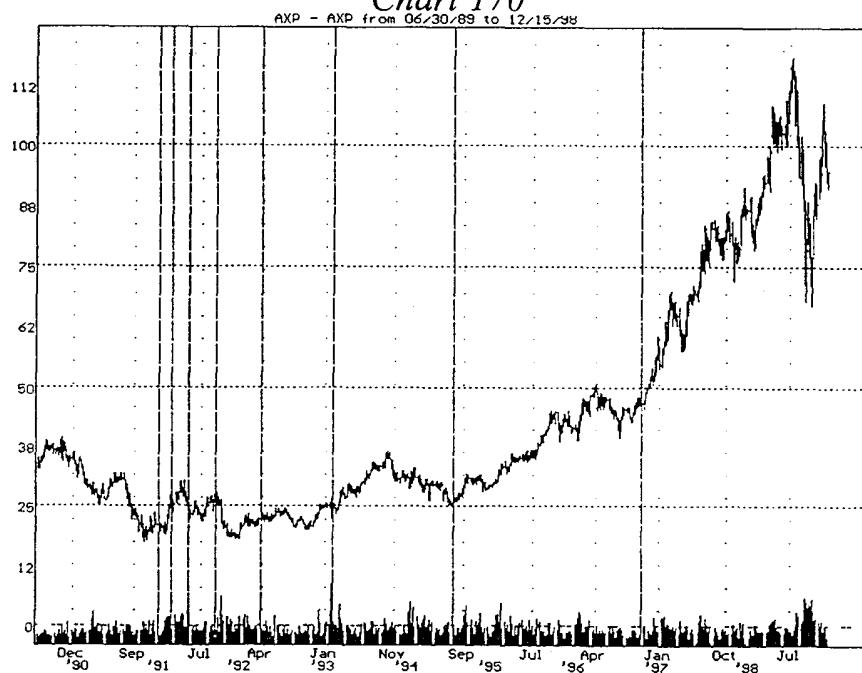
1.618 TIMES PRICE IN DAYS FROM 4/15/81.

Chart 169



1.618 TIMES PRICE IN WEEKS FROM 9/15/90 JUP/URA 150 DEG

Chart 170

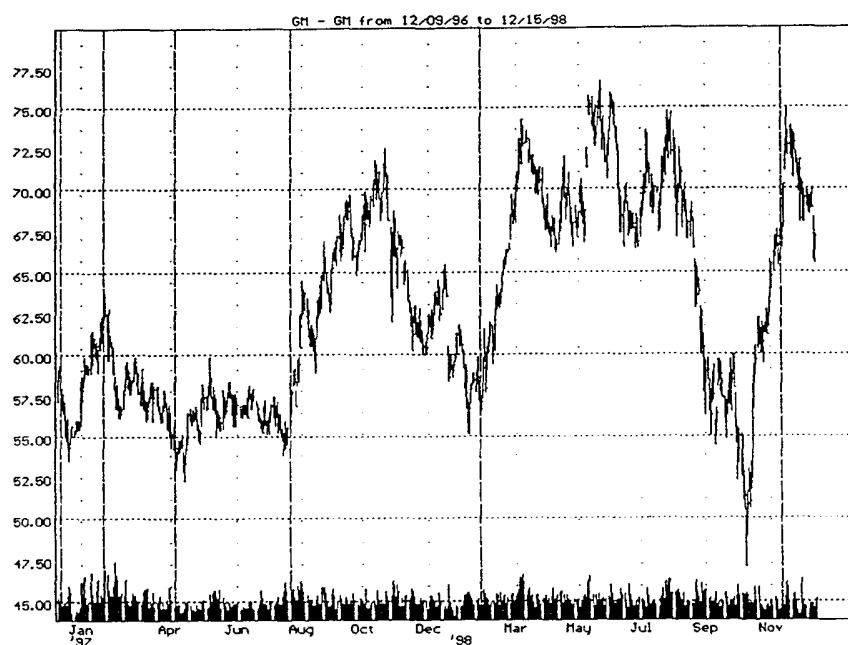


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Time Cycles

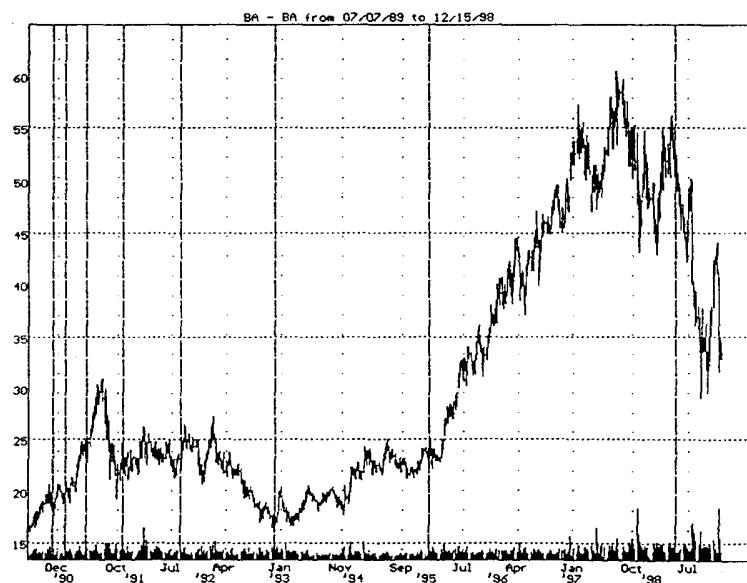
We see in Chart #171 General Motors' daily chart with 1.618 times low expansions coming from a cluster of four planetary pairs of Jupiter/Saturn/Uranus/Pluto all coming within two weeks in August/September 1996.

Chart 171



BA WEEKLY WITH 1.618 TIMES LOW IN OCTOBER 1990

Chart 172



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Time Cycles

Charts #173 and #174 are two examples of the 45 and 32-week cycles *going in the same direction*, and thereby providing an accurate forecast of the coming few weeks. Usually one or the other of these cycles will be the dominant one, but when they both go together they can be very reliable.

Chart 173

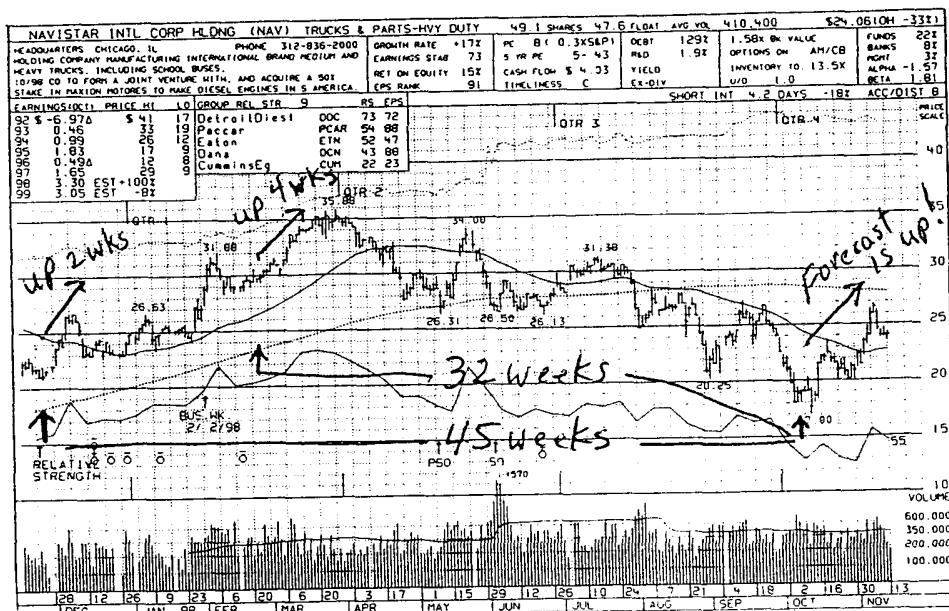
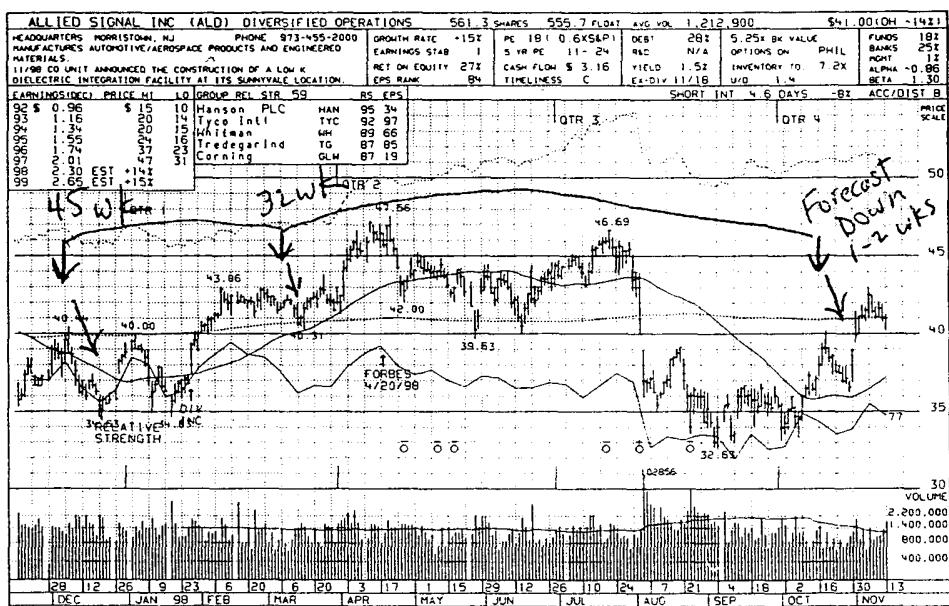


Chart 174



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Time Cycles

Chart 175

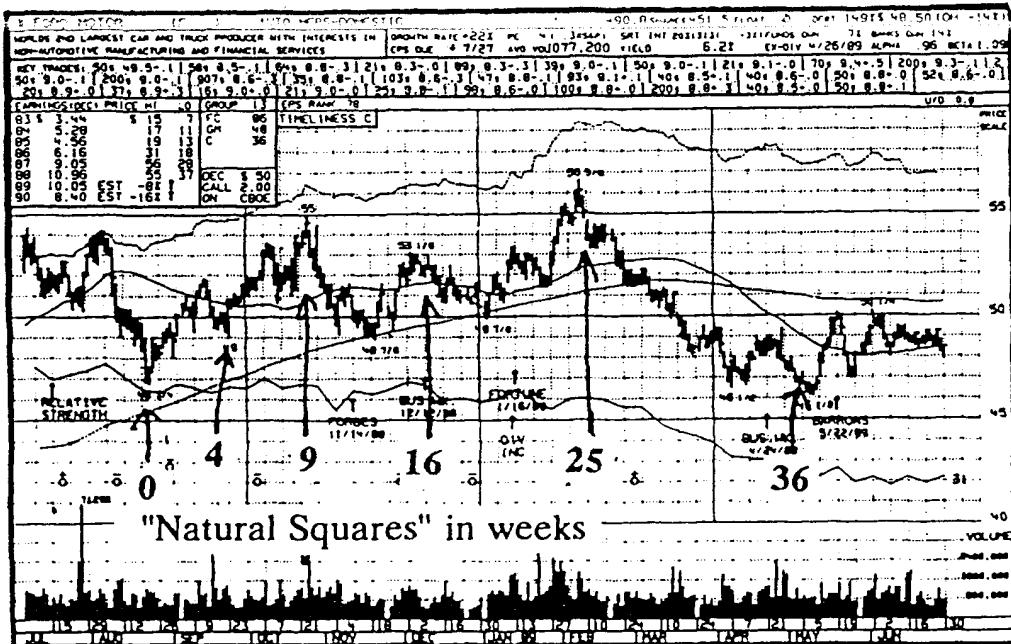
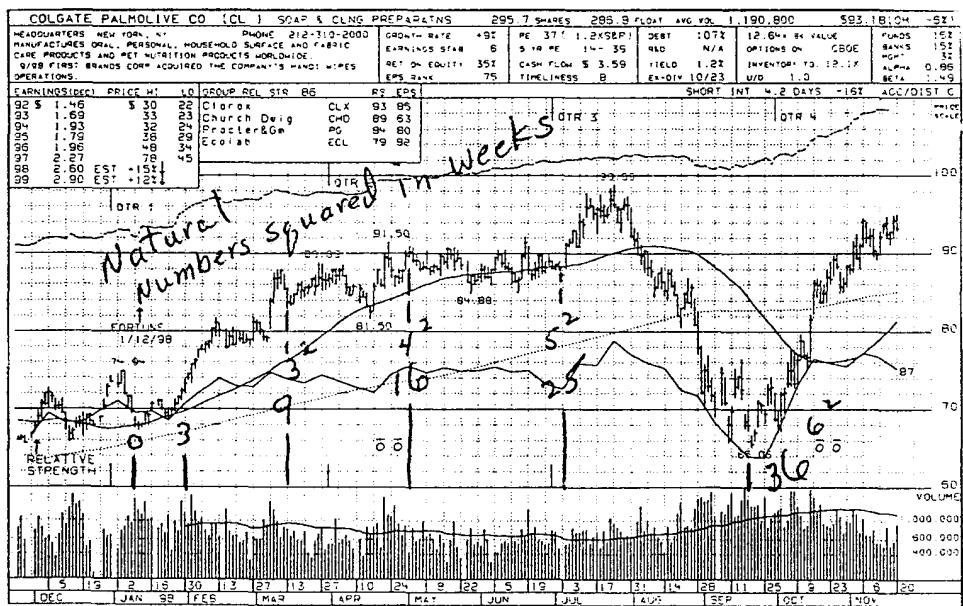


Chart 176

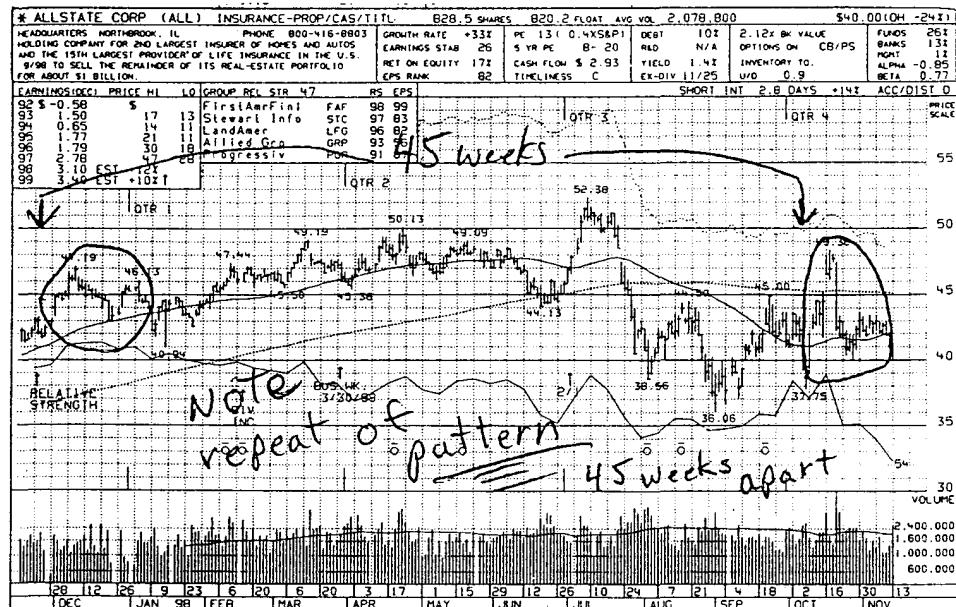


MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Time Cycles

This chart is an example of the 45-week cycle and how the market often repeats identically, or identically backwards, at 45-week intervals. In this case the pattern repeated as you can see, and notice how each subtle nuance of the pattern was recreated 45 weeks later. Remember the pattern is a vector move so the first was a drift after the high and the second a plunge but the high to low sequence is intact and the shape is identifiable. That proves the cycle is still working. I use this cycle to focus in on stocks that had lifetime major moves 45 weeks ago, and then I watch for another repeat of this cycle so I can trade those big moves.

Chart 177



Chapter 12

MIRROR IMAGE FOLDBACKS

When I first started professionally working in the stock market I was a fundamentalist with degrees in finance, an M.B.A., had just passed the Uniform C.P.A. exam, and could read balance sheets like any of the best analysts. I looked at technical analysis and enjoyed charts, but like others I thought it was just trendlines and moving averages. I then started studying cycles, which changed my life. One realization came to me when I looked at some past charts. The 1973-74 bear market chart looked a lot like 1969-70 and as I looked at '73 and '74 I saw that '74 was an exact backwards replica of '73. Much later, after I started studying astrology in depth, I found out what was causing the pattern to reverse, and I saw clearly how long term forecasting could be accomplished with remarkable accuracy and consistency. This is not to say that it's easy, or that you can't get confused with all the cycles going forwards and backwards, but many patterns are clearly identifiable and can be used for years at a time without being off by more than a few weeks. After studying the problem for about ten years, and just calling them foldbacks, I moved to New York in 1984 and that year made the acquaintance of one of Wall Street's grand masters of technical analysis, the late George Lindsay. George had been producing a newsletter called "George Lindsay's Opinion" since 1951 and had experienced notable success in calling market tops and bottoms months ahead of time. His success largely went unnoticed until late in his life, when he made a great call on the TV program Wall

Mirror Image Foldbacks

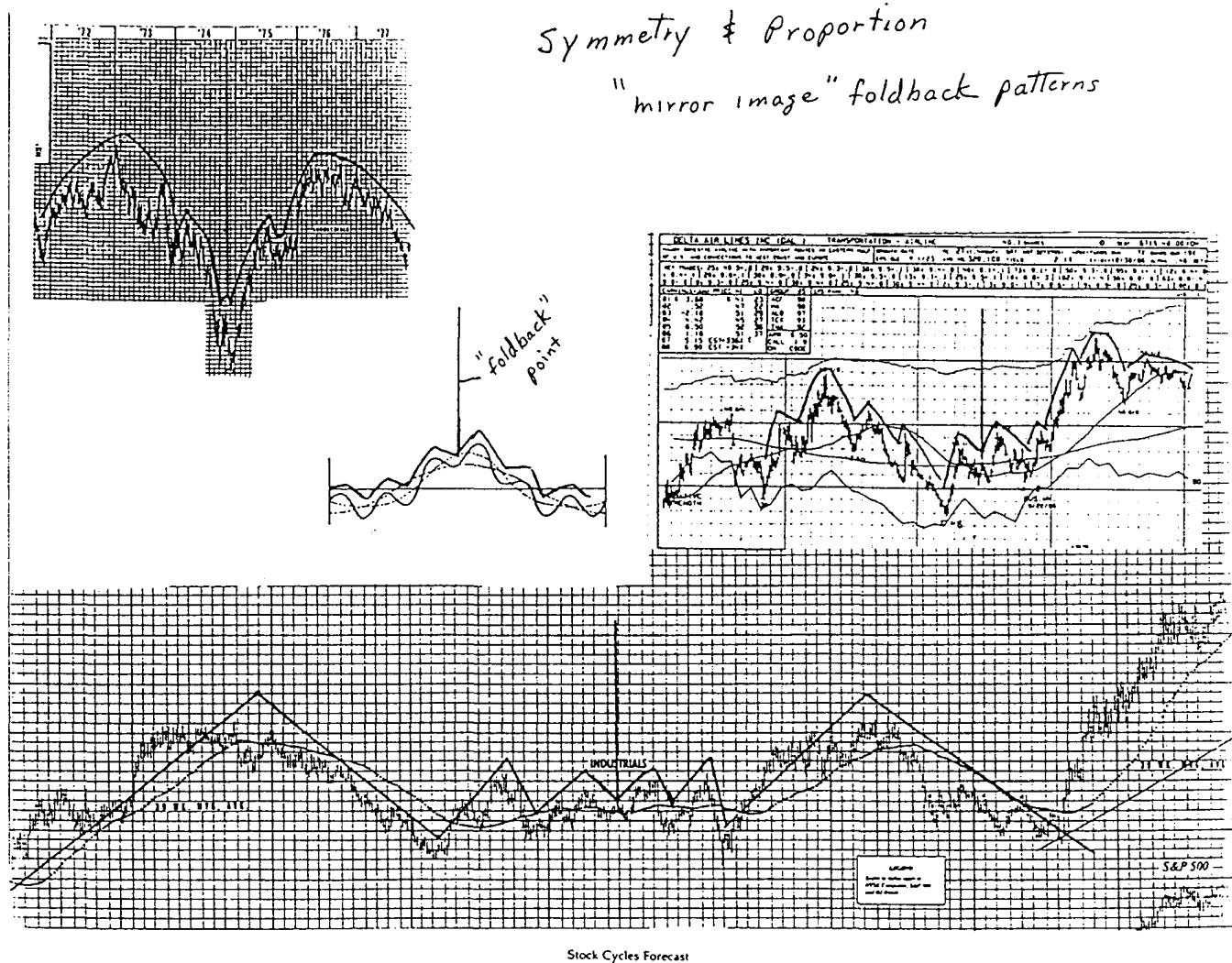
Street Week. I met him because I was trading proprietary capital for the firm he worked for and some of the partners knew I also did similar technical work. George, it appeared, had been developing a system of predicting highs and lows based on what he called "mirror image foldbacks." I asked him at the time if he was using astrology and he said that it sounded interesting, but didn't have the slightest knowledge of the subject, though he was willing to learn. George had been interested in numbers and in his youth, wanted to be an architect. When he stumbled on the foldback pattern in charts he meticulously set up work papers to track every foldback possible for the past hundred years or so. The idea basically is that all final highs and lows fold back about those points and as they go up, they go down in the same fashion and vice versa. If a low was December 1st and it led to a final rally that culminated in an all time high on January 1st, then he would start with January 1st and January 2nd, 3rd, 4th etc. would be graphed as if they had the prices of December 31st, 30, and 29th. The price patterns would just "foldback" about the spike high or low and these patterns could last years. Indeed, many basic advances in George's work went 12 or 15 or 18 years in a foldback before changing again. If this was all there was to it, it would have been easy, but every six weeks or so another high or low would fold back the other way. If you just concentrated on bull and bear market beginnings and endings this century, your work papers would have perhaps 50 different starting points that were folding backwards and forwards all at the same time. Keeping track was the problem. Though George kept very detailed, meticulous papers, this process is very cumbersome and confusing. Before we get into details, however, let's look at some examples of foldbacks, so that you know what I'm talking about.

Several examples, Charts #178, #179 and #180, show foldbacks on the market averages and an individual stock. As you can see there is a symmetry about a central inflection point and the price structure repeats backwards for long periods of time, which

Mirror Image Foldbacks

makes the pattern an ideal one to forecast the future. If you can locate the proper foldback point then the pattern will work for months to years. Much experimentation is necessary, however, to find that point. Usually you start from a major high or low, but George Lindsay would find the *first weak day* after a top to start the count. Sometimes the spike high was just excessive momentum, or an aberration, but real selling after a technical top was

Chart 178

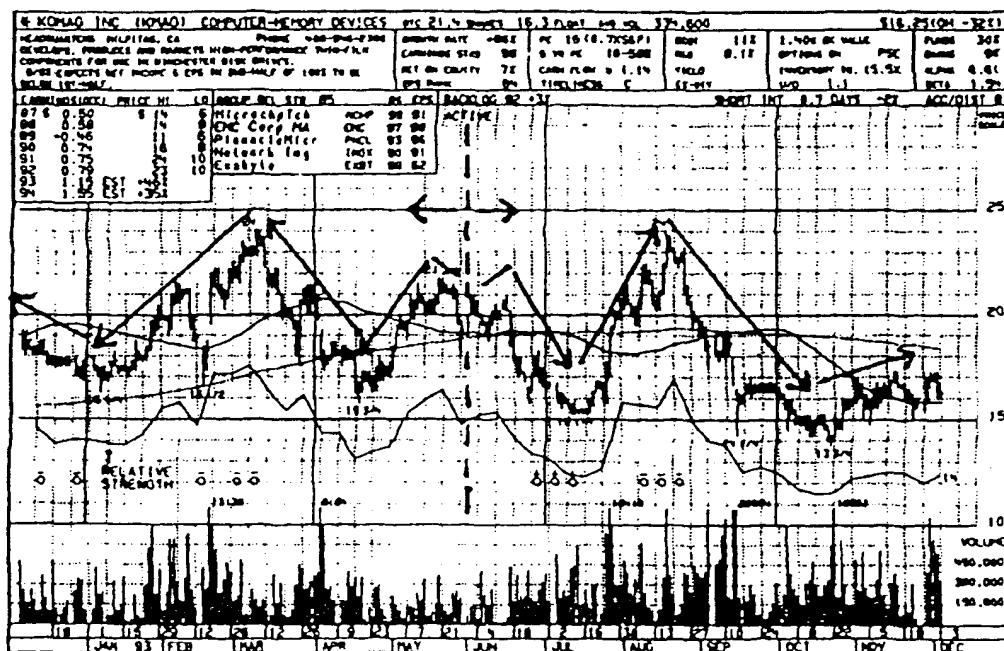


Mirror Image Foldbacks

in, usually resulted in good counts. Of course, you know by now that I favor a planetary approach, so that I would first look for planetary conjunctions and oppositions to find that point. The theory is that if Gann's idea about translation of planetary longitudes into price was correct then when planets approached a conjunction, and then separated, or did the same with the 180 degree aspect, the numbers coming out of such patterns would be the same and the foldback should work. This is largely what happens, though there are always multiple aspects and retrogrades to deal with.

TYPICAL STOCK FOLDBACK IDENTIFIED WITH "MEASURED MOVE" VECTORS

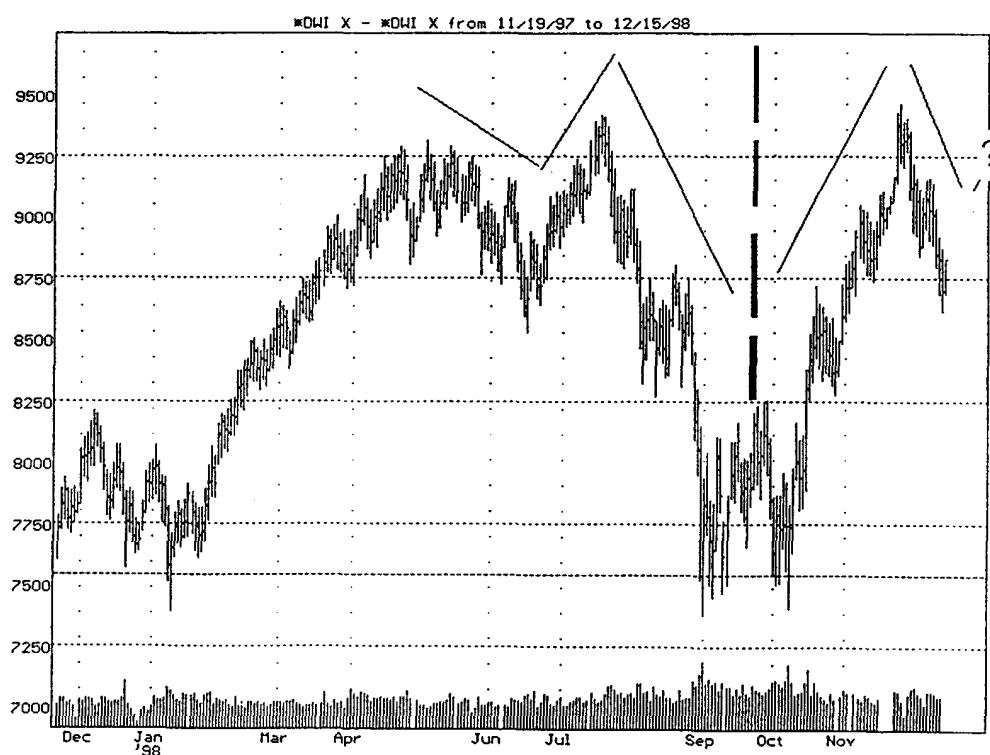
Chart 179



Mirror Image Foldbacks

DOW JONES FOLDBACK IN SEPTEMBER 1998

Chart 180



Let's examine some simplistic number foldbacks by just counting days, or bars, before and after a high or low, to see the basic technique. We'll deal with the planets later. The first decision must be whether to use calendar days or trading bars. I've used both and prefer calendar days to tie in with planetary action, but I have seen many patterns that can be considered nothing else but numerological in origin and they have repeated for years. In mathematics they have a phenomena known as palindromes, which are a series of numbers that repeat after several digits, and these patterns repeat often, or they change slightly and repeat again. This doesn't seem to be caused by planets, so I think we may be dealing with two distinct phenomena. In any event, we need to find some methods to identify and

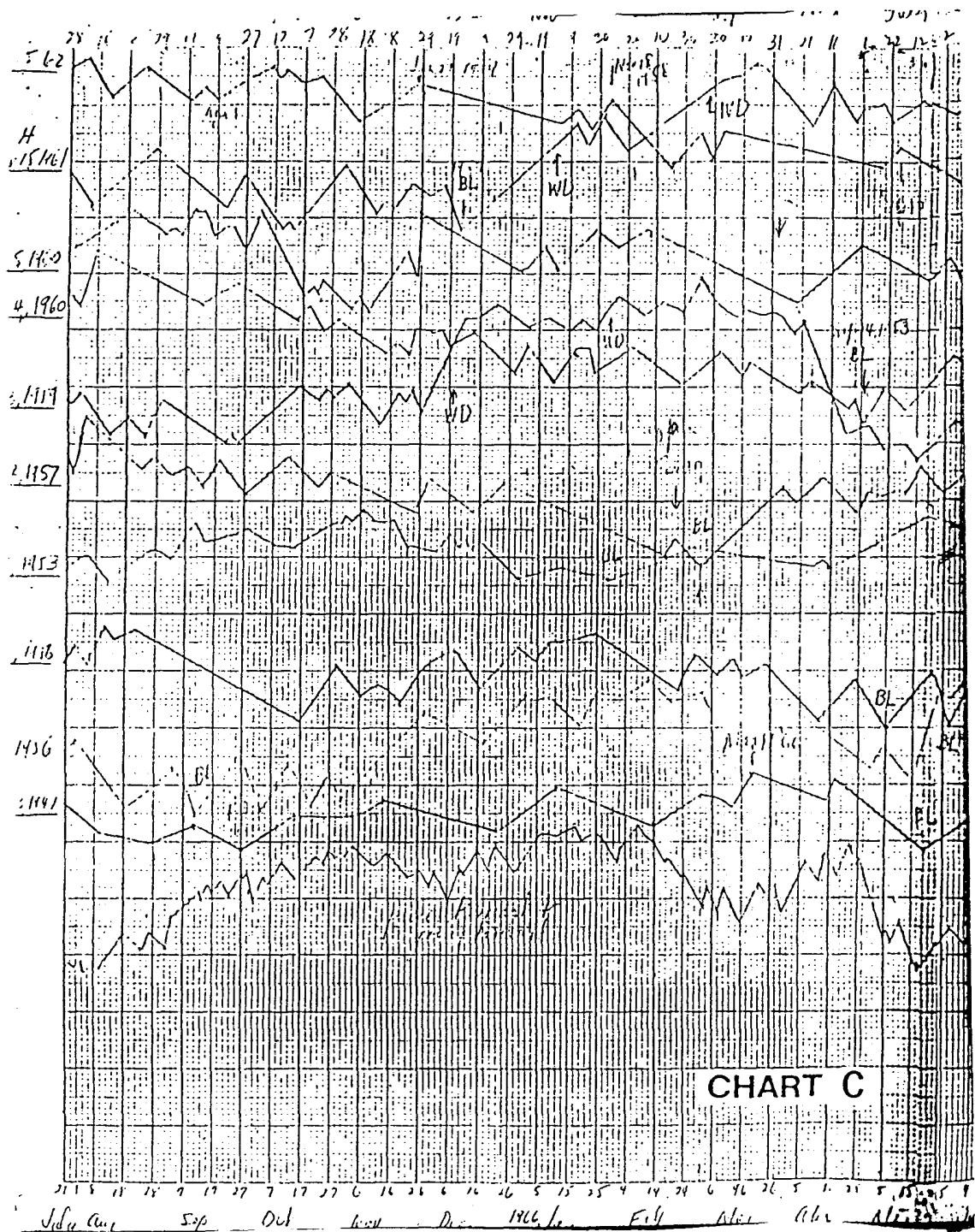
Mirror Image Foldbacks

forecast these patterns, so that we can trade stocks with them. George Lindsay's approach was to use spreadsheets and line up on January 1st each year the starting point, going backwards from every bull and bear market working in a foldback manner over the past several years. For instance, if two years ago the market topped on November 1st, on January 1st of this year, you would be two years and two months back further from that original high (September, four years back), and folding back as each day goes forward. You would plot that for the whole year and you would do it for all cycles. When you finished you would have all kinds of lines going up and down, month by month, and these would be the cycles for this year. Where three or four big clusters came together in the same direction and then reversed on a date, you would expect a turn in the market. Chart #181 is a chart that George used to explain his method, in a pamphlet entitled "The Proprietary Timing Methods of George Lindsay" that he sent to his subscribers in 1979. The copy is not very legible, but the point is simply to show how he lined up many years of stock prices in a backwards fashion to try and identify clusters of points where major turns would be found in the coming year. This is similar to W.D. Gann's method of lining up the 10-year cycles, one on top of the other, to look for common anniversary dates. George did more work, however, and found a long sequence that took the form of a wave pattern. Without getting too far afield, he noted that a major high almost always occurred about 15 years plus a few months after a major low, and a bottom 12 years and a few months after every top. These time periods seemed to suggest the use of astrology behind the method. Saturn reaches its opposition, or 180-degree angle, about every 15 years and Jupiter has a twelve-year cycle, but I also noted on George's papers highs and lows that were exclusively tied in with a Jupiter/Pluto cycle. At any rate, George hadn't studied astrology, but simply kept up the charts, and they worked well for him for over 40 years.

Mirror Image Foldbacks

GEORGE LINDSAY'S FOLDBACK WORKPAPER

Chart 181



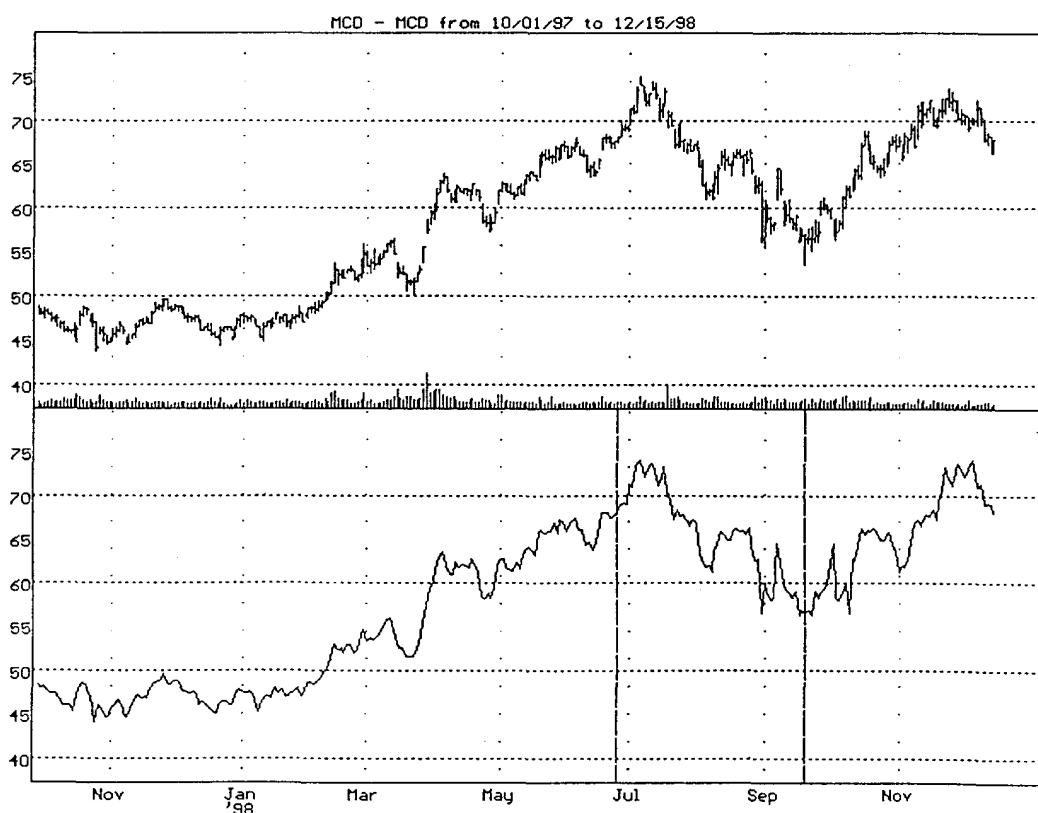
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Mirror Image Foldbacks

These next several charts show a computer program I use to filter charts for patterns, and the computer simply takes highs and lows and folds the bars forward after the foldback point. To this extent it's related to bar counts and doesn't always give good results, but it's a good tool to warn of potential big trades coming up.

Chart #182 is a daily chart of McDonalds, and the upper half shows the actual chart, while the lower shows the foldback pattern. The foldback occurs at the point of the furthest line to the right, and as the chart moves to the right the prices are coming from the

Chart 182



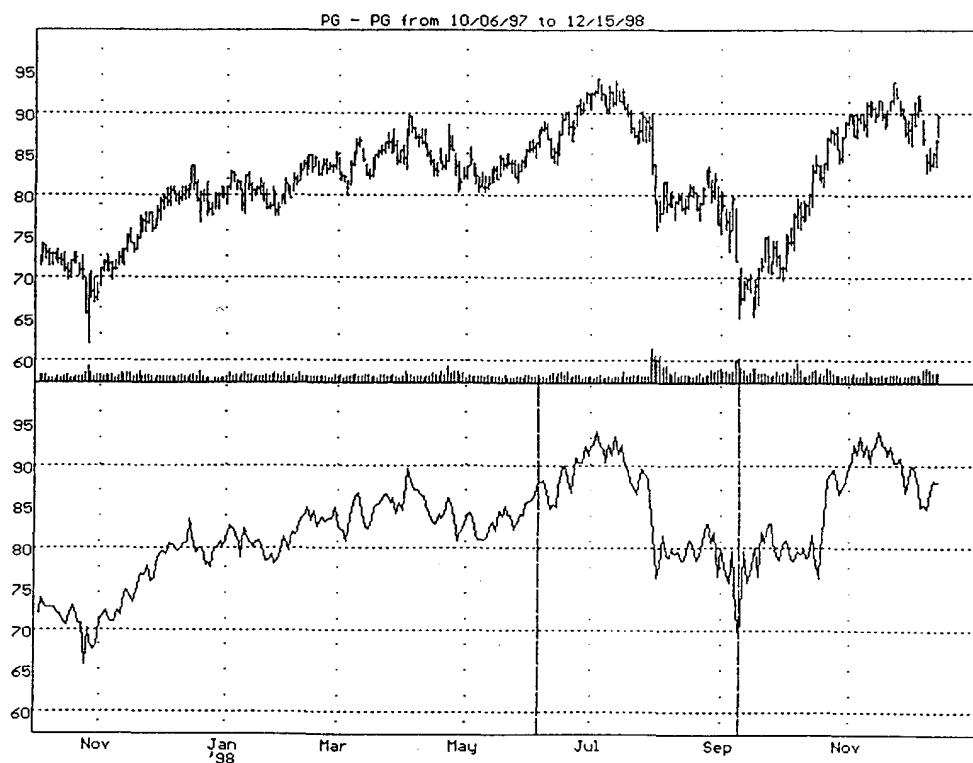
left. That first line on the left at the far right of the chart is the end quote where we should today be folding back to the left. In this case it shows the top just being made and a

Mirror Image Foldbacks

possible long decline just ahead. One of the biggest problems in using cycles, and foldbacks in particular, is what we call cycle inversions. These are places where the predicted pattern comes out exactly backwards from what was expected. If the foldback shows straight down, the actual chart may go straight up. It's not a hopeless situation, however, since when it does happen, it usually goes the same vector distance forecast in the pattern, and the direction will stay in that direction until the next foldback point. It is the foldback points where you have to pay close attention, and if the pattern seems to be working coming out of them, it will usually work until the next point.

Another example of a daily foldback, in this case with Proctor and Gamble, is shown in Chart #183. Here the foldback has been working for almost three months, and

Chart 183



Mirror Image Foldbacks

after the next turn we'll see if it's long term or just temporary. In any event, I'd be cautious before I went long this issue, even though the classical chart interpretation would predict a new all time high just ahead on the next advance. If that happens, I'd abandon the foldback, but I'd hesitate here knowing what I do.

Chart #184 is a weekly chart foldback of Eastman Kodak that has obviously been working, and if you use weekly or monthly foldbacks, you will by definition discover longer time frame moves that are good for several months at a time. It's always best to concentrate on long-term charts when picking a stock to day trade. If the long-term trend is up you can buy every dip, and the few times you are off by a few days the trend will bail you out anyway.

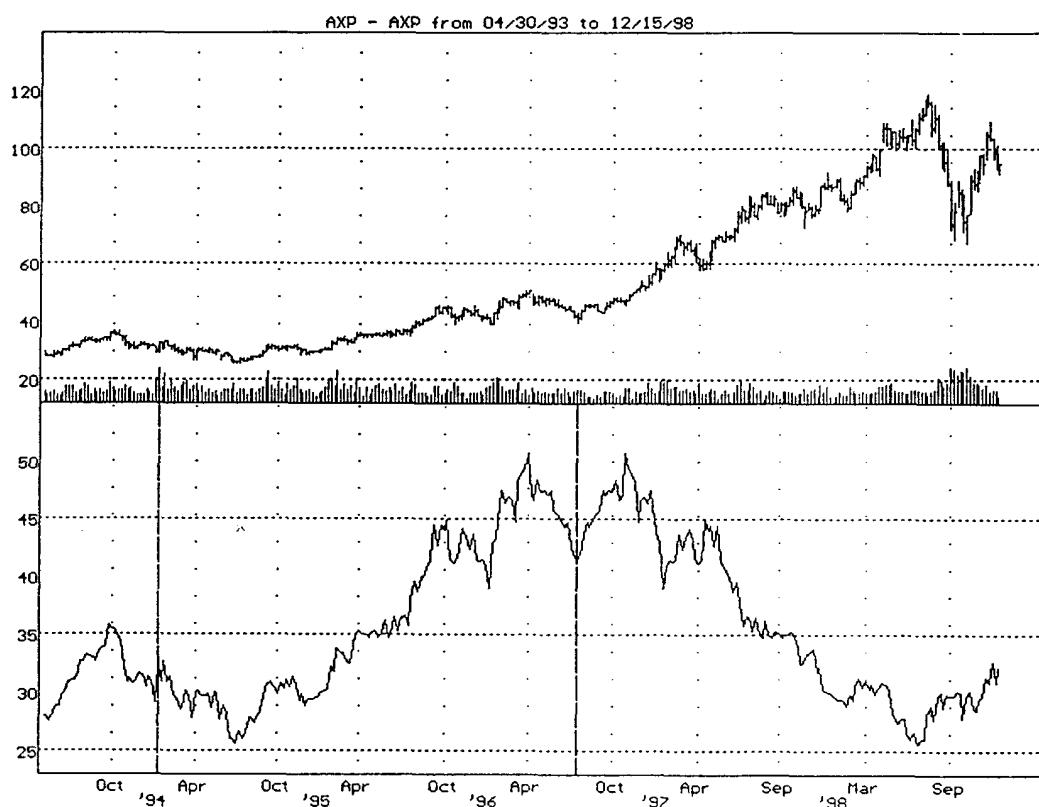
Chart 184



Mirror Image Foldbacks

An example of a cycle inversion on a weekly chart of American Express is Chart #185. Note how the low folded back down but the stock went straight up. Also observe how at the time of the final low on the foldback the stock made its final high. This type of exact opposite pattern can still be valuable for trading once it consistently diverges for several months. You then go with it and don't expect a trend change until the next major pivot point.

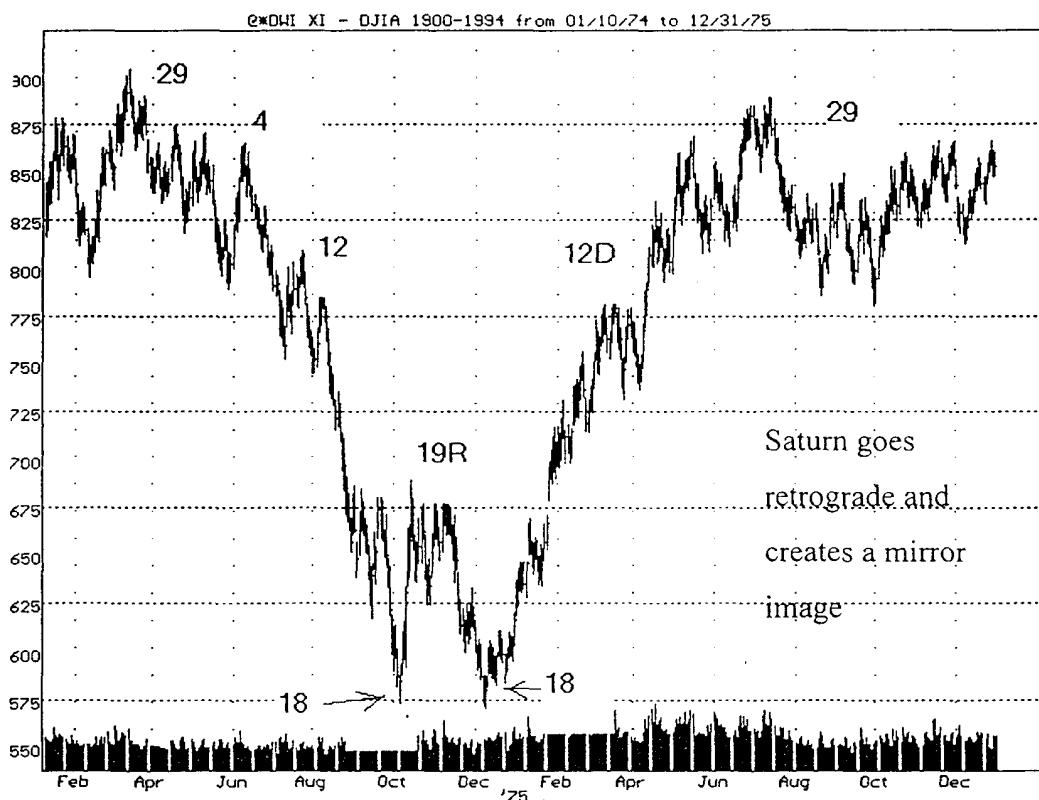
Chart 185



Mirror Image Foldbacks

Planetary foldbacks are easily anticipated, since all we have to do is look in the ephemeris to see a conjunction or opposition, or a major planet going retrograde, or direct. Once that happens, we continue to observe the chart's pattern. Sometimes the foldback will take the form of a critical degree as I saw in 1974 with a foldback of Saturn at the critical degree of 15 to 19 degrees Cancer. By the way, when Saturn moved 90 degrees from that big low in 1974, it was August 1982 at 15 to 19 Libra! Chart #186 shows the 1974-75 Saturn retrograde foldback with the degrees during each time period. If you look in an ephemeris for that time period, you'll plainly see Saturn advancing through the sign of Cancer (which plays a very prominent role in U.S. economic history), and if you look at October 31, 1974 you'll see Saturn change directions by turning retrograde, and start going back up the same number of degrees in January, February, and March 1975 that it went down in August, September and October 1974.

Chart 186



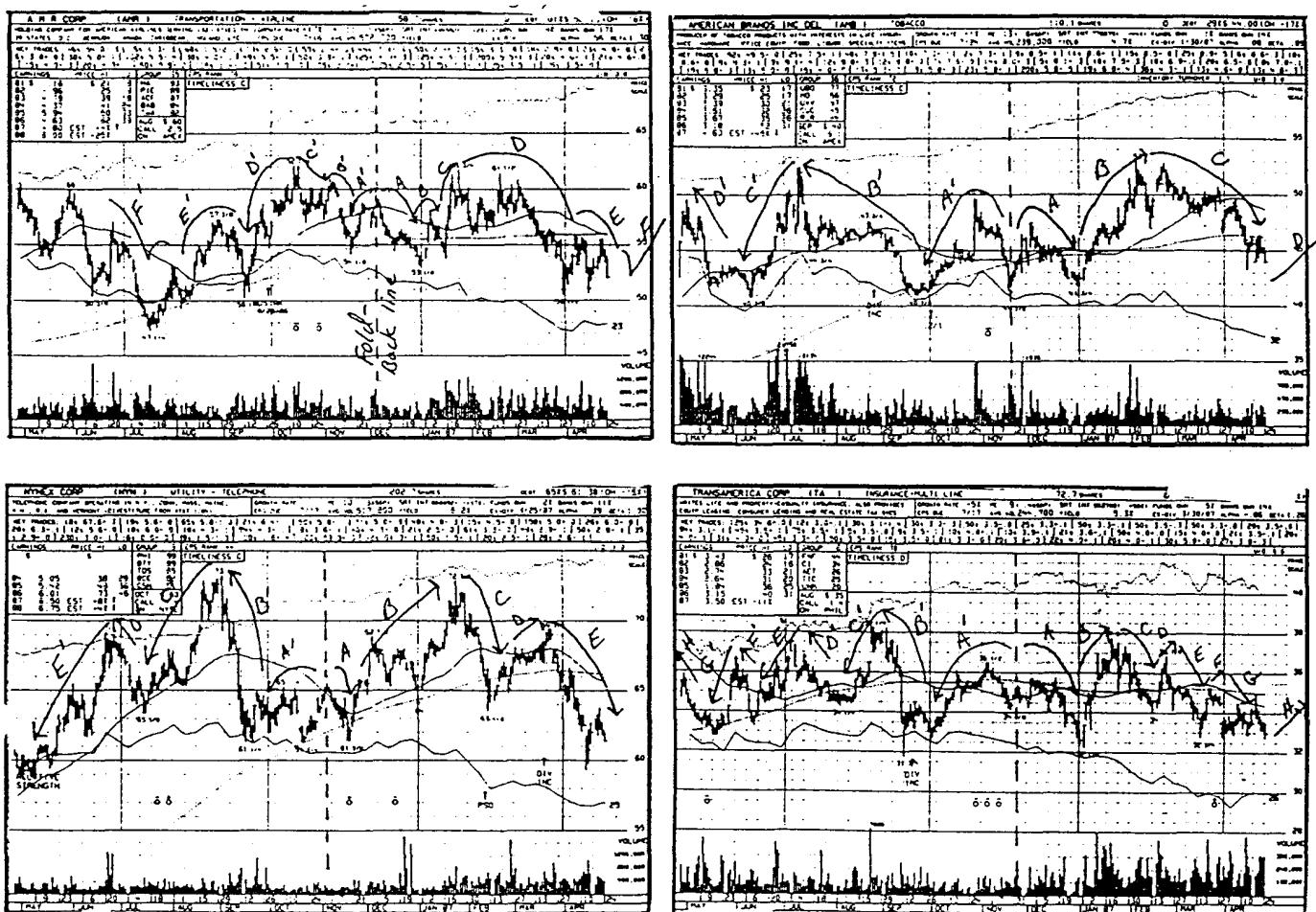
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Mirror Image Foldbacks

After noticing this important foldback point of 18-19 degrees for Saturn, I then checked for other dates when it had also been there: April 1968 assassination of Dr. Martin Luther King, March-May 1946 big top & collapse, 1914-15 W.W.I., October 1997 crash, etc. It certainly looks like a critical degree to keep in mind when watching Saturn through the signs.

Keeping track of the foldback points is a problem, and a few years ago I came up

Charts 187, 188, 189 & 190



Mirror Image Foldbacks

with an interesting idea that held great promise for solving the difficulty for all kinds of time and price pattern confusions. I decided to make an "axis tree" about a major high or low, and reflect to this axis the prior highs and lows by using angles like 45, 30, or 60 degrees and then reflecting them back into the future. It turned out to be a very good idea and I hope you will experiment with it to find what I did. Charts #191 and #192 point you in the right direction. Remember we're looking for patterns on each side of the tree and the patterns should be approximately the same vector measurements.

Chart 191

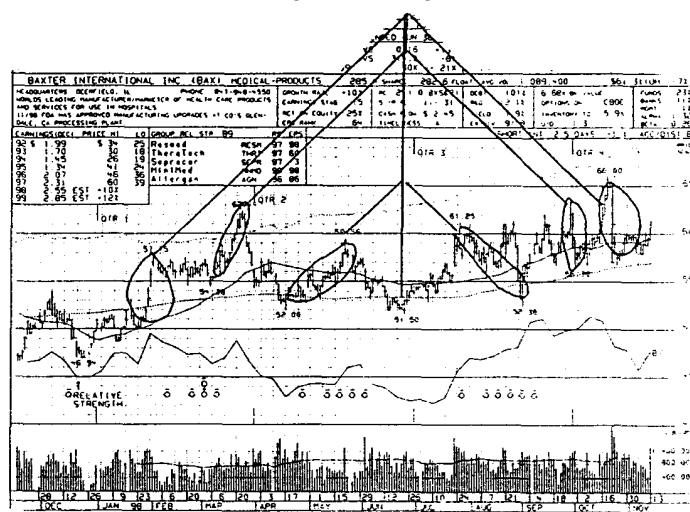
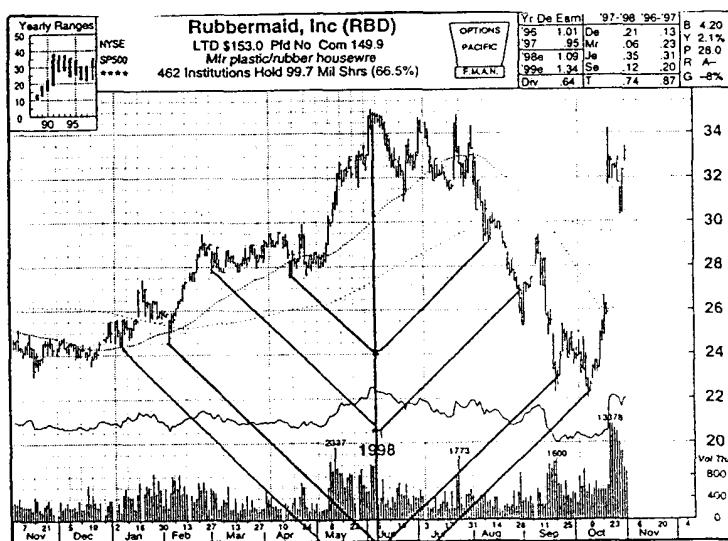


Chart 192

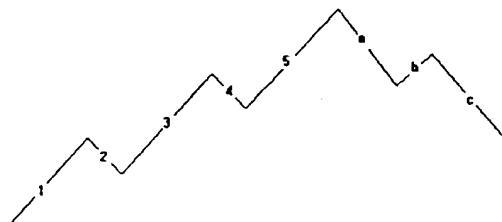


MICHAEL S. JENKINS COMPLETE STOCK MARKET TRADING AND FORECASTING COURSE

Chapter 13

WAVES

Many traders count waves when interpreting charts and this can be a valuable tool in technical analysis. The Elliott Wave enthusiasts go to great lengths to count every wave and exact every Fibonacci ratio, but I think that's overkill. I see waves all the time, but the structure can be different and the rules of interpretation must be flexible enough to account for these differences. What is true most of the time, is that five waves signify completion of a movement, though there can also be seven or nine waves. It is standard practice to label waves 1, 3, 5 as primary and 2, and 4 as the counter trend corrections. After the

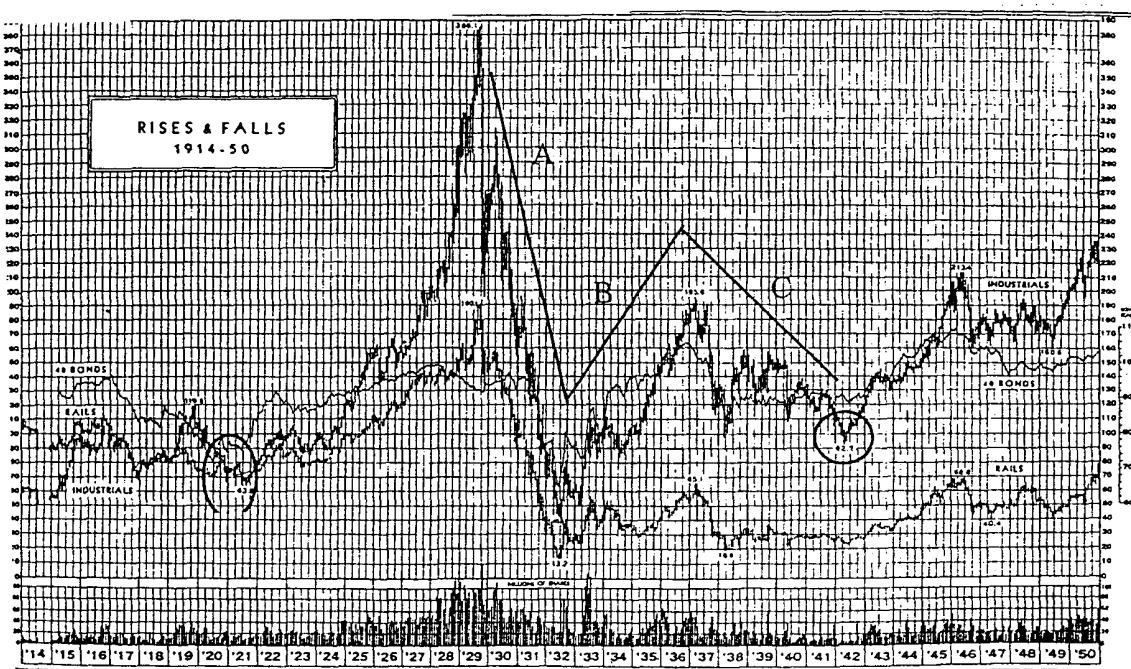


series of five are done, a bigger corrective phase labeled A, B, C, is completed and then the whole five process starts over again. Waves divide and then subdivide into five smaller waves. Figure #12 is the typical representation of the full five-wave sequence followed by the ABC finish.

Waves

Usually waves 3 and 5 are the strongest and the ones traders love to buy long for the big movements. Wave 4 is often the larger than expected "crash," but the rule is it never breaks the low of wave 2. A parallel channel normally contains waves 1 to 5 and when it breaks you are in the A B C correction. One example comes to mind, what I think is the single biggest mistake technicians have made this half century where signals were falsely interpreted by Elliott Wave enthusiasts. This refers to the 1929 crash and the 1932 low. Almost everyone in the business thinks the low was made in 1932 when the Dow Jones went to 40 after having come from 386 in 1929. Certainly it never sold lower in price. But if you step back and take a longer term look and think about the theory of five waves and a full A B C, then you will see that the 1929 top was the end of wave 5, but the 1932 low was only wave A down, with wave B being the big advance up to 1938, and the final wave C going down into 1942 and the lowest point for the U.S. in WWII. Addition

Chart 193

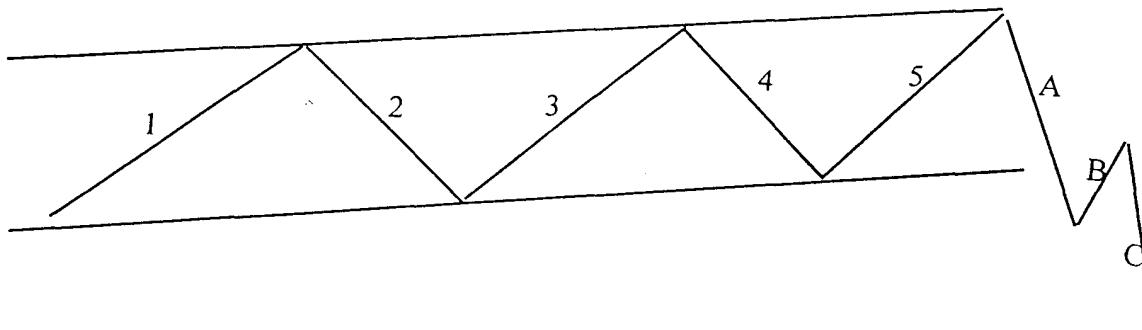


Waves

ally, if you look at a record of the volume on the N.Y.S.E. you will see that it went lower straight through the 1930's and hit all time lows in volume in 1942. Take a look at this chart and see if you can find the beautiful long-term wave count extending through 1942. It is there if you look, but 99% of the technicians ignore it. I don't, because I know how Gann worked and as described in the astrological section you will recall that the main market movements are caused by the Jupiter/Saturn conjunctions every 20 years, not 10 years, which are only half the cycle. Note the 1921 low at the Jupiter/Saturn conjunction and the next low due in 1941- 42. That's where you should count from if you're a wave counter. I don't always count, but I do follow first principles.

Parallel channels are useful in counting waves and when a chart pattern is choppy, but if you draw a channel, you can often "tick tack" back and forth in the channel and count the waves when you hit the upper and lower channels. A graphic representation of this can be seen in Figure #13.

Figure 13



Most people have problems with finding out the correct placement of the channel, but if you recall my method of drawing angles from the last high into a primary low starting point, and using an adjusted axis to start your angles, you shouldn't have too much difficulty.

Waves

Most waves will begin and end with “measured moves,” so I really use that approach as a better system. I also find 2 wave sequences as often as 5’s, and when they show up they often work very well. When five waves always point to the primary direction, the main trend is established. A, B, C moves are against the primary, so that when you finish you usually return to the long-term trend again. I watch stocks everyday that are in basing patterns, and wait for them to break out. Five swings are usually required, but I have also seen 7 and 9. Most inexperienced chart readers start buying a busted stock as soon as it rallies up from the low, but 90% of the time it’s just going into a trading range with five swings before a big move is likely. Knowing this will keep you out of dead issues that could take months to build a base.

THE FIVE BASIC BULL AND BEAR PATTERNS

Although many technicians have studied charts over the years and have their own favorite patterns, I have come to the conclusion that these standard patterns are the most basic and repeat over and over. These top and bottom patterns are the inverse mirror images of each other with subtle variations that seem to cover a myriad of possibilities and if you memorize these you’ll have a big head start.

Figure 14

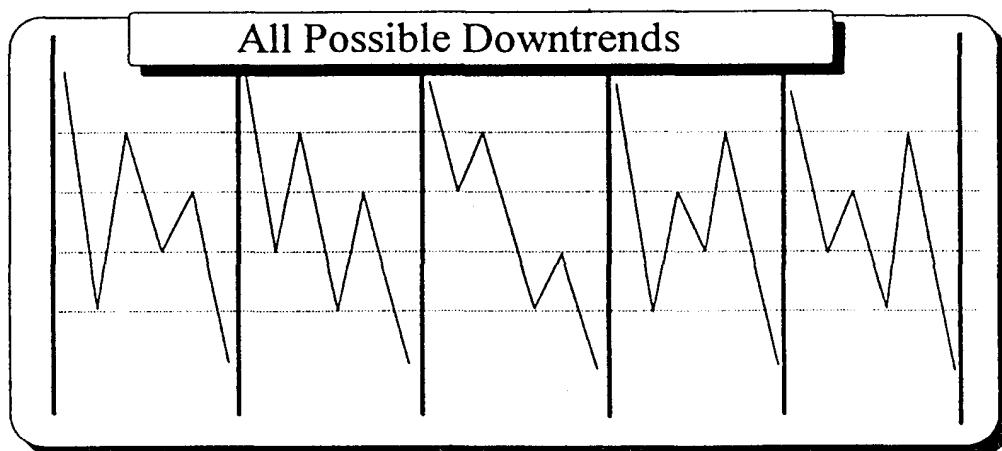
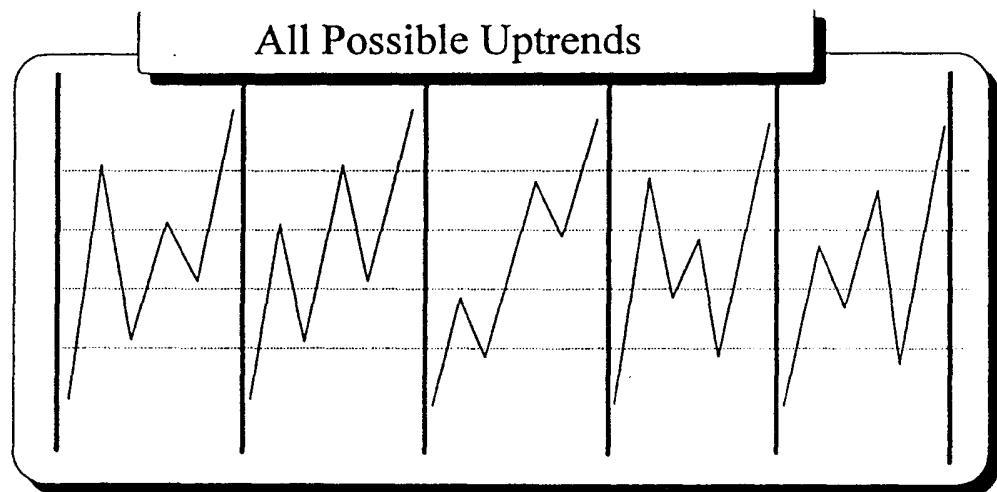


Figure 14 cont.



Note these lower patterns are just the inverse of the patterns above them. These are *complete patterns* and then you would expect a *new trend* to emerge. These may be seen on short-term charts as well as very long term ones but the basic completion wave structure is almost always the same.

The difficulty with waves is that they are very subjective in defining when they begin and end. A wave is a shape and the highs and lows that make up that shape are often hard to define in a quantifiable fashion. Part of the solution is to use filters. This way we have a rigorous test for whether an actual high or low has been made. For instance, if you are looking at the Dow Jones there are many everyday up and down fluctuations, but every several months you get a 5% or 7% significant fluctuation. If you use 5% as a filter from each high to low, you will eliminate most of the random noise in the pattern. In S&P futures trading a move of 300 or 600 basis could eliminate most of the noise, but you may want to refine your filter to a square root measure. That way you are only counting the most significant reversals. Of course we do this to forecast coming trends and not necessarily to trade. If you trade off wave counts you'll go broke. Too often I have seen 5, 7, 9 waves turn into 13, or the filter was too small and what appeared to be a wave was just a

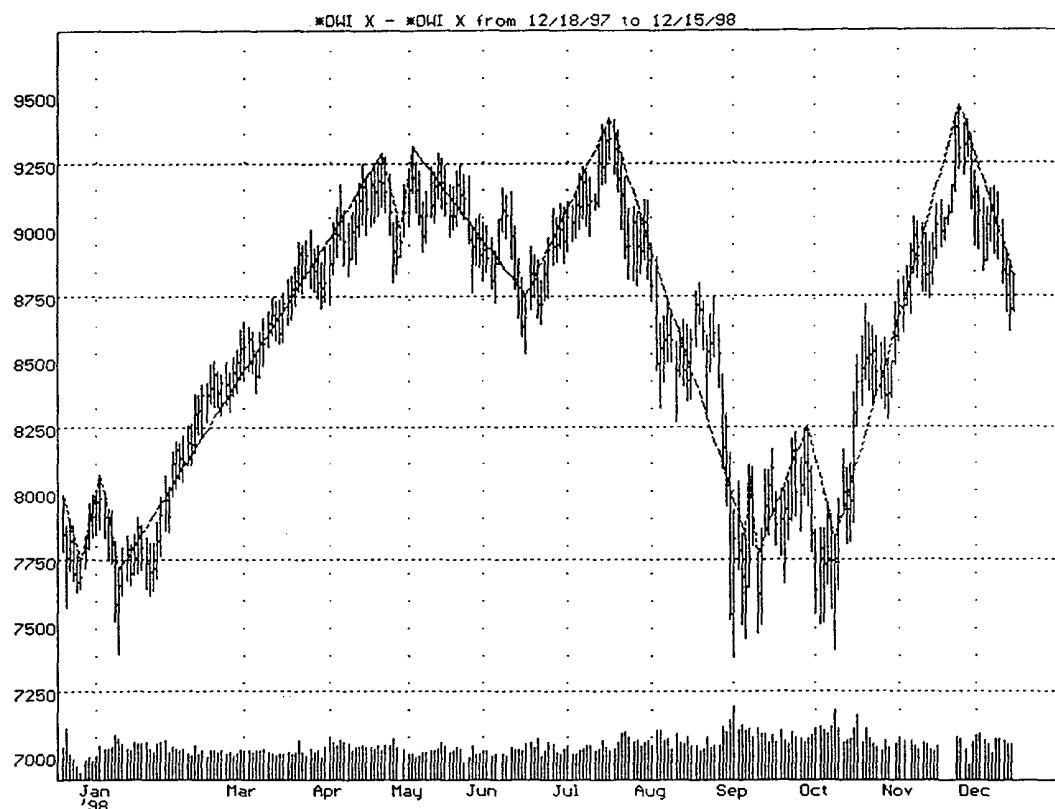
Waves

minor blip. One advantage to filters however, is that they provide a very objective measure as to what is happening, and if we adapt such a filter it will keep us from investing emotionally on any swing that doesn't meet our criteria. This point was made very clear to me when I was actively trading S&P futures everyday. Each time they would hit what appeared to be a bottom and bounce 200 basis I would cover a short only to see them plunge to new record lows several more times. When I adopted a filter of 300 basis it eliminated 90% of the small moves and kept me in the trade, and if I was trading for big moves I would use a filter of 600 basis and that parameter would never be hit until the big move had arrived. Now the beauty of this is that once a big move occurs, like a 600 basis reversal move, you then are operating on the next larger scale. Since all waves usually have 5 movements you would now stay in the new trend until you see 5 big moves of at least 600 basis each. Each move of 600 basis might have several insignificant, smaller wiggles of 150 basis, but you are only counting the big ones and that will effectively keep you in the trade with a stop. Obviously your stop needs to be as big as your filter if you plan to be in the trade for the extent of all five waves, but on a big move of several hundred Dow Jones points, by the time your 600 basis S&P stop is hit you have made a significant amount of money. This theory of using filters to define waves and then counting until at least 5 are complete also sets up some good trading strategies. Since we know that waves alternate and often wave counts can go past 5 and hit 7 or 9, we may decide not to trade counter to the main trend until we see at least 5, 7 or 9 full complete filtered waves. At that point, we should have a signal reversal bar that leads to a good trade. Let's look at some examples:

Waves

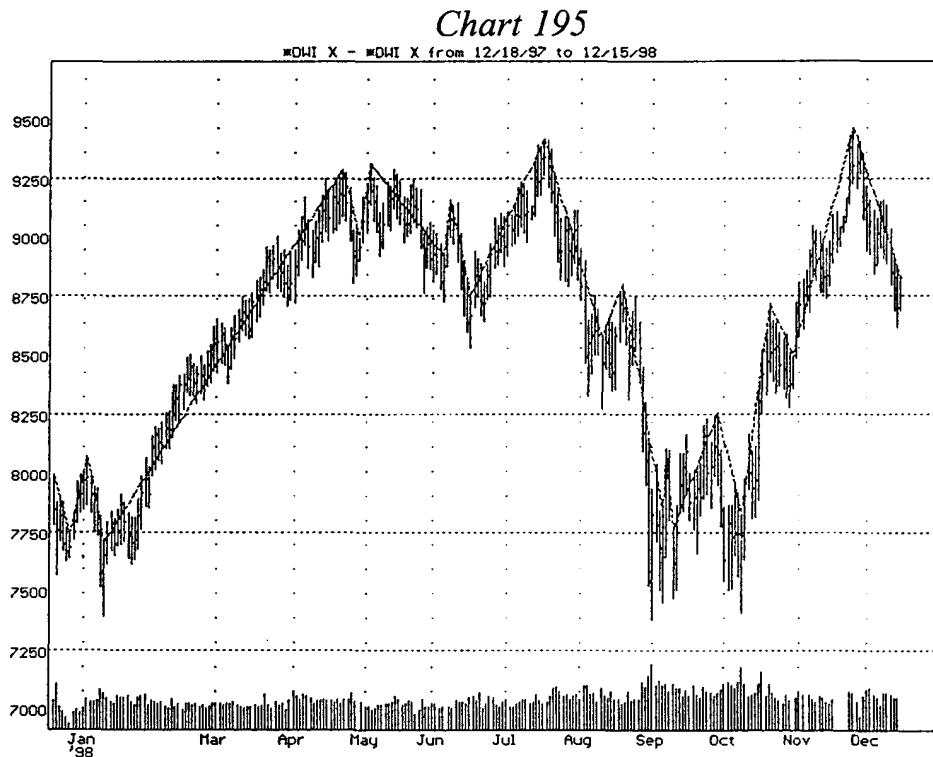
Chart #194 of the Dow Jones uses a 3% filter on the high. It does filter out a lot of smaller moves and keeps you with the main trend for months at a time, but wave counting is difficult on this scale.

Chart 194



Waves

Chart #195 is the same chart with a 2% filter and a few more tradable moves were picked up, but there's still no real benefit to wave counting. I might remind you that filters like this are only good in retrospect in that once a 3% filter is being used, that doesn't mean the market will move 3%. You can go straight down 7, 10, or 20% and it's all in one



direction. Until you go back up at least 3% from that low you won't get a recorded filtered turn, so it's only after the fact that filters work. This is why they can be used for wave counting when you're looking for a set number of waves to complete a pattern, though just buying or selling off a percentage move does not necessarily mean anything. What it does help with is testing various markets and individual securities for their own particular set of percentage movements that make up the wave, and once that is found it will be good for months to years. Once you have that you can guess about wave counts and make trades once the minimum percent has been seen.

Chart #196 is a daily chart of GE with a 5% filter and it does show a 5 wave

Waves

decline into the low that completed the move. If you were counting waves you would take the trade as soon as the stock went up 5% after that last low, and you would still have plenty of advance left.

Chart 196

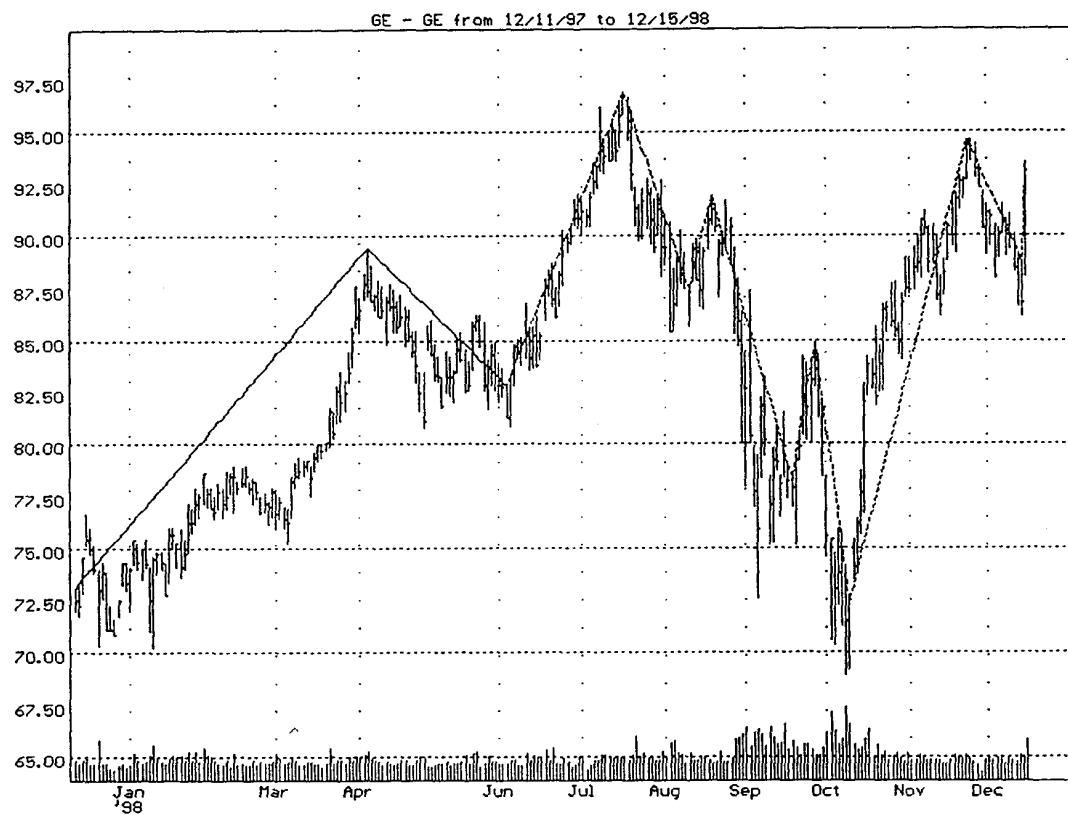
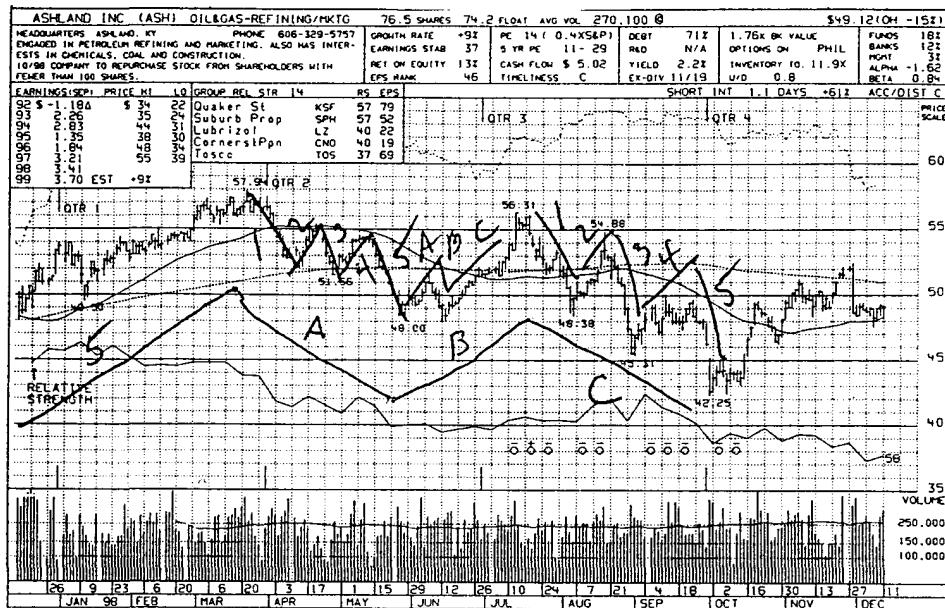


Chart #197 is shown to demonstrate how wave counting can be of use in terms of *strategy* in your trading. Whether or not my counts of these waves are valid is irrelevant; don't trade off of wave counts, but plan your attack as bullish or bearish, and depending on what wave you think you are in, your leverage and size of stops would be adjusted. This

Waves

chart appears to show a final high after a big 5 wave up and then a big A, B, C, down that is subdivided into 5 sections that show the long-term nature of the decline in progress. That being the case we want to short rallies instead of buying, and after the last C is finished we might trade long with a wide trailing stop for a long time as long as the chart made higher bottoms at that point. Certainly, if the chart now hit a new high for the year the correction would be over and much higher prices could be forecasted. Note that although the wave count makes sense, it's just another application of large measured moves

Chart 197



and circular arcs. Squareouts would have worked as well and been even more precise, which is why I stick to my methods and let the wave counters do their thing. Of course, if you have read everything so far you know that I believe the planets are causing the waves, and therefore if you count waves, it's like mixing apples with oranges. Different planetary

Waves

combinations come and go and individual planets go retrograde and direct, causing the waves. Unless you identify the planet that causes each wave you won't know how many waves there will ultimately be. That's the real reason that the Elliott Wave guys don't make money by counting waves. There are too many different planetary and long-term factors that pop in every 45 to 90 years to alter the wave count. Unless you consider them the wave count gets too confusing.

Chapter 14

DAY TRADING THEORY AND PRACTICE

Much of this course has concerned itself with forecasting price trends, and calculating support and resistance levels to know when to buy and sell. Trading, however, is much more than a plain analytical exercise. It's really a question of strategy, since for every buyer there's a seller, and someone has to win on the trade and someone has to lose. In this regard it's more like war. Of course, it's usually one very big and smart winner and a whole bunch of undercapitalized small losers on the wrong side of the trade. Knowledge of support and resistance levels and cycles can go a long way in helping you to get on the right side of the trade, but strategy is most important.

What I mean by strategy is how you enter and exit your trades with the understanding that it is you who are trying to take advantage of the loser on the other side of the trade. Selling into strength when everyone else is buying, or buying into support on a decline when everyone else is selling is part of it, but there is a very strong psychology involved in the day-to-day practice of trading. First, let's look at the Specialist and see how he thinks.

On the N.Y.S.E., only one man has a complete monopoly on all trades in each individual stock, and that is the Specialist assigned to each particular issue. Every share of IBM sold around the world comes before one man, and he sets the price in New York (except for dual listed world indexes). Each morning the Specialist must decide if he

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wants to buy or sell for himself, and that's relatively easy, since he sees the entire buy and sell orders and no one else does. He also knows the age old saying that "like begets like," or if you want to attract buyers you raise the price and buyers will come in. If you need sellers you lower the price. People are emotional and are easily "sucked into" trades out of greed to make a fast buck. Because of this tendency there has arisen the practice of creating "an opening bulge," or an "extreme" of price for the day set in the first half hour of trading. If the Specialist has big sellers around and he wants to go short with them, he quickly opens *up* his stock, sometimes a full \$1. That will attract buyers and shorts to cover, and he will then sell short to them just under the big seller's price offering. As the morning goes on he will gradually lower the price until much later in the day when everyone else is trapped long, and then he lets the price drop to complete the selling and he finally covers his short at the end of the day. The opposite happens when the Specialist sees buyers. He then tries to open the stock down to attract sellers, so that he and the big buyer can get cheap stock. If he opens it down 50 cents, or one dollar, he will try and hold it down for twenty minutes, or as long as he can to get as many sellers as he can and then he will take the stock up. This down opening sets the extreme low of the day in the first half hour. This practice of setting the extreme price level for the day in the opposite direction of the market's true trend, results in an exploitable principle for day traders to follow. Basically the rule states that the extreme high or low will be made in the first 20 to 40 minutes of the day, and you trade in the direction of the trend established after that time period. Sometimes you can't tell until 11 a.m., but usually any new high or low for the day made from that point on is the true direction. I might add that looking for a reversal day, for instance buying down \$1 at 12 noon and expecting an up close is a real long shot. You can buy down at cheap prices for a rally tomorrow, but that is usually done just as well at the end of the day, without the risk that the mid-day price will go even lower. Day traders

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like to be long stocks that are trading *above their opening prices*, and they like to be short stocks trading *below* their opening levels.

In commodity markets this opening bulge idea has always been the rule, since most leverage players can't hold overnight positions and they pile in and out at the opening and close each day. Additionally, in this age of basket programs and huge institutional orders, all the trading desks have inside information about the programs, and they quickly take big positions at the beginning of the day for themselves and only then start the big programs for the customers. It's usually wise to not go against the level set in the first half hour.

Our strategy is therefore pretty simple. We want to determine if the Specialist is a buyer or seller and then trade with him for the day. I might add that in the vast majority of cases a bull trend will have a quick down opening and then go up, whereas an up opening is often a top. This is always the case when you are looking for a reversal, such as after a big down day. If the market went down 20 Dow points the day before and then opens sharply higher, such as 20 to 50 points, it is almost always a guaranteed short for another plunge to yet new lows. The same applies to a big up day that opens down —that's bullish. You can't *reverse* an existing trend *on the opening*. You need a continuation and then a mid-day reversal. If the market was down big the night before and opens down further, it can then reverse. If it went up big the day before and opens up higher, it can then top. Reversals rarely come from openings that are opposite to the prior night's 3 to 4 p.m. direction.

Before we even consider this however, we must decide if we are bullish or bearish and are we predisposed to buy or sell short. In bull markets Mondays are usually strong and the rally lasts into late Tuesday, when a decline starts that goes down on Wednesday. Strength re-emerges on Thursday and the market almost always closes at the high of the week on Friday afternoon at the close. The pattern is early and late week strength, and a

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mid-week counter movement. In bear markets it's the reverse. A hard down Monday into Tuesday, a Wednesday to early Thursday counter rally, and a collapse late Thursday and a Friday close at the low of the week to be followed down again on Monday. So too are the intra day daily patterns. Bullish days show a strong first two hours followed, by a mid-day shakedown, and then a last hour strong rally that closes at the high of the day. Usually there is strength until 11:30 a.m. or Noon, then a decline to 1:30 to as late as 2:20, then a big rally until 4 p.m. The bearish days have a big down opening until 11:30, and rally until 1 to 2 and then a collapse until 4. Our trading strategy must incorporate these rhythms. If it's a bull trend on the weekly chart and it's Monday, we'll buy the opening, get flat at midday looking to re-enter about 2 p.m., and carry into the close, or overnight, to sell on an up opening. If the trend is bearish, we'll short the first hour, look to cover at 11:30 to as late as 12:30, and then re-short from 1:30 to 2:30 on the counter rally back just before the 3 p.m. collapse.

Once we decide to buy or sell we must also have enough discipline to know that the market won't always give us what we want. We can't take just any trade because the market's bullish. If stocks open up big, no matter how bullish things are it's very risky to enter until we at least see a mid-day pullback. Professional traders know that stocks are just pieces of paper to trade with tens of thousands of issues to pick from, and so set all the odds in their favor. Remember, the difference between gambling and stock speculation is that in gambling, the house sets the odds against you, but in speculation you get to set the rules; when you will trade, how much you'll risk, how much leverage you will use, what is your stop and when you will take a profit. The odds of getting money in the bank are not just a simple case of picking a stock to buy or sell. We must determine the direction with odds of 70 to 80 percent. Then we must decide how much leverage and when to take a profit. Once we're in a successful trade and have made 50 cents to \$1 the odds rapidly

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change from being 80% right on the trend to less than 50/50, since the stock could go right back down and we would only break even. All these decisions have to be made before we enter the trade and we must have a clearly defined entry and exit strategy. If the Specialist gaps up our favorite bull stock we must wait for another day or for a pullback. Since 99% of traders want instant gratification and can't wait, they are usually easily shaken out on a mid-day plunge. You must make sure that at least half the time you have plenty of capital left to use for those mid-day opportunities, or you must wait until late in the day to see a very definitive trend to make a good trade rather than just buying because you're bullish.

The most common observation among all traders is that if you see the market is exploding upwards, and you guess from the momentum that it will indeed close up very strong, and you buy 1,000 shares of 6 or 8 big glamours, then the usual result is that two will go down, two will go up and two will be unchanged. Thus the day's net result will be the same as if you just bought one issue that you felt good about and held until the close. You see, forecasting the market has nothing to do with individual stock trends and you must trade individual stocks. If IBM went up \$3 yesterday and today the Dow Jones is up 50 points it's probably because General Motors or Sears is up today. To blindly buy IBM because you see a strong market never works. You must follow the individual stocks for several days and properly time your purchase individually. An adjunct to this is that a big trade usually takes several days to "set up." Stocks just don't gap up \$2 out of the blue. What happens is that for three days in a row the stock creeps up $\frac{1}{4}$ every day and then explodes. You want to be in it for those creeping days to be able to sell on the up explosion. Heavy volume and big price movement is well advertised and everyone around the world sees it. Do you really think that you have an edge in trading a situation like that? Who's the smart money and who's not, the buyer or the seller? Volume is almost always a sign of a top, even if for only a few days, unless it comes after a prolonged downward

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drift. The best strategy for those explosive types of issues that get big brokerage house recommendations is usually to make a note in a “tickler file” and wait 3.25 weeks for a normal cycle to run its course. Usually the stock will be right back down near the original breakout point and the next cycle up will be ready to start.

Of course, different traders have different styles, and I have worked with hundreds of different types of traders in my nearly 30 years in the market. The really big guys who make millions usually swing trade a position for 3 to 6 days and 3 to 6 dollars before selling, while the small fry usually scalp 3/8 to 7/8 each day and get chopped up quite a bit. That doesn’t mean they don’t make money. In the modern electronic trading era I know many guys who routinely make \$200,000 to \$400,000 per month on capital of \$1,000,000 (they put up \$50,000 at 20 to 1 leverage) and they are scalpers. The trick is that they take big positions, like 5,000 to 15,000 shares, and scalp 3/8 to 5/8 and they do it on the heavy volume leaders. Sometimes they get three or four trades a day that way. I know several traders who also trade *100 to 300 times* per day! It’s been my experience that although these guys can make good money when the market is hot at the end of a cycle, sooner or later they go broke. My advice is to stick to 1,000 to 3,000 share positions and go for day and a half trades of \$2. A good trader should be able to make \$200,000 to \$500,000 per year that way on a modest capital of a few hundred thousand. The key is the drawdowns, and if you don’t set the rules and trade when you have the odds, the risk will not be worth it.

Day trading strategies revolve around finding good quick trades that have high probabilities of success. Most traders therefore concentrate on 15-minute patterns of consolidations and then jump in when the first breakout occurs and only hold the trade for an hour or so for a quick scalp. Bigger trades come from three-day sideways patterns that usually result in three consecutive up or down days and \$2 to \$3 moves. Long-term flat

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breakouts that have been consolidating for three to six weeks in a flat can yield \$8 to \$10 moves in 3 to 5 days coming out of the base. It all depends on your style and capital. Longer-term swings with \$1 ½ stops are easier than 5 to 10 consecutive wins of 50 cents on 20-minute scalps. In this course you are being taught methods that are very reliable for determining the long term trend and timing the entry and exit points so big moves are possible. If you read other books or talk with 80% of the so-called day traders around, you will find that they are basically “front running” large orders by jumping in front of them and scalping 5/8 for the day. You don’t need technical analysis for that - just speed and nerves and a desire to be barred from the industry if you get caught.

One of the basic questions that has to be asked on every trade is how and where you set your stops. Are these mental or put on the books? Do you use swing lows, or highs, or just a dollar amount, or percentage of capital? Here again, it depends on your style of trading. Twenty-minute scalps don’t need stops, since you never take your eyes off the tape, and if the stock goes down 50 cents you usually just sell out. If you’re in a three day swing trade you would need to use a level at least as low as the prior day’s low, and perhaps the lowest low in the past three days, or even during the past week. In theory your stop-loss amount should be much smaller than your average gain expectation, so that if you go for \$3 gains, a \$1 to \$1 ½ loss on losers is acceptable. There are times and markets, however, when as crazy as it seems, a strategy of big stops and small gains actually works much better. Many very strong markets have great volatility swings and shakedowns to catch stops, especially in trading S&P futures. If you are certain of the trend, like a market that’s up 100 Dow points, and it is a real momentum move, then stops can be very large and you can scalp many short gains, and jump back in on all the quick plunges. In S&P trading I have often used 300 basis stops and 75 basis gains with a good ten winners before one loser, whereas if you used 150 point stops, you might get caught an equal number of

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times that you took gains. In the final analysis, stops are used to protect your capital, and in dangerous markets, or initially buying into a down market that you think is in a major uptrend but just having a down day, you need a protective stop on the initial buy. After you're in, you'll know right away if the trade is holding support and will work, or if it's in free fall. Then you sell out or adjust the stop to a logical level. Specialists will hunt for stops, especially in the first half-hour when they are creating the bulge, and they'll do it at midday on the counter trend shakedown. If you're a day trader it's better to liquidate and re-enter than get caught for no reason. Longer-term swing traders will have stops well below the day's low, so that they usually won't get caught unless they need to. If you use stops, you should also use offers on the books to automatically sell out. Many, many times I have put a sell order on the books up 75 cents and was immediately taken, when stops were run, and within 5 minutes I was back in the very same trade at almost my original price level. In choppy markets you often have a long-term viewpoint, but can day trade for 75 cents three times before the stock actually goes up and holds a \$1 gain. If you don't have offers placed on the books you'll never know. Strategy also requires that you size up the market and trade for what you can realistically expect. If the market is clearly a plus or minus 20-point affair, then holding out for a \$1 to \$3 gain is ridiculous. In those situations a 5/8 scalp has a much better chance for that day. Stops should be placed with this in mind. Stops can also be placed for positions that haven't been taken. On a big up opening, stopping yourself into a long or short, depending on your bias, and having bids below the market, just in case crazy bargains appear, often result in great trades. I also use buy stops above a quick opening level that works down, just to make sure that the opening bulge was not a top. If the stock goes higher, I'm automatically stopped in, and I can assume the bulge was an extreme low. If it never goes back up, but stays down that day, I'm out. Just remember that stocks are only pieces of paper to trade; so don't fall in love with them. If

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they give you an unexpected quick buck, take it! One final cardinal rule for stops is that once you're in a winning trade, it's insane to let it turn into a losing one just because you have a stop. You should always liquidate at break-even once the trade has been profitable. You can let profits run as far as you want, but if it goes up and then comes back down, it's usually that you're wrong on the trade anyway, and letting the stop take you out at a loss is foolish. This is always followed in S&P trading where you make a great many trades per day, or in scalping stocks. Only if you are a long term swing trader going for \$10 moves over two weeks, would you mechanically just wait to be stopped out, but you would adjust your price levels each day, as the stock moved up to lock in profits. In recent years group selection has been most important. The rise of mutual fund "select portfolios" concentrating on specific industry groups has given rise to a vast amount of hedging and option activity confined to specific industry groups has given rise to a vast amount of hedging and option activity confined to specific industry groups. One day airlines and telephones may be up, while oil drillers and retail stores are down. Traders attack each group across the board indiscriminately, so it's hard to find exceptions. In the past this was never the case and you could always find individual issues that followed their own cycle apart from the group. This practice points out a fact of trading life that all good traders know, and that is you must adapt your trading strategies to changing market conditions. While the principles of cycles and trend determination always hold true, the details of what groups, how big the swings, and the types of openings and closes, often change dramatically over the years. For instance, in the past, up until about 1985, it was routine for good traders to buy a strong close and sell the next day up opening. Many good day traders would buy a dozen big name glamour stocks at five minutes to 4 p.m., then hold overnight, and sell on the opening. Back then, the Specialists would mark them all up and you could make 50 cents to as much as \$2 on individual names over that 5-minute period. With the invention of basket

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program arbitrage and “market on close” executions there is no longer any reliability to the follow-through concept. A market can close up 200 Dow points one day and just as easily open down 50 the next morning. The forces of buying and selling can now be eliminated through strategic option exercises after the close of the market each night. Most options now allow exercise for cash after the close; so many arbs buy calls in the morning, and then run a huge buy program all day that has a market on close execution, so that the market will close at the extreme of the day. Then they exercise out of their calls after the market closes, so that it won’t affect prices until the next morning, when the poor market makers on the other side of the exercise are stuck with stock they must sell when the market opens down hard. My point is simply that you must constantly be aware of changing relationships in the market, and not try too hard to rationalize what is happening, but develop strategies that work and have technical validity. A recent example is the internet craze with many stocks that were previously valued at \$10 now routinely going for \$50 to \$200, and often going up \$50 in a single day. Traders know this is ridiculous so they go short, only to be forced out as they go higher. The problem here is a perpetual lack of certificates to borrow for short selling, and many months will have to pass before enough certificates are in the street, so that shorts can stay short and not be called out the next day. Once that happens, these stocks will collapse 90%, although it could take a year or more.

Valuation ideas also change over time. Some markets have P.E. ratios of 12-14, while super-heated ones can go to 30-40. The Japanese bubble in 1990 went to 70 to 120 time earnings on many favorite issues. Don’t get too caught up in thinking “value” when there really is no such thing for intangible assets like stocks. Supply and demand will determine price and charts will tell you if the issue is going up or down. That’s all you need to know to trade these pieces of paper called stocks, and make a good living. One final example will make the point. Many TV spokespersons are constantly calling for Dow

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10,000 or some stock being a great long term buy at a huge P.E. ratio. What these people don't know and never will is that much of the buying in the market (perhaps 40% of the volume) is various types of arbitrage programs. Many pension funds no longer buy stocks at all, but buy "synthetic" stocks, created by buying and selling stock options and stock index futures. You can replicate the S&P 500 index by simply buying an S&P future contract at 5% margin and put the rest of the money in bonds. Similarly, instead of buying Treasury Bills at 5% interest you could buy a basket of stocks to get the dividends and sell the S&P futures short against that basket. The premium that the futures sell for above the cash basket is yours to keep and if done for the four quarterly expirations each year, you could get 6% on your money instead of 5%. Many institutions do this to the extent of hundreds of billions of dollars and it drives the market higher and higher along with the individual basket stocks in the index. When the arbs buy Coca-Cola every day because of these basket programs, they aren't buying Coke because they like the stock, or think it's a value. It's just in the index basket and they must buy it. Sooner or later all the "float" is taken, and the stock goes up dramatically to valuation levels extreme by any measure, but nevertheless at a level that will be supported as long as the basket players are in the market. Many institutions get lulled to sleep thinking that their favorite stock went up because it has value and once the basket players start to sell because interest rates have changed and premiums on the S&P have declined, then massive selling will result, and Coke will look like a bargain as it drops 70% in value and everyone loses their money holding on thinking it's cheap. My point is simply that you must always remain objective about valuation levels and try and find out what's running the market day to day and keep current. Over time great changes will affect valuation levels and patterns, but principles like trend zigzag stair step patterns will keep you honest if you're objective.

I might also mention the effects of options on the market, apart from baskets. In

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this age of electronic trading it's very easy to buy all 500 names in the S&P index within 20 seconds at most, and if someone knocks an index name down and you need it up, you just shift some resources to another name and buy twice as much. Many glamours in the indexes like GE, MSFT, INTC, KO, or WMT are weighted 5 to 7% of the index, so it's very easy to replicate the S&P 500 index with only 20 to 30 stocks. When the arbs are shorting puts and buying calls to make money near an expiration, they will concentrate in the heavily weighted index names. You must know those weightings and you can get them every quarter off the internet, or from the various exchanges. If the market is up and the puts and calls are really moving, don't fight the trend in those heavily weighted names. Indeed, you should trade the big weights when there's a momentum move. Oftentimes MSFT will move \$5 or more in a single day and it's mostly due to the index buyers manipulating the puts and calls in the index. They don't care if they make or lose on their stock position, because they make so much on the leveraged options. Only the next day when the program is over, will the stock prices be adjusted back to normal valuations.

For years I have known of many traders who like to outperform an index by just overweighting the top five names in the index. Sometimes they'll buy the five names and sell options against them; and if they weight them properly they will move in line with the bigger index, but only cost a fraction of the amount, and they can be traded out quickly if something goes wrong. Relative strength index investing is a widespread practice and you should be familiar with the top 5 to 10 names in each index that has any kind of volume. Big moves frequently come the Monday or Tuesday after each option expiration as the arbs unwind long and short stock trades that they used to "peg" the option strike prices the previous Friday. Sometimes they need to buy or sell many millions of shares to hold the options back, but they make so much money on the expiring premiums that they don't mind doing it. Here again, I'd advise against fighting the heavy weighted index names the

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two days following option expiration.

Many traders use moving averages and stochastics, but I rarely find them useful. Knowing that a stock is trading above its three or five day average should be evident to any trader watching the tape. Besides, averages are past history and cycles change daily, sometimes dramatically so. I'd rather look for a stair step higher bottoms pattern to be long and a signal reversal bar to buy with a stop, than just buy against some moving average. If I did use an average, it would only be to filter out new choices to be followed over the next several days, and I'd use it for screening purposes rather than actually trading. In determining the trend I always look for *five* higher bottoms on an intra day chart such as five minutes, fifteen minutes, or hourly; that's fairly reliable of a trend that's tradable. After I find an uptrending pattern, I always check to see the position of the stock on the next higher time frames. If it looks good on the 15 minute chart, how is it on the hourly, daily, and finally weekly? Big moves usually come from long sideways movements that will change all time horizons very quickly, causing many traders to jump in.

Bar expansion is a concept that implies something new is happening. If the average range from high to low on a daily chart is \$2 and one day the stock goes up and the range is \$3 to \$5, then there clearly is a lot more momentum present than has been seen before. The best trades are breakouts from two-week flats with big bar expansion. Remember the larger bars are types of *impulse waves* and point in the direction of the primary move. The larger bar implies that a new thrust is just starting and you should get aboard. I use a computer screen daily to hunt for range expansions from the day before, so I can see if some new leg up is starting.

Gaps occur when a stock opens up, perhaps \$1 or more, from the night's close that shows explosive buying power. There have been many books written about gaps and when they would be filled, but most of that is now outdated. Gaps used to signify a cyclical

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change in the stock's trend. Now they just signify a lot of "front running" of a large order that has just come in. Large institutions frequently have orders to buy 3 million or more shares at a time in popular issues, and once that initial order shows up on a trading desk, no matter how secret, at least 50 other traders find out within 30 minutes. The rule of thumb is that any institutional order will generate three times its volume, so that if the order is for 500,000 shares, then 1,500,000 shares volume will be seen before the order is complete and the stock will stop going up. In these cases when a stock gaps up, it won't come down until the order is filled, usually at the close that day, or as much as three days later. In such cases of very bullish markets with big orders around, you can safely buy a stock that opens up \$1 or more and expect it to go another \$1 higher before coming down.

Magnitudes of moves is also a science not known to many traders. Believe me, there is a big difference as to how a stock acts that is up 50 cents, from one up \$1.50 or up \$3.25. There are natural "breakpoints" that accelerate the move and once exceeded, the stock will go much higher. To blindly sell in order to book a profit when a stock is up \$1.50 is missing the point. Usually from 50 cents to \$1 or \$1 1/8 up on the day, a stock can go flat or top, and come down. Above \$1 3/8 it will usually go to \$1 3/4, and if it exceeds \$2, it will go at least to \$2 5/8 or \$3. Stocks getting above \$3 5/8 can often go \$5 to \$7 the same day. My best trades are "fear of heights" trades that others won't take. These are issues that are up \$1 3/4 or more after 3 p.m. each day. Usually these big movers will quickly add 50 cents to \$1 in the last hour with 80% odds, while holding stocks all day long that are up only 3/8, hardly going much further the remainder of the day. Big momentum means huge size buyers, who think in terms of stocks going up \$20 or more in a few weeks, and they don't mind paying up to be first in line on good news. If you see a trade that's too "scary" to take, it's usually a very good trade to take. Remember, we don't want to trade emotionally, so if you can easily identify the emotion, and it's illogical fear (like

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being afraid of a stock up \$3), then you should act quickly. By the way, always make it a practice to hold big winners right to the last minute each day. If you own a stock up \$1 5/8 or more and it's after 3 p.m., don't dare sell it until one minute to 4 p.m., or use a market on close order. I can't tell you how many hundreds of times I've held on until 3:30 or 3:40 and "chickened out" by selling to grab a profit, only to see the really big move start at 3:50 p.m. that adds at least 5/8 to \$1 or more in the last few minutes. If you study the tape you'll see what I mean, but it's a real lesson to learn if you are capable.

Another practice that's very difficult until you are very experienced is to trade both long and short at the same time. Stocks do go their separate ways and this can be done, but it is extremely confusing to the mind to be short one and long one and see the general market going in one direction. Sooner or later you'll fall into the trap of thinking that the long is a hedge for the short or vice versa and you usually lose on both, or start to get confused on just what the trend is. It's usually better to be only long or only short in the general market until you have several years of experience.

Having too much money is also difficult in terms of day trading. I don't mean the effect on stocks by buying in large size, but rather having more capital than your ideas can support. If you only see one or two stocks you like but the market has just "blasted off," don't just buy a dozen stocks to get fully invested. If you've done your home work, one or two issues can yield a full \$1 or more on any given day and a 1,000 or 2,000 share position in one or two names can bring in \$2,000 to \$6,000 for the day; and that might only be on \$50,000 in the market. Investing \$300,000 just because you have it is not wise, unless you are sure you have very good ideas and all the trades will work.

Getting good ideas is a question of doing work daily, especially every morning well before the market opens. You must look at your charts every day, since many important moves only start in the last half hour the day before and are hidden by that last hour's

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frenzy. You must be ready for the opening on those issues just breaking out, in the last fifteen minutes the night before. Many traders use relative strength measures to find buy candidates, and certainly stocks that have hit a new high for the year, fall in that category. You should make it a practice to keep up on the new high list and only buy stocks within \$3 of all time highs in a bull move. They rarely go lower and frequently hit yet new highs every day or so. Similarly, it's not recommended to sell short stocks at new highs for the year, but to sell short stocks at new lows for the year. At least the trend is established at that point and reversals in trend are hard to come by. Remember, if you try to short an all time high because of how high it is, every day in a bull market can be a new all time high, but only one day in many years can be *the final high*. Trying to find that one needle in a haystack can cost you a lot of money.

One of the most famous sayings on Wall Street goes something to the effect that "I always sell too soon and leave something for the other guy," or "I buy late and sell early." That saying has probably cost more people more money than any other, and is probably the worst advice anyone could listen to.

We all know that that's supposed to mean don't get greedy and go for the final high tick, but in reality, if you sell early you're just guessing as to where that final high tick is, and the move may be going up for another year or more. The real truth is that distribution by the big players is always done only *after* the final high is clearly in. Only after those new highs are long gone for six weeks and \$10 or more, on the first oversold rally back do the institutions sell out. That way they stay in the trade for years and double, triple, or more, their money and don't care if they then sell 10% off the final high. You should do the same on long term investment positions, but for day trading, keep the principle in mind and don't guess as to where the top may lie.

Trading in the modern electronic era can't be done apart from an understanding of

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futures, options and basket programs. Investors don't just trade stocks simply because they think growth or value will give them a return. More and more computerized models are creating synthetic baskets of stocks out of options and futures, to get a rate of return on their money that's both guaranteed and better than Treasury Bills. Many pension funds no longer care where the return on their investment comes from as long as it beats the general market's rate of return. Even a simple strategy of putting 90% of your money in bonds for a guaranteed rate of return and the other 10% in S&P futures that give you the full portfolio amount of capital gain, has shifted vast sums out of the ordinary channels of investment. Synthetic baskets can create the effect of stock ownership without the capital cost. For example, a synthetic stock can be created by buying a call option and selling a put, or using a combination of futures and puts and calls on futures. Most Wall Street firms routinely raise capital by shorting stock and then selling covered puts and using the proceeds to buy calls. That way they get the use of the money and are completely protected from any fluctuation in the stock's price. Many banks in recent years have been selling derivative products that guarantee the investor his money back and also a return, such as 80% of the rise in the S&P Index. They do this by investing 10% or so of the investment in options or futures combined with puts, and putting the rest in zero coupon bonds at a fraction of face value that will mature at face value when they get their guaranteed portion back. Various other schemes are rampant these days and they all require massive buying and selling of index stocks and baskets and can affect the market to the tune of hundreds of points over a day or two. Investors who think that big rise comes from someone liking the recent GDP deflator adjuster, or some earnings release, are only fooling themselves. It all boils down to simple supply and demand, but when the programs are working you must learn how to determine that and not get in the way. The simplest observation I have is that when big programs are working, you will see the S&P futures going in the same direction

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as the OEX puts and calls and the momentum will be large. For example, the S&P futures will be up 5 points and the call up 2 points and the puts down 2 points. Note that professionals rarely *buy* puts. They consider buying premium a sucker's game and they only sell premium. If they are bearish they sell naked calls. If they are bullish they sell naked puts. Only when they have inside information, like a big program working, will they sell puts and reinvest the premiums in calls they buy. When you see that, then the market is going up big.

The most common programs these days are "asset allocation" programs where a large pension fund is allocating its investment assets among various classes of stocks, like inflation hedges (metals, papers, oil, airlines – basic cyclical), or among financial assets (bonds, banks, brokers, insurance, some drugs or foods, and technology). The various mixes are complex, but you can usually see right away what's going on if three or more S&P industrial groups are dramatically down and several more are just as dramatically up. Most allocators use standard deviations from the S&P average to decide what groups to buy and which to sell. They might buy those underperforming the index for six weeks, and sell those overperforming for six weeks, knowing that statistically there is a regression towards the mean. When the programs are working, you must go with them, or you will lose money. Often these programs have lists of 200 stocks to buy or sell, and the individual amounts can be 2 to 6 million shares of each issue. The day they show up, you can be sure several stocks will move \$3-\$5. These programs are so big these days that the fund itself no longer executes them, but puts them out for bids at the big brokerage firms. They may tell four firms what they have and want a net price for the complete basket in three days, or they may ask for a blind bid where the firm doesn't even know what the stocks are, but will be given statistics, such as how closely it tracks the S&P and how liquid the individual names are. If the firms give out the individual names prior to the

winning bid, then several firms will know the package is coming and immediately start front running the program. Only one firm will win the bid, but the others will know it's working and can guess how long it will be around. That's why we often see huge up days in certain stocks, and three days later they jump both up and down radically, as each firm tries to outguess the other that the program is finished and try to sell the stocks back down. The winning firm knows for sure, and frequently will buy and cancel then walk away like it's finished, only to come roaring back for stocks an hour or two later. Traders must learn to note such situations and try and identify as many individual issues in the program as possible, since they will provide many easy trades over the next week. In these environments, cycles and many other technical tools don't work very well until the arbs get finished. Because of all the front running and price gouging in the past few years on these programs, many pension funds have switched to an "average cost" scheme whereby they insist that at the end of the three or five day program, they get the average price on each of the stocks traded. In theory they thought they could outwit those greedy brokerage firms that gouged them on price, but just the opposite has happened. Now the brokers run the stocks up \$2 higher than necessary only to smash them down the next day \$2 lower than necessary. We now see a lot of reversal patterns every day, where they close at the extreme high one day and promptly reverse and close at the extreme low the next. It's massive manipulation and should be outlawed, but Wall Street is very powerful in Washington these days, so I imagine these basket programs will be here to stay until the next crash.

Many day traders may not think this is relevant to scalping \$500 a day, but unless you learn to change with the markets and keep current, you will find, one by one, that the methods you rely on to make a living just won't work anymore. It's a fact of life that the markets have become institutionalized and with computer and electronic execution there will only be more, not less, of arbitrage with various basket programs.

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To trade in such an environment the day trader watches every day for signs of group strength and unusual, alternating days of strength or weakness. Normal cycles don't reverse every day, so when you see it, you know it's a working program. Option activity on the individual stocks in the program will also give a clue, since if an average cost buy program is around, the arbs will be forced to short sell the stocks down to lower prices to fix the average for the week, but they hedge by buying huge amounts of calls on the stocks they must buy, just in case the market takes off on them and they get stuck. Anytime an individual stock does 1,000 calls or puts (100,000 shares) in a day, that's an unusual institutional transaction and the stock will usually trade up unless offset by an equal amount of puts, which may indicate the creation of a synthetic stock with little price movement.

One of the primary rules in day trading when looking at options, is that the stock will have a tendency to *rise to the premium level* indicated by the call or put options purchased. This is due to two factors. The primary one is that the option market makers will short the calls without buying the underlying stocks, and wait for a day or two for the premiums to decline, or other volume to come in so they can buy the short calls back. If the stock takes off however, they still don't lose money until it goes through the strike price and approaches the premium they sold. At that point they know they will be called away on the stock so they buy at the market to protect themselves. All the unhedged buying is done just then between the strike price and the premium level, so that by the time the stock gets to the premium level, the buying subsides. The second factor is the common "buy write," that most insurance companies do all the time with their investment dollars. For example, suppose a stock is trading at \$33 and the 30-day call option on the \$35 strike price is trading at \$1. Insurance companies are usually fully invested all the time and they collect dividends and get capital gains. They would like to buy the stock at \$33 and sell a call for \$1 and get dividends on the stock. What often happens however, is that some large

investor like a hedge fund, gets wind of a takeover rumor or an impending brokerage firm's recommendation and it wants to buy 1,000 calls (100,000 shares). The market makers don't like to short that kind of volume, so if they do, they raise the premiums substantially, for instance \$2.50 from \$1. When that happens, the insurance companies who like the stock will immediately come into the market and buy 100,000 shares of stock and sell 1,000 calls at \$2.50. This is the same as selling the stock at \$37.50 within the next 30 days, and having just bought it at \$33 could pick up a dividend too. As long as the premium stays up other institutions will come into the market and do the same thing, and the stock will have a tendency to move to the \$35 strike price and if through it, to the premium level of \$2.50 or \$37.50. For the day trader, such high premiums with accompanying volume, present very easy trades to buy along with the big insurance companies and trade the stock up \$2 to \$4. These types of trades are highly reliable, with gains of near 90% success. I would urge you to look at an option screen every time you're about to make a trade and first see what kind of activity is going on there. If there's no option activity, the stock may go up, but it's likely to be a slow creeper.

Other types of option activity greatly affect stock prices and the most common is option expirations, with the "triple witch" quarterly ones being the most important. Each quarter when the S&P futures expire, huge amounts of baskets invested in the S&P 500 stocks are either liquidated, or if short, bought back. Normal basket arbitrage consists of buying all 500 stocks, collecting the dividends, and selling the S&P future short against the basket. The premium on the future is kept, since on the next expiration it goes to zero as the futures expire into cash. The rate of return is the dividends and the premium captured, which if rolled over the four quarters each year, can amount to 1 to 2 percent above the Treasury bill rate. Short baskets occur especially when there are "crashes" in the market, and the normally positive premium on the S&P futures goes negative, or to a

discount to fair value, and sometimes an actual discount to the market, as the speculators are expecting much lower prices. In those cases the arbs love to sell short baskets of stocks (because it raises huge amounts of capital they can use), and they hedge those shorts by going long the S&P futures, to insulate the basket from any market gain or loss. As the futures premiums gradually return to normal levels in the days ahead the arbs can sell out and collect those premiums. What traders should be made aware of, is that huge amounts of money can get trapped in these baskets and won't be able to get out until a week or two from the next quarterly expiration. If you went short stocks during a market collapse you might not be able to buy back the stocks and get out until just before the expiration, since the premium levels have moved so far that you don't want to lift a leg on the hedge until the premiums get close to parity near expiration. It's these types of situations that cause market advances of 300 to 600 Dow points going into an expiration after a major collapse like October '87, with the advance starting just before the December expiration, or the September 1998 break, and the big rally into December of that year. The opposite happens if the market has been unusually bullish and everyone has bought long baskets and is fully invested. If around the time of a triple witch expiration the premiums on the next quarter's S&P future collapses, instead of rolling out for another three months with such a small premium, the arbs decide to liquidate the long stocks and wait for better levels. The liquidation of these baskets every day for the two weeks going into the expiration, can cause a lot of damage to the market and you can't fight it as a trader. If the baskets must be unwound the market will go down no matter what anybody thinks.

In recent years the market has just leveraged up each quarter as more and more money flows into the market and many derivative baskets are put on for various investment objectives. As long as premiums hold up (like people buying puts), then the baskets provide good returns and they are never sold. But there will come a day when the market

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runs out of money and premiums will collapse and all the baskets will have to be unwound, and at that point another 1929 debacle will certainly be possible. By my way of thinking it's long overdue, but as long as you can finance things at 20 times (5% leverage) the game will continue. A day trader who doesn't understand this will get a real shock, or even a bankruptcy, when a big meltdown is underway due to premium collapse.

Chapter 15

SETUPS

Setups are trading patterns that have great potential to become a winning trade with a big price movement. After all, everybody wants the big move and we study technical analysis to determine the trend and find good stocks to buy or sell that meet our criteria. What we really want, however, is to be able to find big movers.

Over the years I have come to rely on several classic patterns and sequences that usually result in quick and substantial gains. This section will deal with several that I think are timeless and good in any market.

Each day before I start trading, I have prepared a list of patterns I like. I have reviewed the charts on those issues and have looked at 15 minutes, 60 minutes, daily and weekly versions of each chart. I especially like to find “fractals,” or similar patterns on each time scale that look identical, and on each smaller chart that looks like it’s about to breakout. I find these issues by following a selected list I have made up over the past few months of the most active and most volatile names, and I also do computer screens of some 4,000 stocks that I update every night. This may seem like a lot to many of you, but these days a daily data bank update service for 8,000 stocks, or even unlimited issues is only \$50 a month. Software is abundant and often free with the service and only your criteria for the search needs to be thought out. I like to do my own programming so some of my stuff is pretty elaborate, but it’s not too hard to replicate if you look around.

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After I determine my bias as being either bullish or bearish based on weekly patterns, yesterday's action, or cycles, I then try to find the charts. Uptrends are ones I want to buy, and in a few select cases only, reversals in trend. Reversals are much more dangerous, but I especially look for whole groups to reverse and if that happens I will buy or sell them. I always start with *4 higher bottoms patterns* to determine an uptrend. Three might work but often fail, four is better, but with five it's almost impossible to still be in a downtrend and *I assume* I'm buying the fifth higher day if I'm watching the stock going up. I'm only looking for higher lows here. I also prefer to find "creeping" patterns with slow accumulation that has not exploded upwards for several points and attracted a lot of attention. If I find such a chart, I look to see where in the 3.25 week pattern the stock currently is. Preferably, it has just completed a 3.25-week or 17-bar downtrend, and has *signal reversal bar* and is now completing a fourth or fifth higher low. I also look to see if the downtrend completed an *average measured move* so that I can use a reasonable stop below that amount. In terms of volume I like to see declining volume the last few days going into the low with the lowest volume on the low day, and now increasing volume while the stock is starting back up. If all this is present, I will try and buy the stock 25 cents higher than yesterday's low, unless it's a clear momentum breakout on the opening. In that case, I'll often chase it, and I'll often buy half a position at the market and wait until mid-day to see if I can't get the other half a bit cheaper. In most cases I expect to get \$1.25 to \$3 on the move and will hold for two to three days if it performs well. I will take a big profit like \$1.50 or more if I get it the first day, otherwise I'll wait.

Besides using four higher bottoms patterns, I go through all my charts (a one second glance at all 4,000 takes over an hour!), or I will just look at the 30 Dow Jones, the 75 Institutional Index names (XII), the 100 NASD actives, or a select tickler list of 200 issues. I must do this every day to get a feel for what happened the day before, and to look

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for new rotations. I'm always on the lookout for the "3:45 hook" pattern where a stock breaks out to the upside in the last fifteen minutes of the prior day. Those patterns are always explosive. I also look at 30 key index charts for group rotation. While I'm doing this I have preset my computer to draw vertical lines on my charts at key cycle points, such as 45 and 32-week cycles and 3.25 weeks back, so that I can see if that was a high or low to the day and thereby know if today is a cycle turn. Sometimes I use 45 and 90-trading day cycles to look for big moves.

Some common "filters" I use are:

1-RANGE EXPANSION. I like to see a big move the day before that is larger than anything seen in the past two weeks. The "width" of the bar is the key and it should be impulsive. If it is, a big move for three days usually follows.

2-SIGNAL BAR REVERSALS. My computer looks at yesterday's bar to determine if the day before was the extreme high or low bar for the move. It then sees if yesterday's bar exceeded the low of the high bar, or high of the low bar, as the case may be for sell and buy signals.

3-SQUAREOUTS. My computer spits out stocks that are 35 bars from a price of \$35 etc. I also look for stocks hitting 50 cents to \$1 off the square root of their extreme high.

4-STOCKS WITHIN \$3 OF AN ALL TIME HIGH. Most big winners only rest three to four days before making another new high and they rarely drop more than \$3 if they're still in the "attack mode."

5-TRENDLINE BREAKOUTS. I usually don't use simple trendlines unless they're found on a weekly chart and go back a long ways, at least 9 months to two years. When you come to a major cycle, such as a 10-month Jupiter Saturn harmonic, or any other long-term cycle and the trend line has been in effect that long in one continuous direction, then trendlines work wonders and big moves are possible. Daily trendlines are almost worth-

Setups

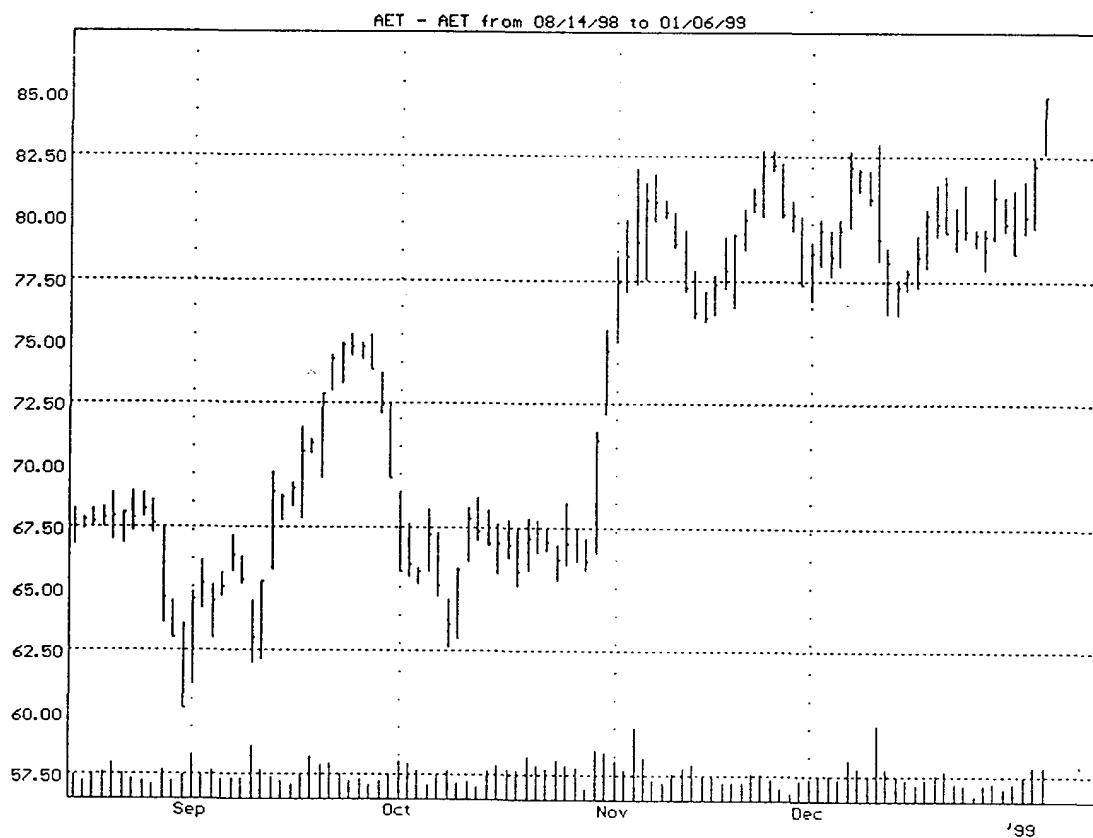
less unless they are at a very critical juncture and most inexperienced traders wouldn't recognize that anyway, so I don't recommend that you use them.

6-VARIOUS CYCLE COUNTS. I include here 45 and 90 bars, 45 and 32 weeks, 3½ weeks, and especially 55 Fibonacci calendar days from a final high. If you remember the 1987 crash you'll recall the low occurred on the 55th day from the high, and this is a typical climax time cycle. I often find good lows 55 days from a big high.

Let's look at some charts now to see what we should be looking for.

Chart #198 is a chart of Aetna and it shows several interesting features. The first is the obvious new high breakout that turned up on a 4 higher bottoms scan. Also note the

Chart 198

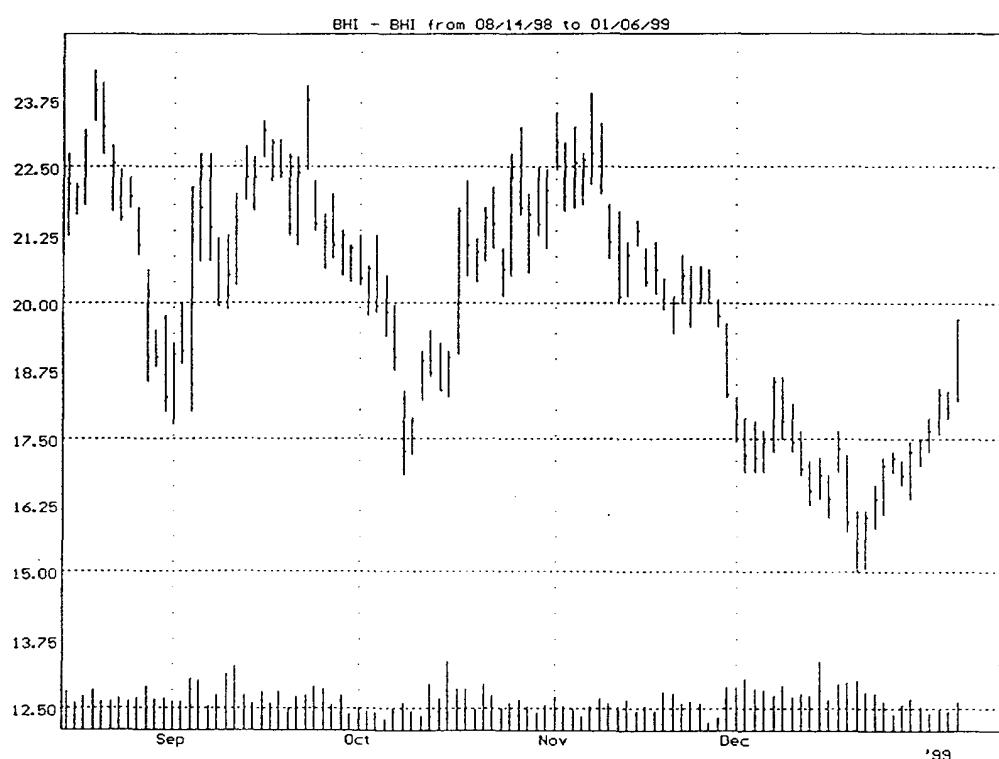


Setups

close at the extreme high possibly indicating range expansion for an impulsive wave. The stock is breaking out of a two-month sideways consolidation and that much trading on the side should provide enough buying to last at least three days and perhaps \$5 to \$10 dollars. It also follows the November dramatic impulse wave to the upside so the breakout is probably headed for record new highs. Each of the swing lows during the last two months ended at the same level, indicating good horizontal support and continued buying. What's wrong? Only two caveats are in order. First, it's the 16th bar up from the last low in a continual uptrend, so that a 3.25-week climax may be here. And second, from the last low 4 bars back it's an approximate measured move, so it must have enough momentum to go two or more measured moves up, or it will fail. In terms of normal chart reading, 100% of all traders would buy this, so if you're early you'll have the wind behind you and an obvious stop out would be falling back below that top of the base at \$82.50.

In Chart #199 Baker Hughes shows a range bar expansion indicating a breakout

Chart 199



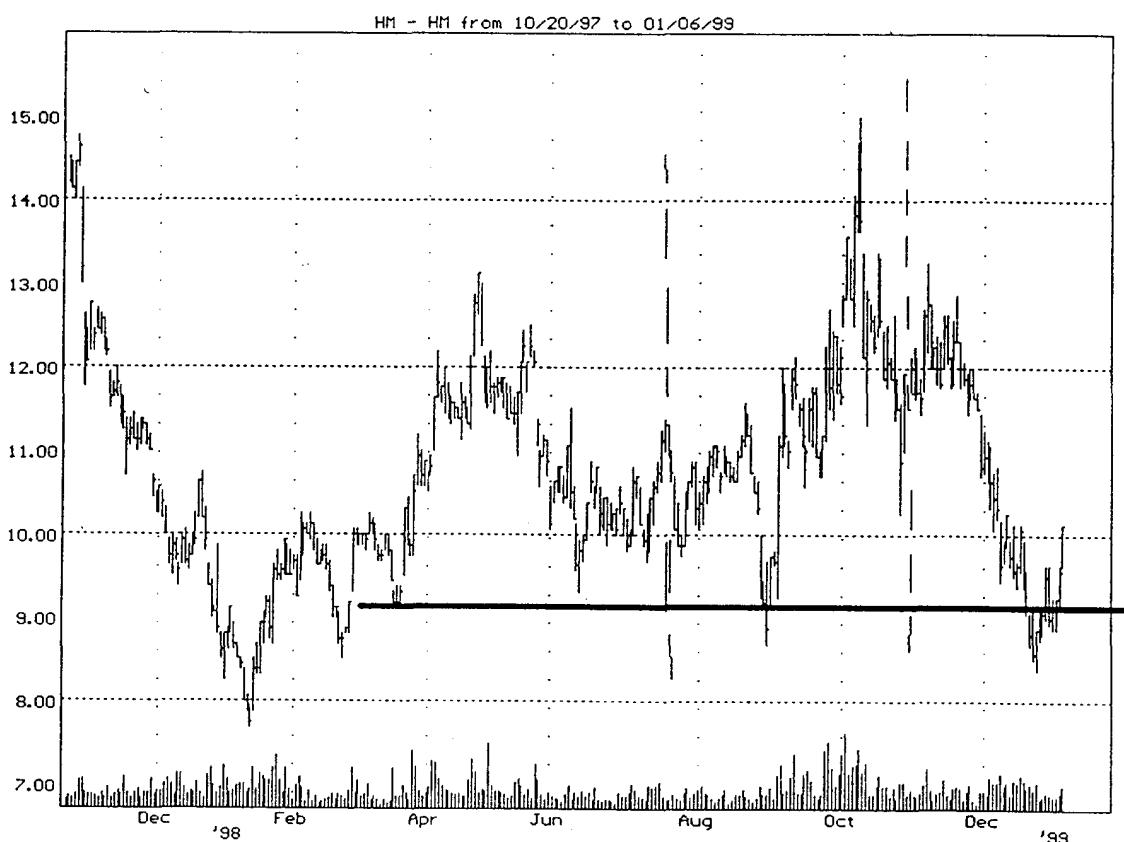
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Setups

that most traders would be afraid to take. That's because of the long downtrend with new lows every few months, and the stock appears to be just under major resistance. There's a big difference this time, however, if you look at the current advance. It's clearly an uptrend with a series of higher bottoms that hasn't been seen since October. The classic buy signal is when you have former lows as you have here, in September near \$18, and again in October slightly lower, and then a big low in December at \$15. The current bar has regained all three levels, so that you basically have a triple bottom breakout to the upside. The odds are good that the current rally will at least test the big high near \$22.50 before consolidating, so this would be a good trade with a stop at the low of the current bar.

Chart #200 of Homestake Mining shows multiple foldbacks that all suggest a big advance just ahead. The stock has just had a 5 to 6 day advance that was bigger than any

Chart 200

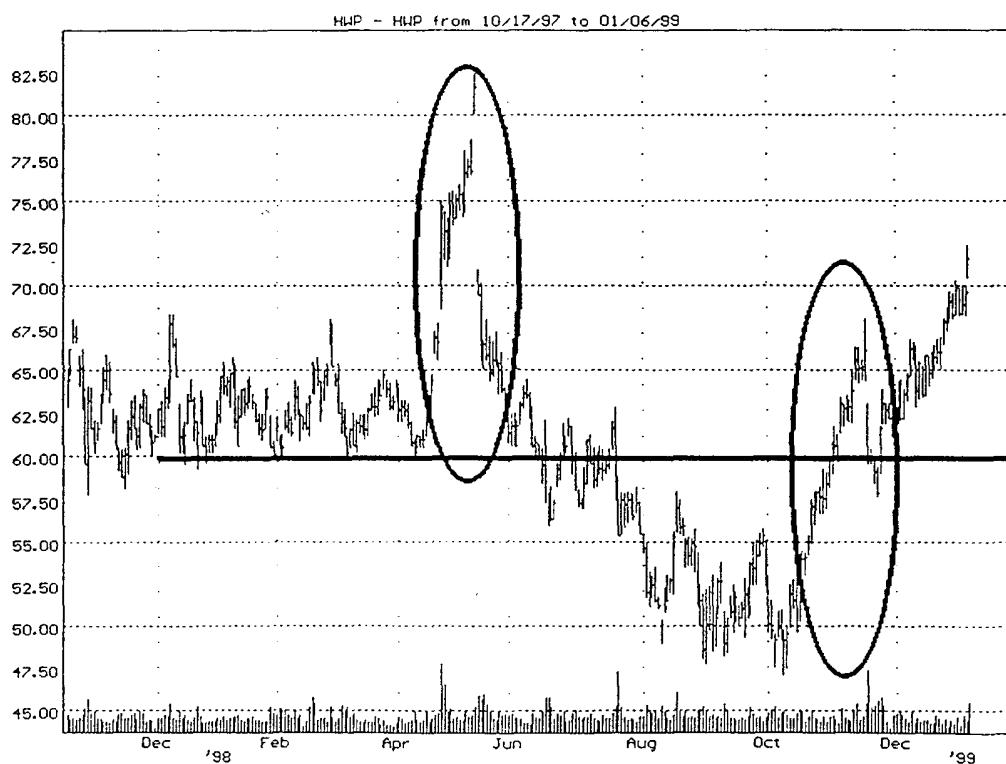


Setups

seen in the past two months, and the most basic rule in all chart reading is that when you see a move bigger than a prior move, a change is coming. The stock stopped at an area of multiple prior lows demonstrating long-term support and has regained the last breakdown point. All of this suggests a possible reversal in trend on a long-term basis and as long as each correction now holds a higher bottom, you would trade this one long every time it starts up. It is important to emphasize that once you identify a stock in a long-term trend, especially one just beginning, you can exploit that trend for months to come without taking losses, if you use a wide stop. The trend will always bail you out and corrections rarely go past 3 weeks, so that if you buy a dip correctly, you should be able to make money on every trade.

Chart #201 of Hewlett Packard is interesting since we can see an obvious pattern that is somehow repeating. The steep angular advance is identical to the prior one, but

Chart 201

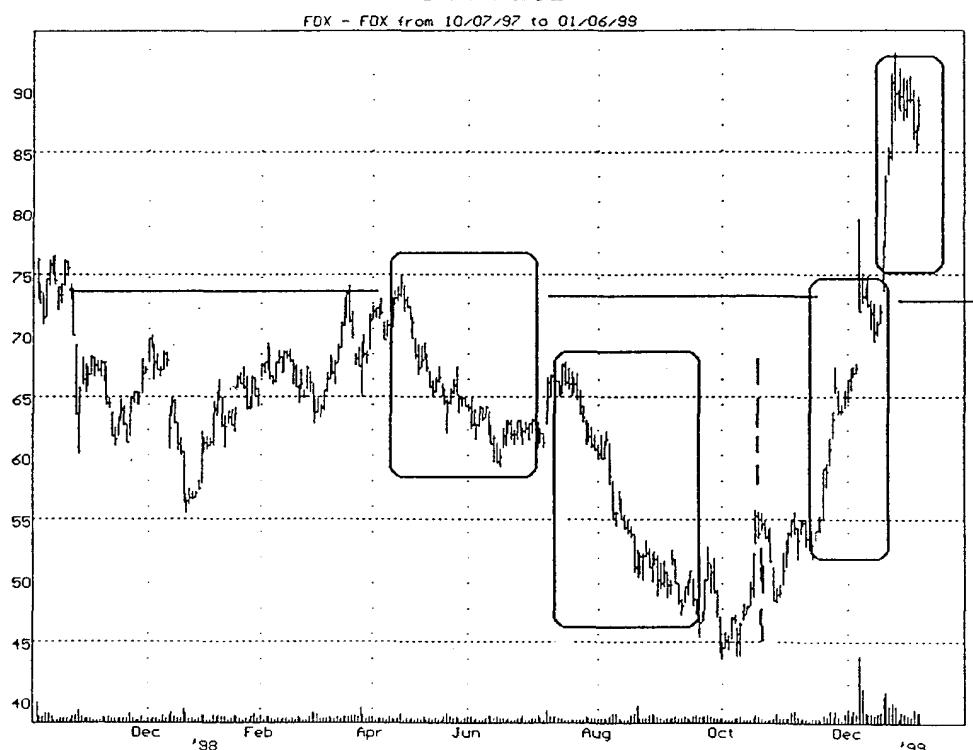


Setups

after the top we don't see a collapse like the last time. That "inversion" suggests that a new, and more bullish cycle is working, and since a second rally has now gone to yet a new high above the fractal pattern, we can assume that this stock will go significantly above that long base that was regained near \$60-\$63. That base held for more than a year, so the advance would normally be at least 50% to 100% above that range. Obviously, a consolidation phase is in order for about 3.25 weeks and it should pull back to \$60-\$63, but after that I'd look to be a buyer each day that it advanced.

Federal Express recently exploded upwards in the "Internet craze" and long term it may go higher. Chart #202, however, seems to indicate a correction ahead as the target movement about the foldback point seems to have been met. The two rectangles on either

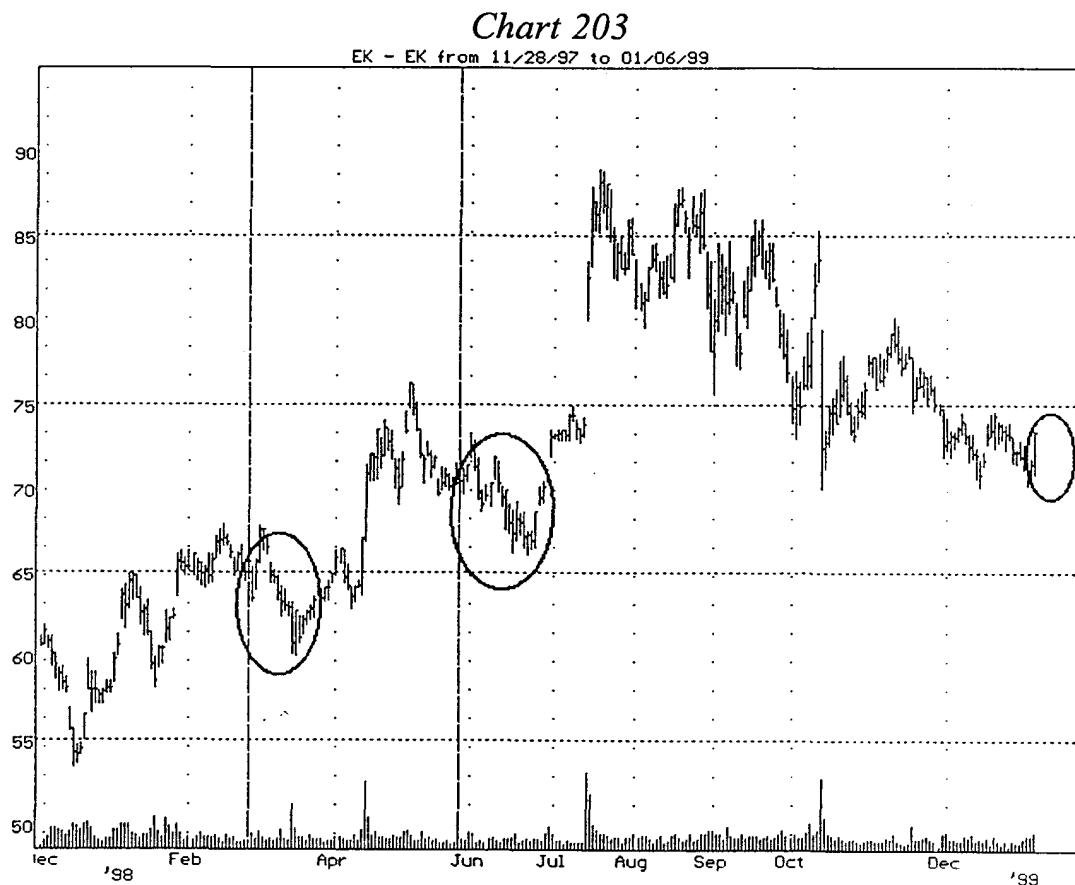
Chart 202



side of the dotted foldback line seem to be similar in proportion and vector distances, so that if the foldback continues to the left, it could take several months to digest this advance. A pullback to that horizontal support seems the minimum outcome and a day trade short might work.

Setups

Chart #203 is a very good example of a 45 and 32-week cycle setup. The vertical lines are 45 weeks back and 32. As you can see, they suggest a sharp two-day rally to be followed by one last drifting decline, and then a very explosive advance that could make a lot of money in a few days. The current chart pattern looks like it's getting ready to advance again having just declined almost 6 months back to the point of the last impulse



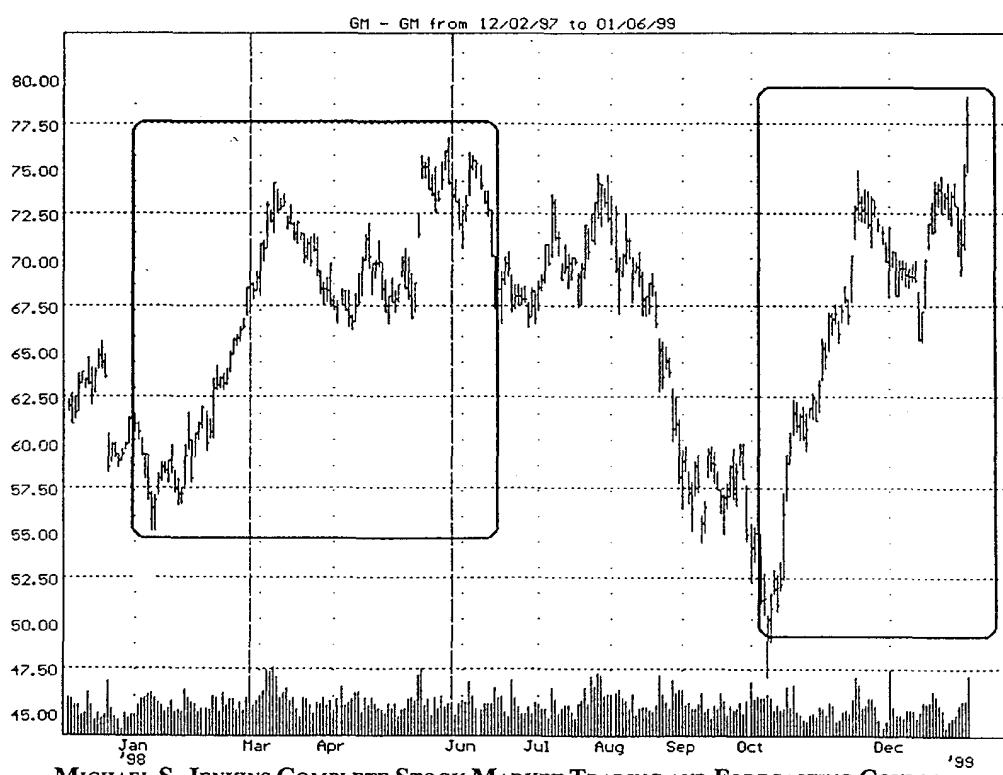
wave. The fact that both the 45 and 32-week cycles show identical patterns coming up is usually a sign that they will indeed hit. The only question is, what if they came early, and that last drifting decline was just seen and now the big move is here? To determine that, we could look at the last series of 3.24-week cycles and put on some Gann angles to get a squareout, for in reality, when you're day trading, you can buy and sell everyday and thus let strategy take care of it. This means to use a stop that logically fits the expected pattern. An explosive advance will go far and fast and not come down, but a two day advance will

Setups

tumble back to the origin and set up a short for that last decline expected. Tape reading could help clarify the issue in question, and I frequently have a list of several patterns that have big potential but could go either way and require fine-tuning by watching the tape each day until the turn is made. Frequently, a brokerage house recommendation hits exactly with the cycle turn and it's easy to go along since the cycles support it. I also watch the options page for large put or call activity around these patterns, for justification of their outcomes.

Chart #204 of GM also shows strong cyclic similarities, especially with the 32-week cycle. That cycle calls for a top, and the pattern over the past two months for GM seems to mirror the pattern from 32 weeks back for two months. The 45-week cycle tops in another 6 to 7 days, so that some topping pattern may be seen and then GM will probably decline. Both cycles show the next six weeks to be a choppy trading range and after GM's current explosive move from \$50 to \$80, that's just what you'd expect with a pullback to the old highs near \$72.

Chart 204



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Chapter 16

ADVANCED APPLICATIONS

In this section I will show some very interesting applications of the various theories I have developed in the previous pages. Not all of these may be relevant or in sequence, but I include them here for serious students who want to go the extra mile and refine their skills. Many of these charts are only meant to point you in the right direction without explaining every subtlety; I leave that for your further research.

Chart #205 is a very interesting “countdown” sequence that acts like natural numbers squared as in the Gann Square of Nine chart. In this case, however, it’s a sequence of square root increments that are decremented and then re-squared. The origin is August 12, 1982, the birth of the bull market. The price that day on the Dow Jones was 770. The figures on the chart like -5, -4, -3, -2, -1, 0 are the square root of 770 decrements by those numbers and then re-squared. The resulting number is then *calendar days* from that low. Note how these almost hit every high and low exactly to the day and this is two years after the event! It’s also interesting that the -1 and 0 points were the start of the biggest upsurge in stock prices in history.

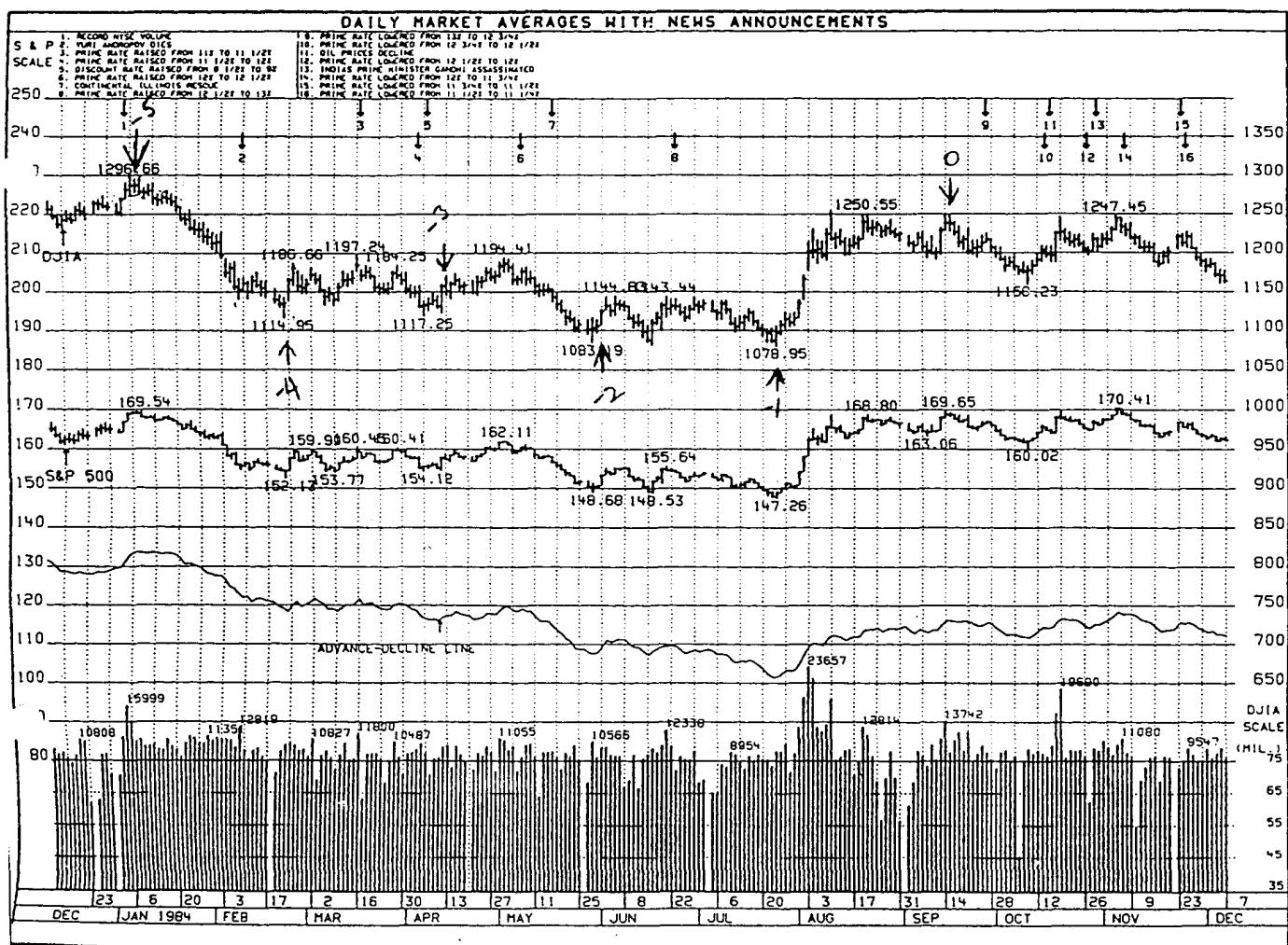
Chart #206 has only been shown to four close friends over the years and hopefully you will understand why. There is a lot more to arc analysis than the simple drawing of circles on your charts. Each and every angle that subdivides an arc creates both support and resistance, and that specific point in intersection will tell you whether a high or low is

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expected at that specific time. Note on this chart how one circle describes the entire 30 year history of stock prices, but especially note how each 30, 45, and 60 degree angle divides the circle, and at that point defines the next bull market leg up or down and its major support and resistance levels!

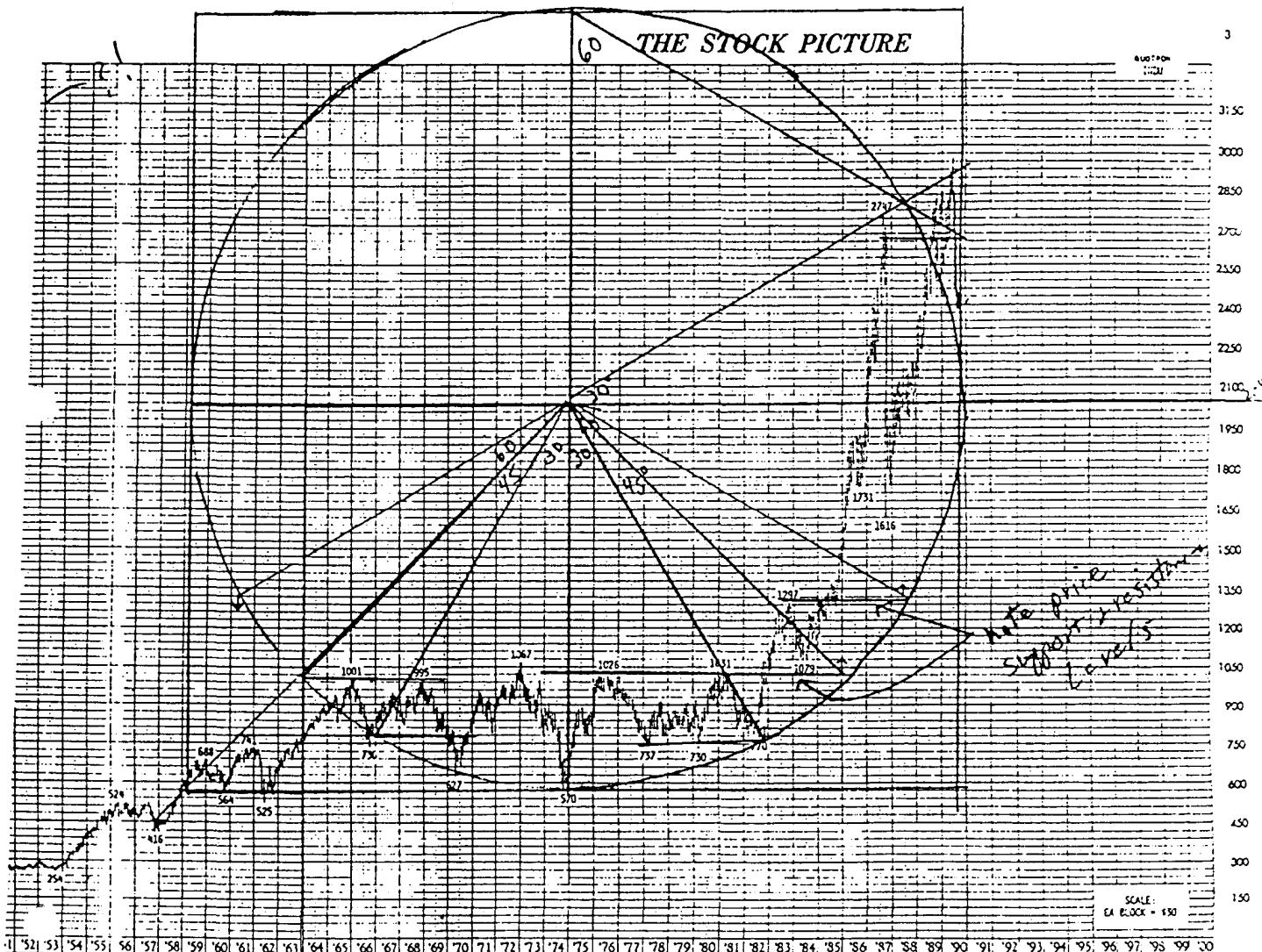
Chart #207 shows the S&P Index with the use of adjusted angles to project prices and the use of a circular arc to define resistance and a future low. Note how the initial 45-

Chart 205



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Chart 206

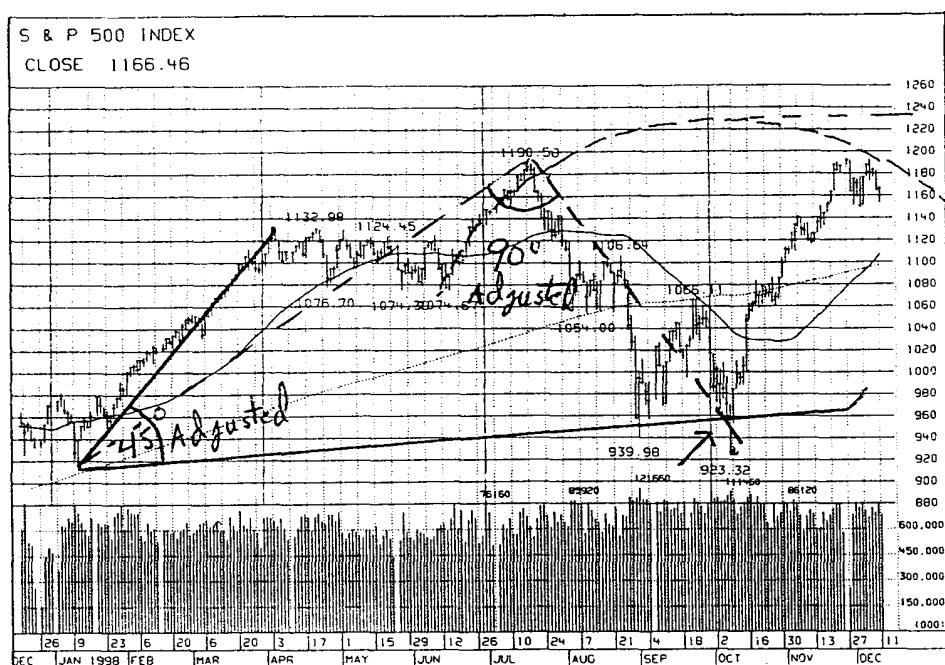


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degree angle from the first top ultimately caught the October crash low, but that the second 90-degree angle from the low to top also pointed to that low, and the intersection of both powerful angles led to a significant squareout. The arc was then drawn to give us an upside target. The market subsequently broke through that arc, but died at the horizontal resistance from the top of that arc. I would now lay on a 90-degree angle coming up from the low and last top, and that would define the long-term primary bull move.

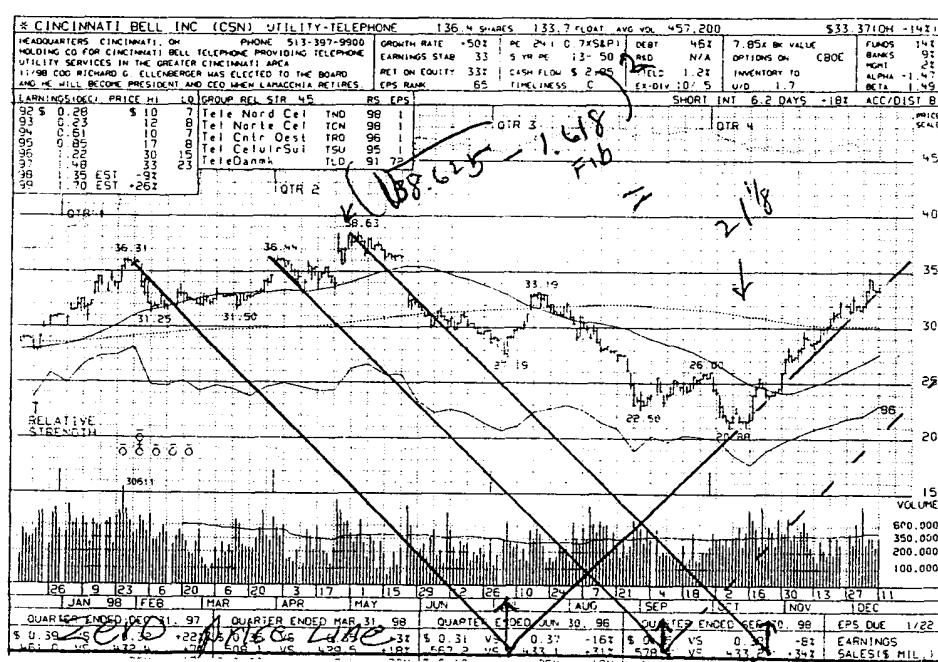
Chart 207



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Chart #208 shows the zero-angle technique of using timing lines to squareout three highs. Note that at the bottom, each line causes a change in trend at the date of the squareout. I have continued the first angle back up, to show you the major support angle, which is always a great trade because nobody knows that trend line is there, and it almost always holds. On the third and final top at \$38.625, I show the target of \$21.125 by subtracting the important Fibonacci number 1.618 from the square root and re-squaring. I have done

Chart 208

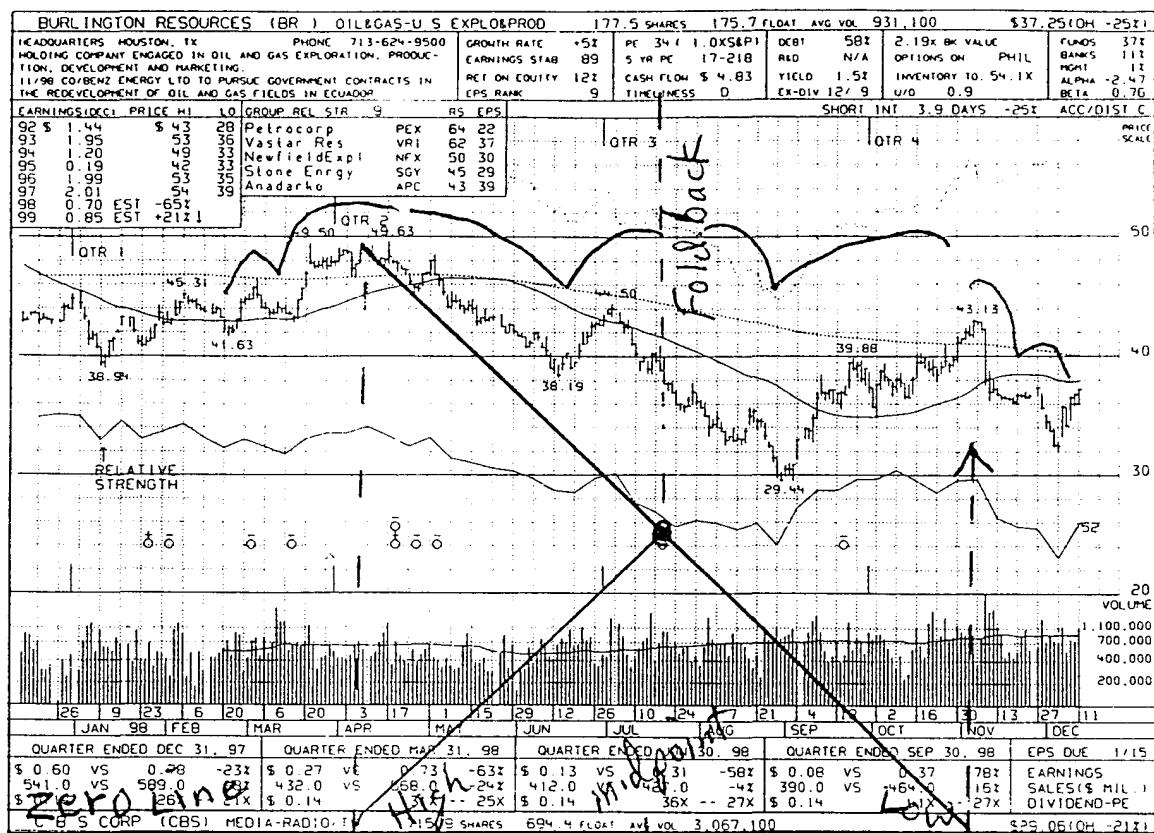


this to show you that at every important low there is both a price and time target, and that here we have the timing angle and the root system meeting at a major low. The dotted angle is future support on the next breakdown.

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Chart #209 shows a proprietary method I use to discover mirror image foldbacks. If we assume a major top will complete a full square when the timing angle hits zero, then we know where the midpoint of that pattern will be long before the pattern completes. Under the top I draw a 45-degree angle up to intersect the one coming down, and that determines the midpoint. The foldback should take place about that midpoint if it is to foldback. Note especially on this chart how the patterns repeat, but note in particular the

Chart 209

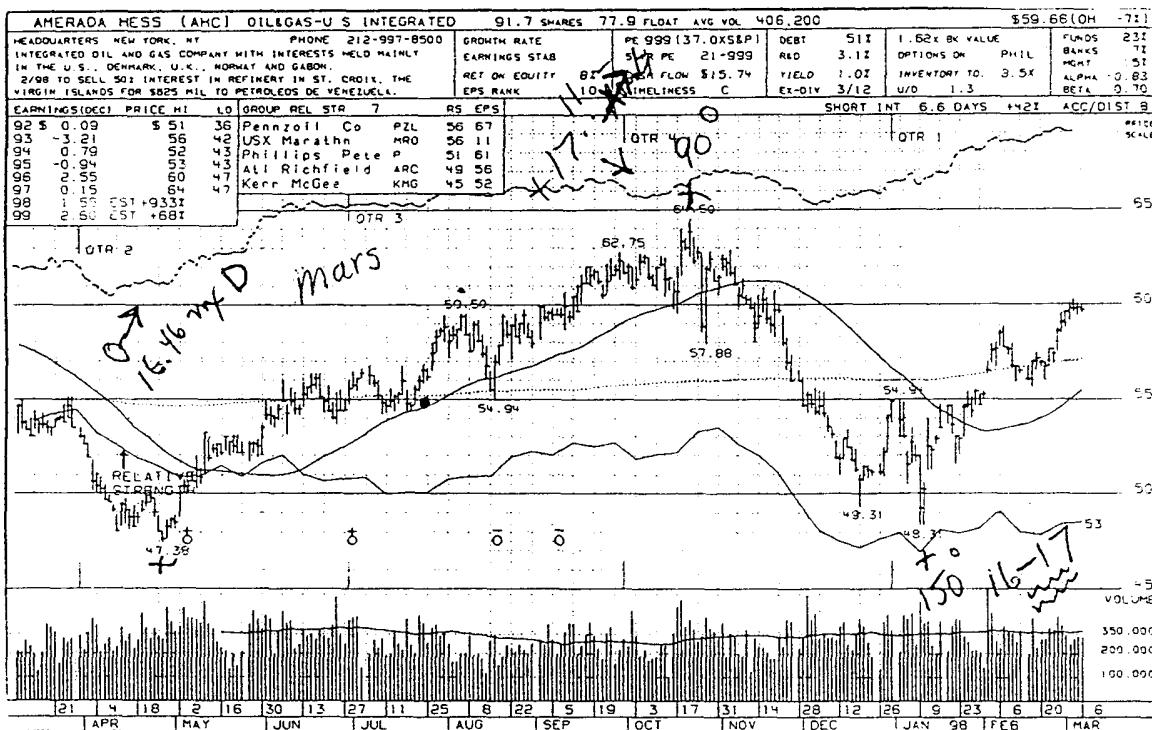


last top above the zero line low and how that shape is identical to the top that spawned the angle, only backwards.

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Chart #210 is the best example of why I think you should at least think about incorporating astrology into your trading. This is the chart of Amerada Hess and during this time period it was obviously vibrating to a Martian influence. At the exact low day

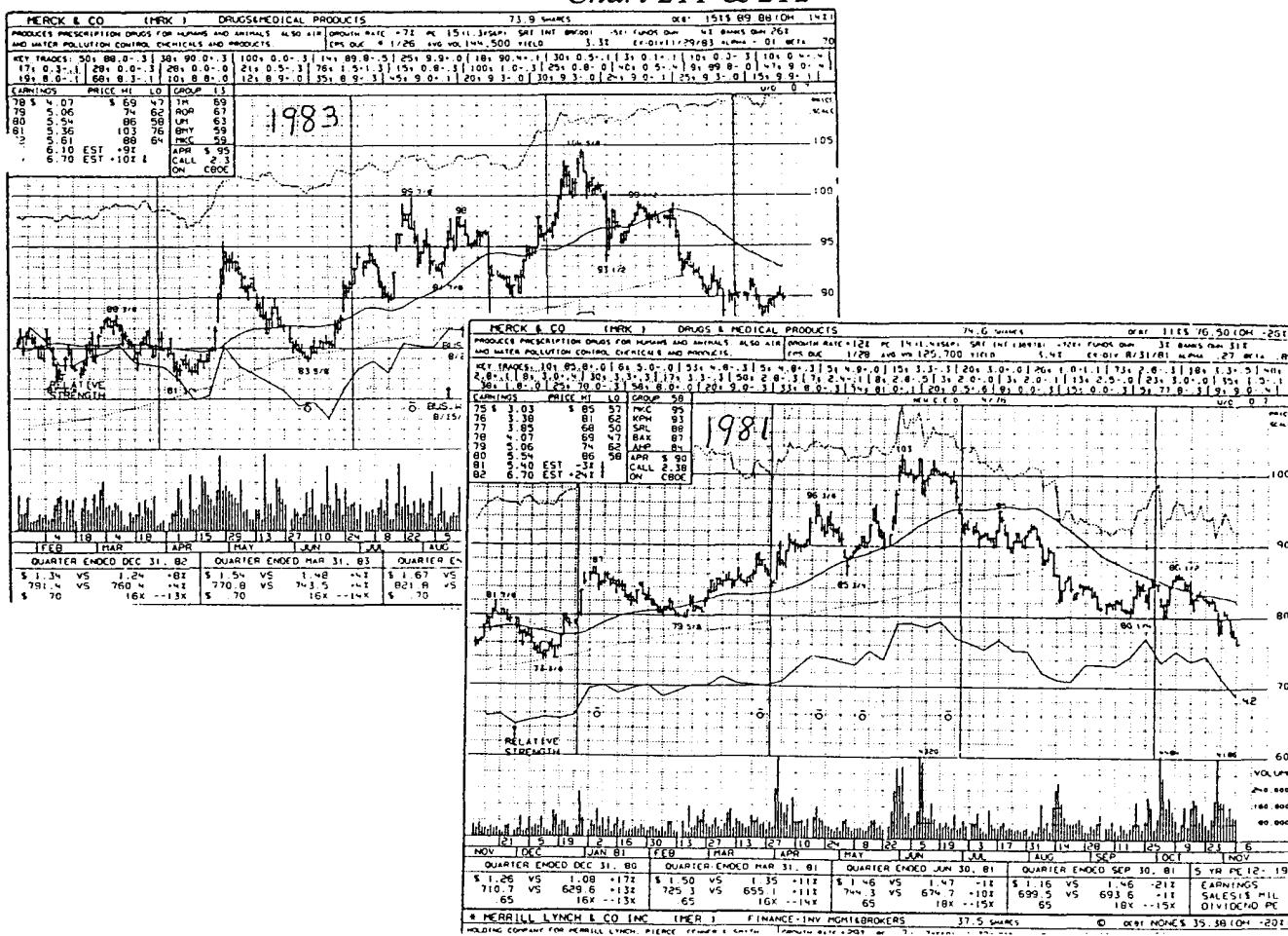
Chart 210



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Chart #211& 212 shows an interesting overlay of Merck at two-year intervals, or to be more precise, about 2.4 years if you line up the tops. The prices are almost identical, so it pays to review past years to see if they are repeating. It's hard to tell exactly what planet is causing this since there are multiple aspects at all the turns, but one obvious choice is Saturn which goes exactly 30 degrees in 2 ½ years. In June '81 (the top) Saturn was 3 degrees Libra and in October '83 (the top) it was 3 degrees Scorpio. Is it just coincidence

Chart 211 & 212



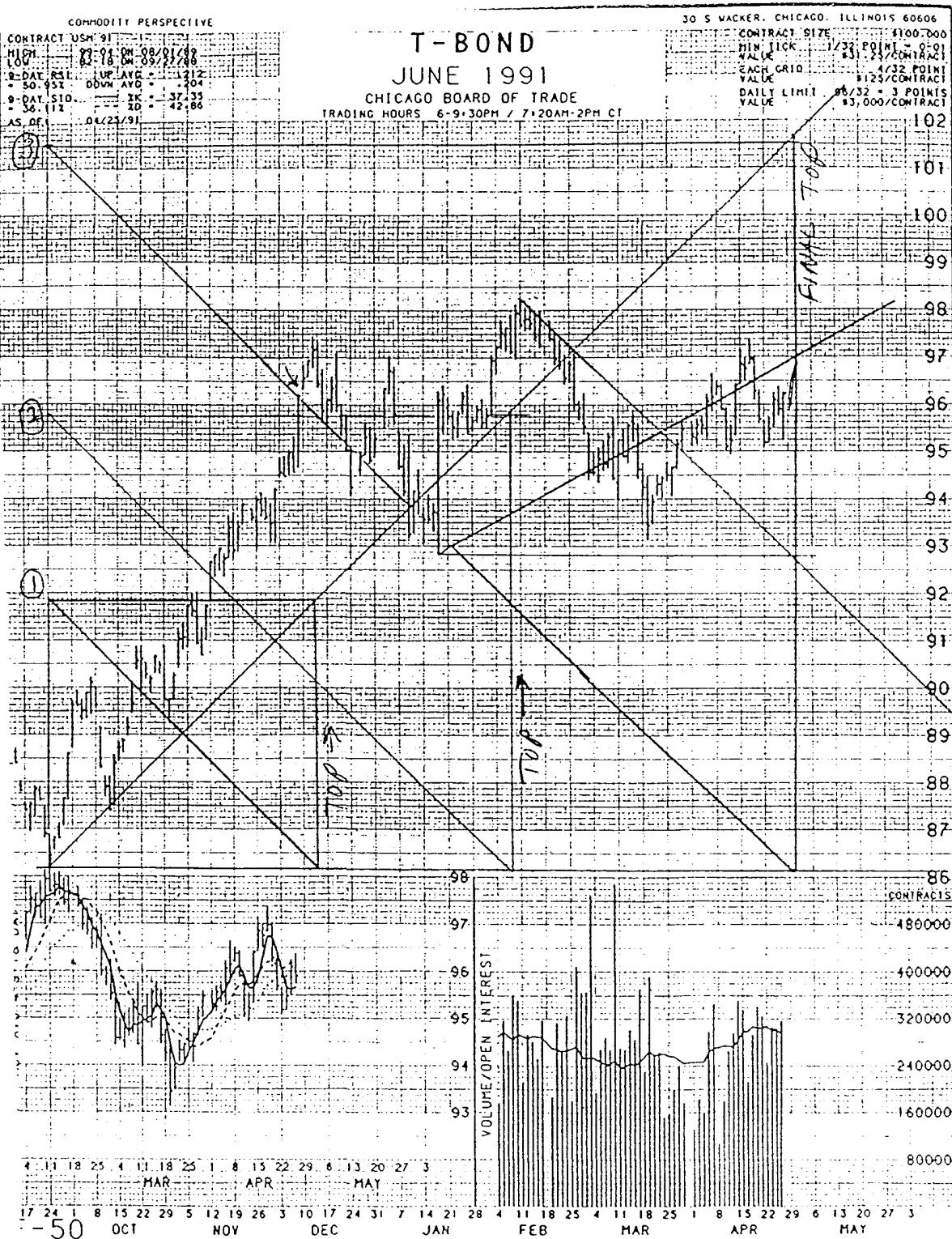
that the high was 103 with Saturn at 3? You'll also note that on the '81 chart, the first big low was December '80 the time of the Jupiter/Saturn conjunction, so that as Saturn went 30 degrees from this point it would also be significant.

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Chart #213 is my prized discovery. I thought long and hard before putting it in this course because, though the work is worthwhile, few people want to take the time to do it, nor do they understand it. For those of you who do it, I hope you use it with discretion. I was looking for a universal way to calculate the “Final High” from only the initial impulse wave early in a move. Normal Fibonacci expansions or wave counts don’t work and leave much to subjective estimates. This, I think, solves the problem. First, you won’t understand the figure until you purchase a small plastic 30, 60, 90 degree triangle instead of the standard 45, 90 degree one. This is because the figure is disguised as to where the origin is and how we get the calculations. If you recall prior sections you already know that to adjust time and price to equality I usually swing an arc up from the first impulse wave to get the correct top for a box, as I do not use the top of the impulse wave itself. In this chart the final low at left gives an initial top on the 10th bar up counting the low bar as 1. I put a 30-degree triangle on that point and draw a line up and *backwards* to over the low bar (this is not shown in the chart). This is point (1) labeled on the chart. This is how we start. Once we have this important point all the others can be derived. We now use a standard 45-degree angle to draw down to intersect the low of the low and we now have our first square. That low intersection shows the first “top” and if you look up you will see it caught perfectly! We again take our 30-degree angle and place it at this low of the first square and again draw it backwards until it intersects the first low origin. This is labeled point (2). We again draw a square around this point to get our 2nd top, shown as the angle goes down to intersect the bottom. The final step is to take our 30-degree triangle again, but instead of measuring up from the low, we measure up from the top right hand corner of box one to get point (3). You must do this yourself to fully get the feel of how it is done. On some very powerful moves the third angle can come from the bottom, but I’ll leave that exercise to you. Here on this chart we have three exact hits of highs, and the final one did indeed end the bull move for this future for quite a while. Why does it work? Well it

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has something to do with how I told you that the square roots of two, three, and five recreate all numbers. Much is said about the root of 2, and the Fibonacci sequence comes



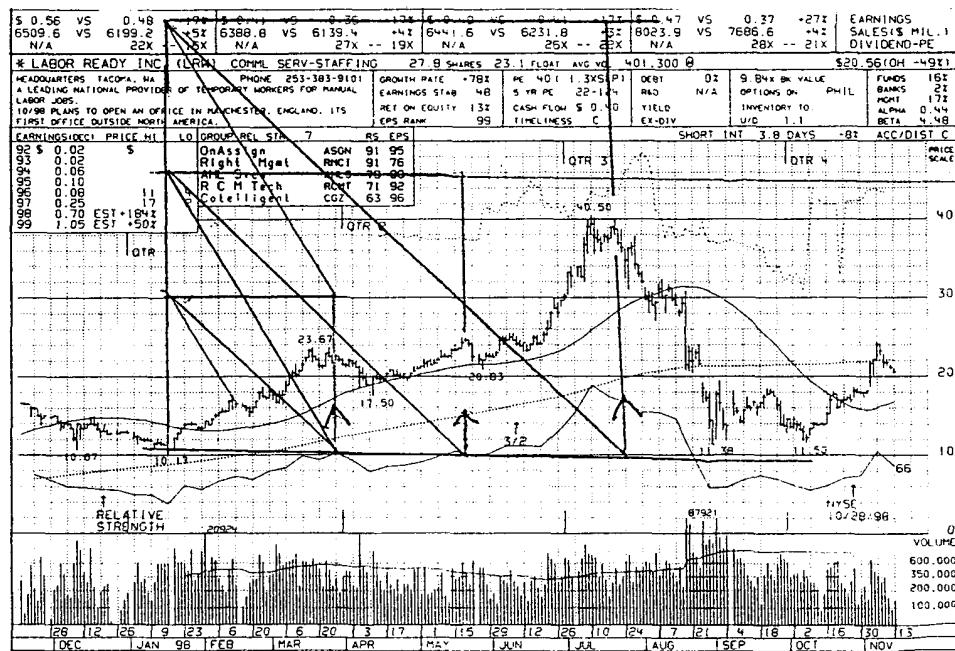
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from the root of 5, but little is made of the square root of 3, which is 1.73 and whose inverse is .577. Most final high expansions come from this 1.73 factor in its many forms. The way it worked here is that the Tan of 30 degrees is .577, so that our 30-degree angles spin out these harmonics. In recent years, I have come to possess some of the great Edson Gould's work papers and sure enough, in faint scratchings on his charts, there are scribbles of 1.73 and .57. I think he too, found a use for this ratio. More could be said, as to horizontal support and resistance with these boxes and arcs swung up and down from them, but I'll leave that to you. I'd study the chart and try to apply it to other charts you trade.

As an afterthought, I made a quick drawing of this technique for a stock as seen in Chart #214. It's a little sloppy but you'll get the point if you study the first chart. By the

Chart 214

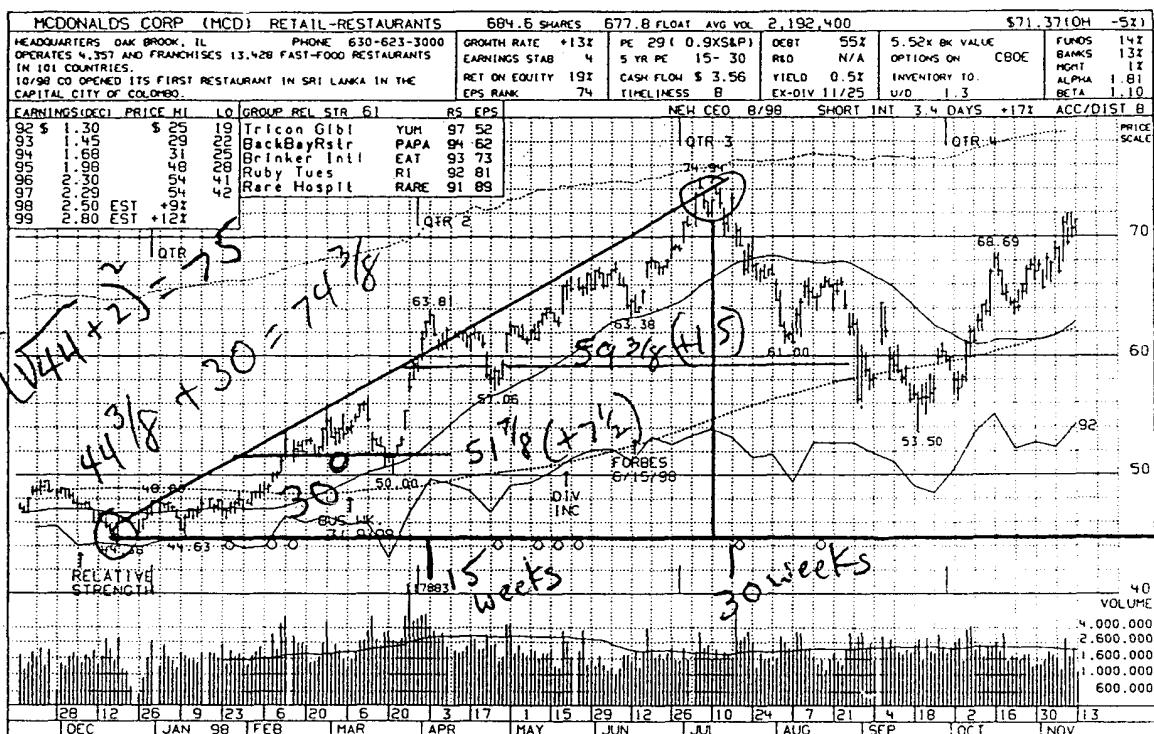


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way, is that third top Final or what?!!! Please give me a footnote when you steal this one for your own courses and lectures.

Chart #215 may look basic and *it is*. The problem is that most people don't grasp simple ideas until they practice for a while. In the Support and Resistance section, I mentioned how the degrees of a circle of 360 are divided by 2 and by 3 to get harmonics, and how Pythagoras stated that the "lift" of an angle pointed out specific points in time and

Chart 215



space. In stocks *measure the angle of ascent* to find the ultimate price target. The 45-degree angles (11.25, 22.5, 90 or 7.5 deg, 15 deg, 45 deg) have price harmonics of the

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circle divided by 2, whereas the 30-degree angles (30, 60, 120, 18.75 deg., 33.75 deg.) have price harmonics of the circle divided by 3. In this chart of McDonalds we see an ascent of 30 degrees as the angle, therefore price targets will be the low (44.375) plus 7.5, 15, 30. These are in terms of both *time and price*. The ultimate target is the root plus 2 (one circle of the Gann Square of Nine), or about \$75. Furthermore, it should be \$44.375 (low) plus \$30 (30 deg harmonics) or \$74.375. We should also see time harmonics of 15 and 30 and both main tops were at 15 weeks and 30 weeks. More could be said but I don't want to complicate what is a very simple chart.

Charts #216 and #217 are two examples of using a mirror axis to reflect support and resistance. Besides using a foldback to reflect time cycles, support and resistance naturally arise, since as you know by now, time and price are the same thing and their

MIRROR AXIS TREE SHOWING SUPPORT AND RESISTANCE GENERATED FROM PRIOR HIGHS.

Chart 216

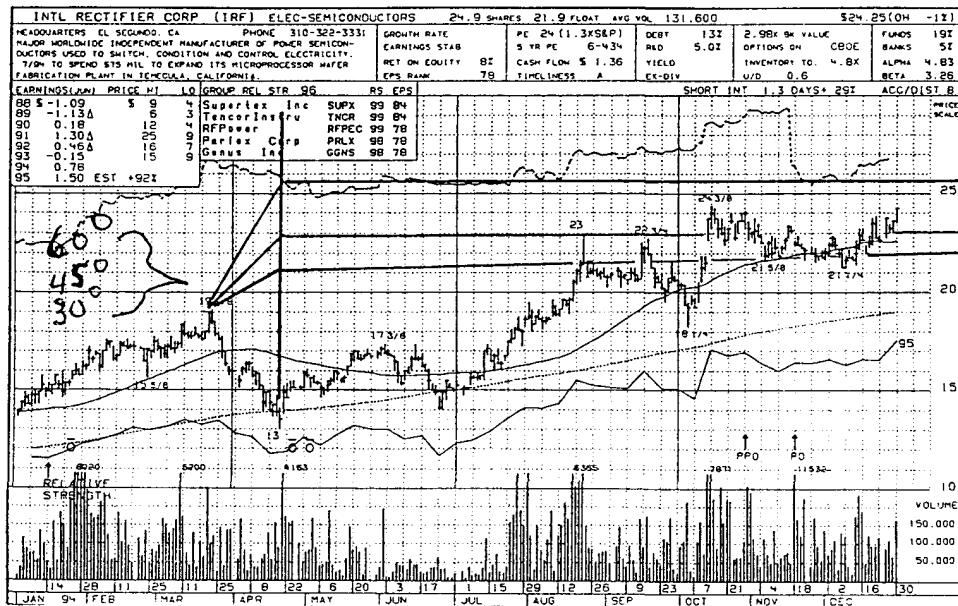
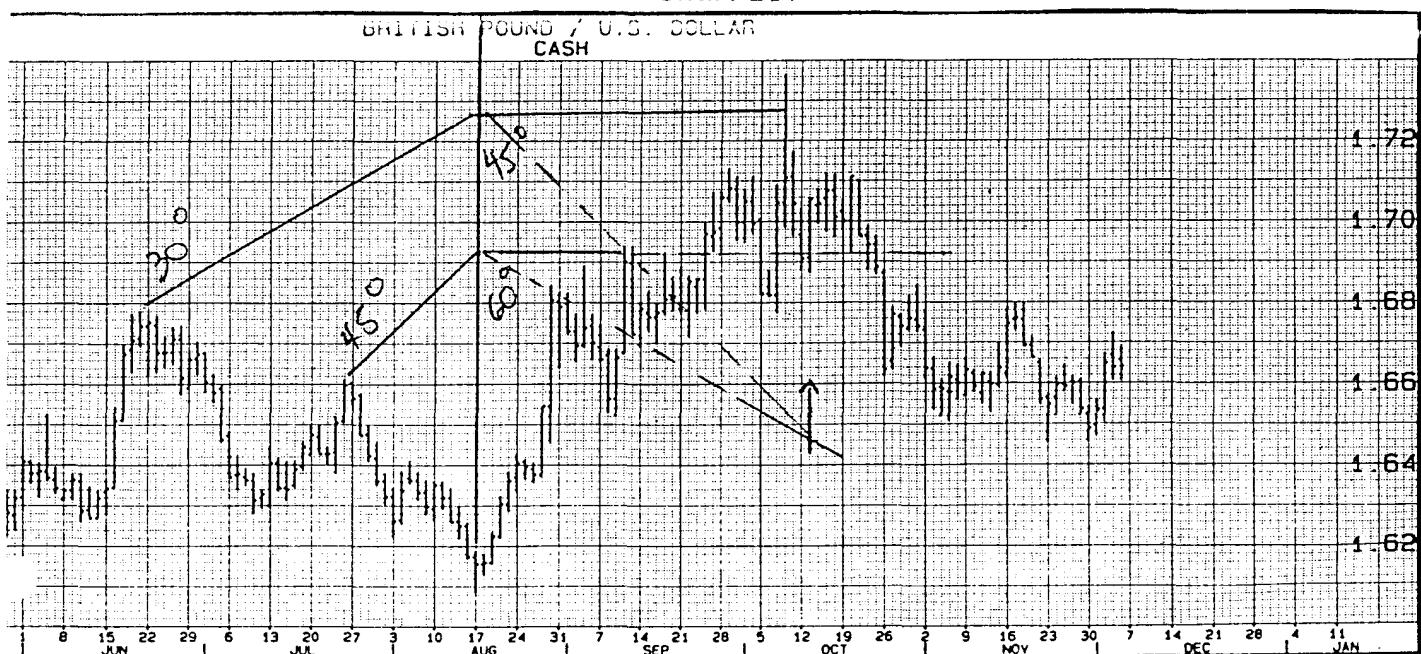


Chart 217



vector components can be mixed and matched to form a number of patterns that are harmonical. What is not shown, but is a very interesting exercise, is to use such a tree on a long-term chart, such as 10 years, and particularly with commodities or currencies. In those cases the long term foldbacks into the low give rise to all the bull market corrections and support and resistance numbers coming out of that low.

CLAMSHELL PATTERNS- PROJECTION ANGLES

One technique for forecasting targets that is very reliable is through the use of "clamshells," or our square root of three segments. These semi-circles are constructed from a final swing just before a major move. If the swing is down it gives a bearish target,

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Two BULLISH

Chart 218

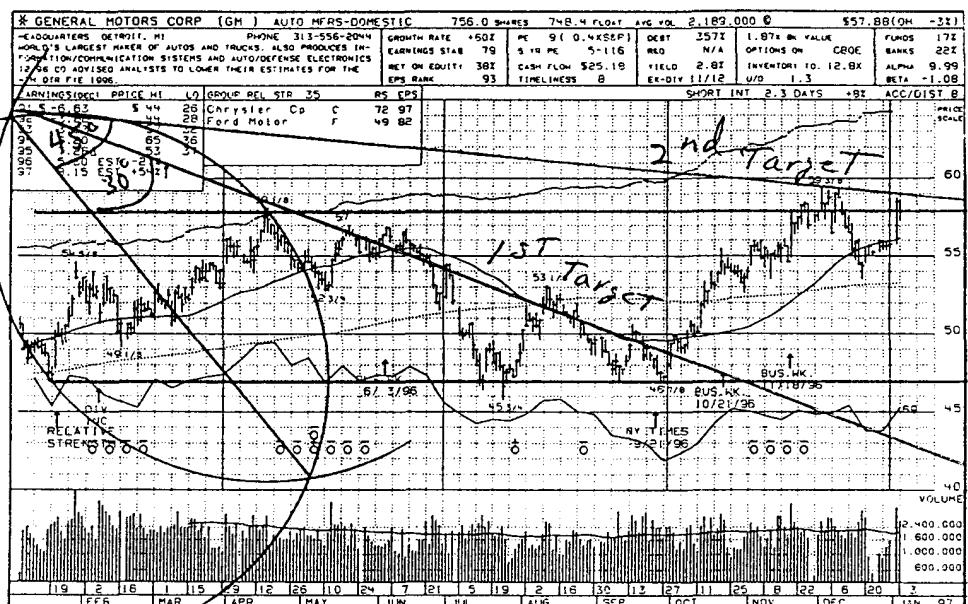
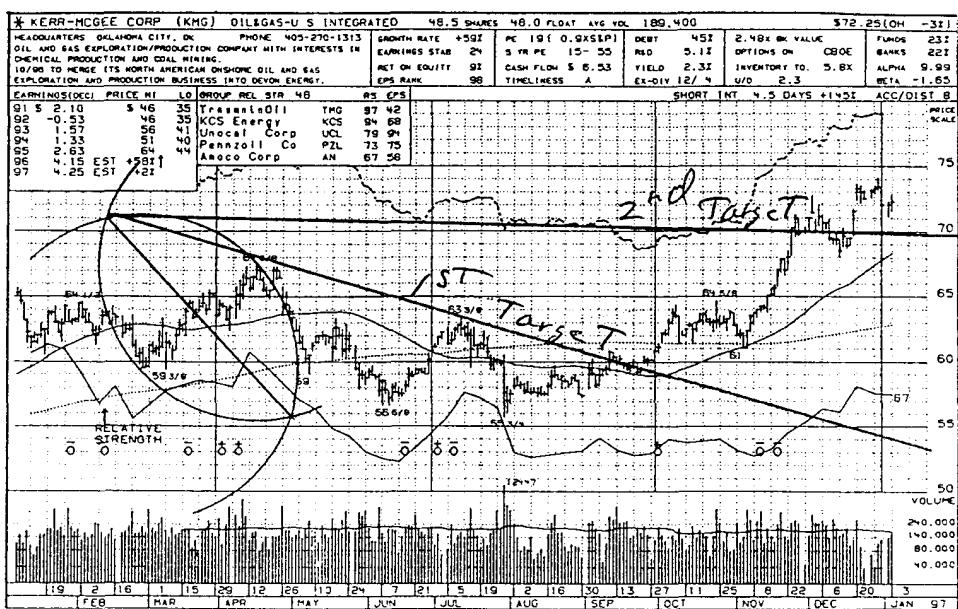


Chart 219



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if up, a bullish one. From the last swing you make a semi-circle around the high to low, or low to high, and draw an axis line. From the upper point of the axis line you draw 30-degree and 45-degree angles. The 30-degree is the first target and the major breakout line for a big move. The 45-degree line is the next target, often the final one, but if it goes past then it will usually be a whole new leg.

ONE BULLISH, TWO BEARISH CLAMS

Chart 220

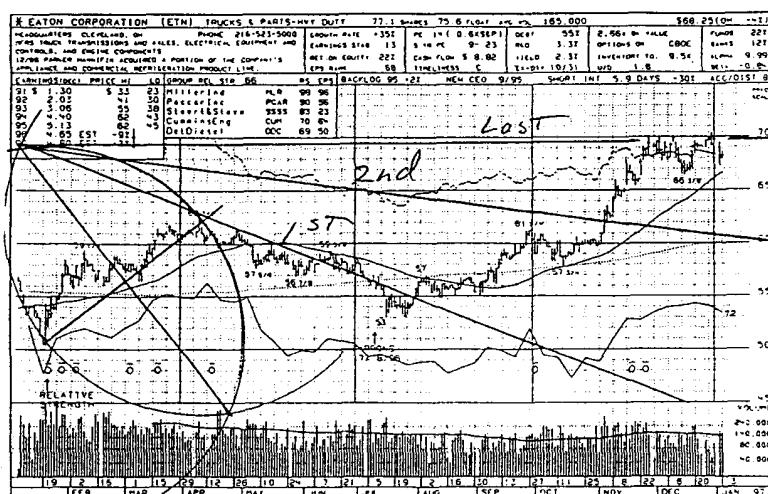
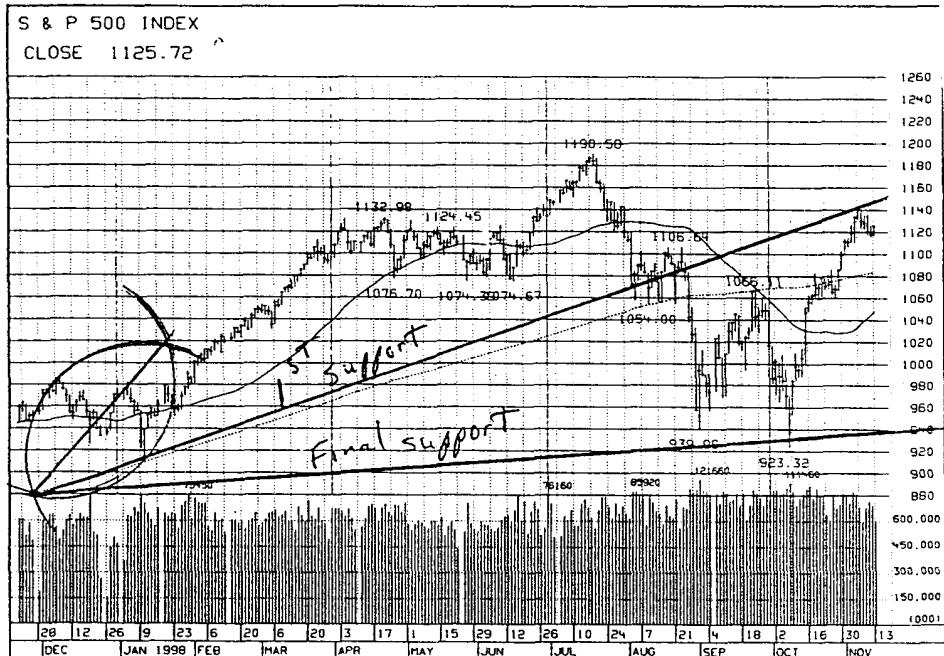
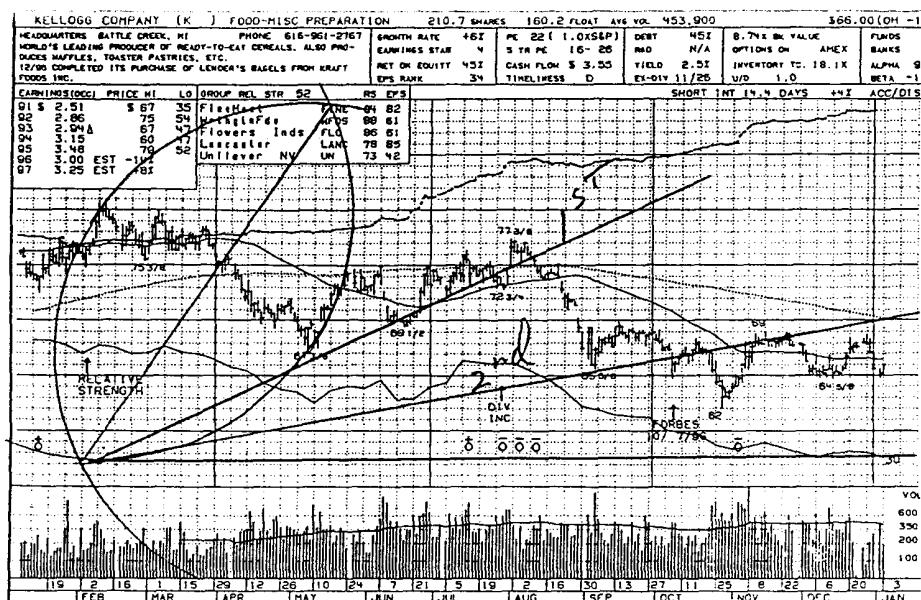


Chart 221



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Chart 222

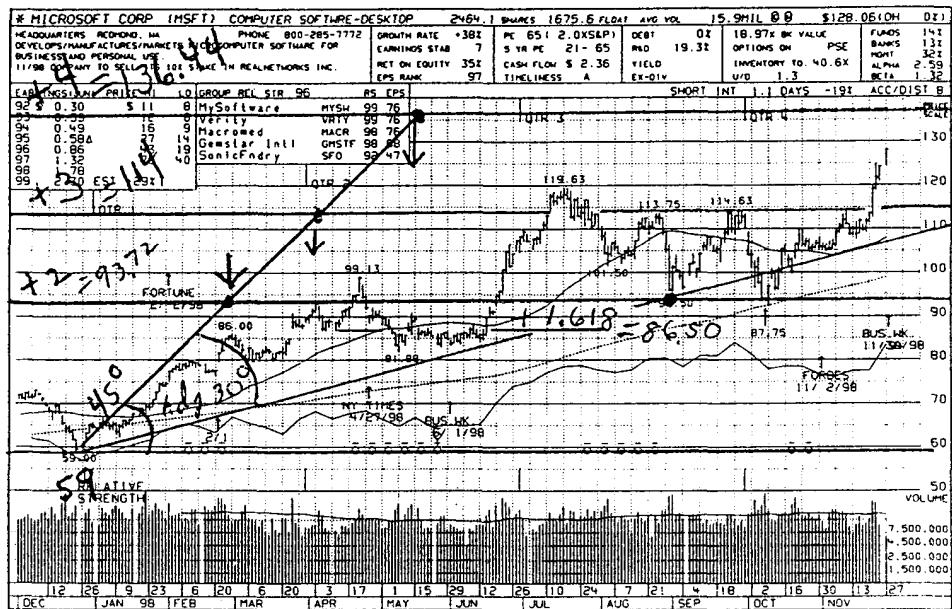


Microsoft, Chart #223, with a huge run, shows perfectly my square root method. From a low of \$59, the first 2 added to the square root and re-squared (Gann wheel full circle) gives \$93.72, which was the first big top. The pullback from that top went to the root plus the Fibonacci 1.618 (\$86.50). The next level up at +3 went to \$114, which was a top for five months and above that +4, \$136, and +5, \$161. All were perfect hits. In addition the chart shows a 45-degree angle going up and intersecting these lines to create major highs and lows. I then put on an "adjusted" 30-degree angle (coming off the 45 axis), and as you can see, that was the major long-term trend line.

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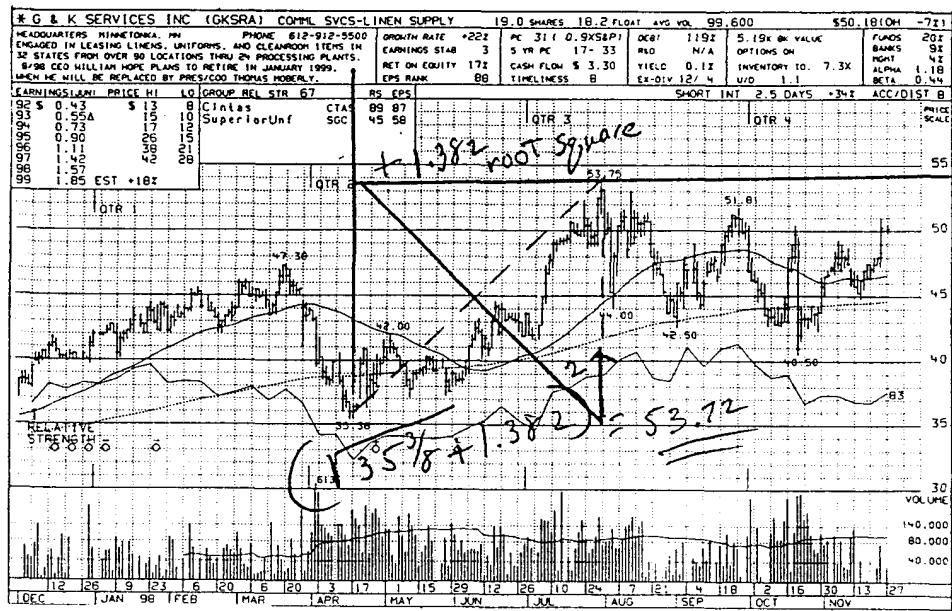
SQUARE ROOT INCREMENTS

Chart 223



In Chart #224 we see the typical Gann square method, but this time we see my proprietary root increment box that defines the individual vibration for each stock. I have used the Fibonacci 1.382 sequence here, but the major roots of 1 and 2 work just as well.

Chart 224

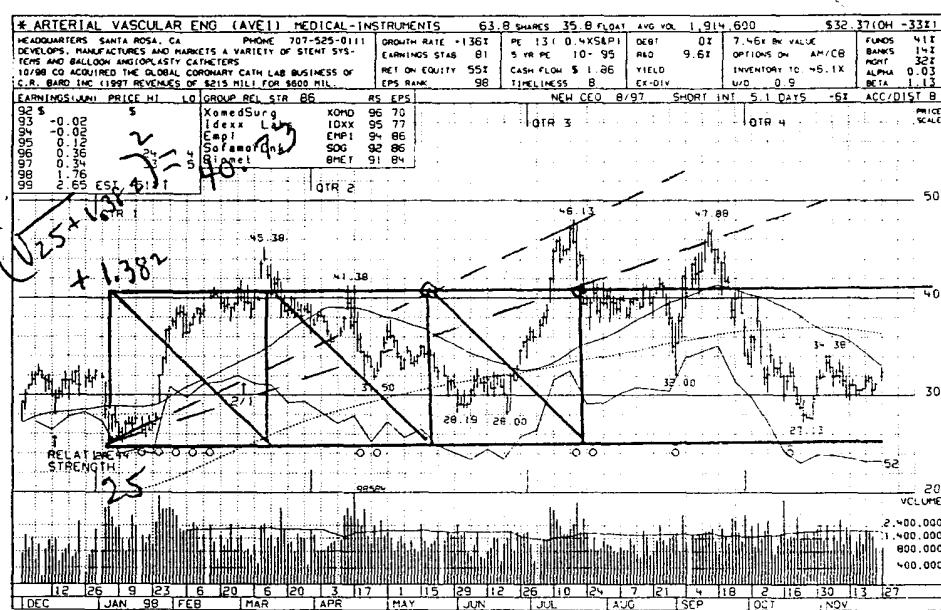


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Note that once the "roof" has been determined by the root increment, the timing angles will intersect the top at the exact high, proving it is indeed, the top. Chart #225 shows multiple boxes, but note in particular the angles through the corners of the boxes hitting future tops exactly, and leaving no doubt that this indeed is the cause of the stock's fluctuations!

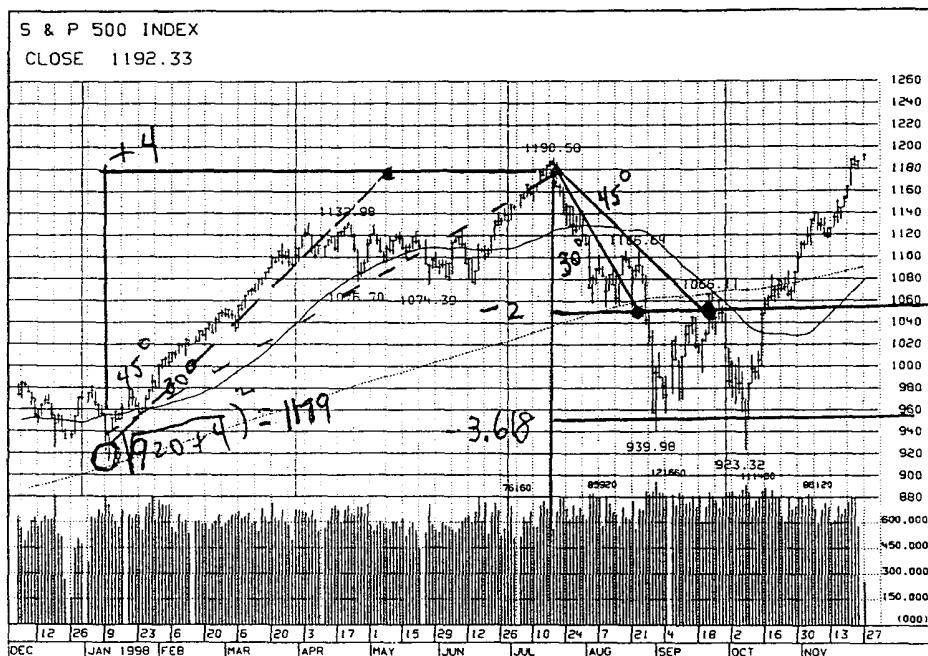
Chart 225



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In Chart #226, the final chart, I have applied the root method to the S&P 500 Index and as you can see, it works perfectly here also. From a low of 920 a +4 yields 1,180, which was within 1% of the final high. If you look at the 30-degree angle coming up from the low, you will see it hit the top on the exact day of the high, telling you that time and

Chart 226



price had squared out and that it was all over. On the way down, the -2 and Fibonacci - 3.618 levels defined the move, and the 30 and 45-degree angles off the top, timed the turns.

If you take the time to study the lessons in this course you will see that there are NO ACCIDENTS. Every high and low can be predicted months ahead of time with the

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proper charts and application of angles, roots, and planets. Reading the newspaper or watching TV for your investment ideas is a joke.

REVIEW

This course is evolutionary in nature. I started you off with basic trend definitions and reversal signals, and the theory of time and price as the same thing. We then looked at angles, arcs, numbers, and astrology. The following points can be summarized:

1-Stocks move between the square root increment levels of their highs and lows. This is probably planetary in origin since it ties in with planetary longitudes converted by the Gann Square of Nine to numbers and these numbers are squares. At all highs and lows obvious planets are making aspects that translate into the price levels seen. Although the highs and lows can be predicted solely through the use of arcs, angles and roots, nevertheless, the planets are always there each and every time a high or low is made.

a) Major resistance is found at the square root of the price incremented by .50, 1, 1.50, 2, and the Fibonacci ratios of .382, .618, 1.618, 3.618, and 4.236.

b) Angles that intersect square root increment levels predict changes in trend precisely. The best angles are 30 degrees, 45 degrees, and the Gann geometric family of 1x1, 1x2, 1x4, etc.

2- Stocks usually foldback around major highs and lows and create “mirror image” patterns that can be analyzed using “foldback trees” and identifying measured move vectors on each side of the foldback.

3- Long-term charts can be analyzed through the use of timing angles, particularly

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ones of one point per week, and one point per month. When these timing angles intersect harmonic parts of the price, or accumulate to harmonics of the circle of 360 (30, 45, 90 etc.), then big changes are due.

4- The Gann Square of Nine is a means of keeping track of natural integers squared in time and price and converts planetary longitudes in circular degree measure to prices. The Square of Nine is applicable to both price and time targets and both will be present at major turns of significance.

5- Forward moving cycles like 5 years, 10, 20, 15, 30, 60 years, and 45, 90, 180 days or bars, and 32 and 45 weeks, *are all used to predict* the size of moves and are to be used for setting strategy as to what stocks to buy and sell, and how far they will go. The big stock market cycles are caused by the planetary cycles of Jupiter/Saturn, Jupiter/Uranus, Saturn/Uranus, and Mars/Jupiter most of the time. All the others are important, but these account for the large multi-year movements.

6- Measured moves show up in all individual issues and *are the very first thing* you should look for when analyzing a chart. Before every trade it should be determined how far into a typical measured move the stock currently is and what is its potential. You should also look for the last $3 \frac{1}{4}$ week cycle turning point.

7- Angles of 30 degrees give rise to resistance and target numbers of 120/2 or 60, 30, 15, 7.5, and 3.75 units. These are added to lows, or subtracted from highs that trend along this angle. Angles of 45 degrees give rise to price harmonics of 360/2 or 180, 90, 45, 22.5, 11.25, and 5.625.

8- Reversal bar buy and sell signals are used to enter and exit trades at the end of measured moves, cycles, arcs, and time count terminations.

That completes the basic course. Simple enough, but it can be quite confusing if you're not used to using arcs, roots, and planets. I've tried to lay out the course in the sequence

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that you should master it, and I could have used much more complex charts, but if you study the last three to five charts it should all come together. There is nothing that can't be done with a chart, and while you're reaching for the sky I also urge you to look to the heavens for the answers.

Michael S. Jenkins

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