Kewltech:
Technical Trading Blog

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Tuesday, January 5, 2010

Issue 001 - Cycles

Kewltech is going circle of life thing. Que the music Elton! NOT!

As you can see, I really only use 2 oscillators. I used to use RS Wilder but essentially it took too much chart space and became obsolete. Well, not obsolete, but redundant.

What are oscillators used for?
Generally, they are momentum indicators. They also tell you when something is overbought or oversold. Some people use them to tell them when to buy and sell. There are a host of indicators and I've never aimed to used them all. I became well acquainted with 2 indicators and those are my MACD and Slow Stochastic.

MACD StockCharts.com Definition
Developed by Gerald Appel, Moving Average Convergence/Divergence is one of the simplest and most reliable indicators available. MACD uses moving averages, which are lagging indicators, to include some trend-following characteristics. These lagging indicators are turned into a momentum oscillator by subtracting the longer moving average from the shorter moving average. The resulting plot forms a line that oscillates above and below zero, without any upper or lower limits. MACD centered oscillators apply.

As a momentum indicator, MACD has the ability to foreshadow moves in the underlying security. MACD divergences can be key factors in predicting a trend change. A Negative Divergence signals that bullish momentum is waning, and there could be a potential change in trend from bullish to bearish. This can serve as an alert for traders to take some profits in long positions, or for aggressive traders to consider initiating a short position.

Stochastic Slow StockCharts.com Definition
Developed by George C. Lane in the late 1950s, the Stochastic Oscillator is a momentum indicator that shows the location of the current close relative to the high/low range over a set number of periods. Closing levels that are consistently near the top of the range indicate accumulation (buying pressure) and those near the bottom of the range indicate distribution (selling pressure).

I suggest you visit StockCharts.com and read up on these 2 old school indicators.

These 2 indicators compliment each other. One is known as a lagging indicator (MACD) and the other is known as leading indicator (Stochastic). I think the term leading indicator is a bit of a stretch when it comes to indicators. It is a matter of perspective and interpretation. Yadi yadi ya. To use these indicators effectively, you have to understand the cycles they run.

Both of these indicators have 2 lines that criss cross each other. Both have fast and slow lines. When the fast line is above the slow line, it is known to be in POSITIVE DIVERGENCE. When the slow line is above the fast line, it is known to be in NEGATIVE DIVERGENCE. At the point where the fast and slow line meet, it is known to be in CONVERGENCE.

When I use the terms Positive and Negative Divergences. I only mean these cycles and not the divergences between peaks as some are known to trade. It is a matter of perspective and interpretation. Yadi yadi ya.

Cycle is always this
Convergence -> Pos Divergence -> Convergence -> Neg Divergence -> Convergence -> Pos Divergence -> Convergence -> Neg Divergence ... at infinitum.

The MACD loops through these cycles in a generally cleaner fashion than the stochastics. It is easier to discern the cyclic nature than the often wild frenzy of the stochastics. Regardless, the said cycles above are respected.

Price Action and Cycles
Imagine a clock. Imagine that these 2 oscillators actually travels in clean circles. And the point of interest is the tip of the fast line of both oscillators.

Convergence is always at 9 o'clock.

Price Action on Pos Divergence
9 o'clock -> 12 o'clock pos price action
12 o'clock -> 3 o'clock neg price action

Convergence

Price Action on Neg Divergence
9 o'clock -> 6 o'clock neg price action
6 o'clock -> 3 o'clock pos price action

Why do these cycles exist?
Simply they describe incoming volume. On pos divergence, generally the bulk of volume coming in are bullish and then tapers off and becomes more bearish cycling you to the next cycle of neg divergence. What do you mean coming in? Well in order for these things to work, it needs input. The math to produce the charts and the oscillators need input data. In this case volume of orders for buy or sell. Knowing this, how can an oscillator or indicator be leading if it relies only on data that has come in and doesn't actually represent what will come in? It is a matter of perspective and interpretation. Yadi yadi ya. LOL

The cycles describe the incoming data. Hmmm...
Pos Divergence "generally the bulk of volume coming in are bullish" ... "generally" meaning there are some bearish volume in there. Hmmm...
Ergo Neg Divergence should have some bullish volume too.

Oh that makes sense because this produces the range of the candles. And even there is a rally there are moments of pause where we get a red candle too. Oh!!

As mental midget would say..."Imagine that."

Take a few to digest the concepts above and then later on we will move on to build on this.

Elton...your turn.

Issue 002 - Accumulation [redacted]

Accumulation StockCharts.com Definition

The act of buying more shares of a security without causing the price to increase significantly. After a decline, a stock may start to base and trade sideways for an extended period. While this base builds, well-informed traders and investors may seek to establish or increase existing long positions. In that case, the stock is said to have come under accumulation.

I'm as plain Jane as can be. Boring old MACD. Boring old Stochastic. No fancy indicator sets that can compare to Star Trek Level 3 Diagnostic in the engineering room. Well don't include the original Star Trek of the 60's. Las Vegas flashing lights is all they could do back then.   Hello!   But I digress.

When the market wants to pop up the price. It accumulates.

Doesn't matter if it will be a big move or a weee little one point move. It will accumulate.

Mr. StockCharts.com says "... After a decline, a stock may start to base and trade sideways ...".

When do you usually see accumulation?

After a decline.

What will you see?

You should see the candles start to base and trade sideways.

Very basic display of Accumulation. And exactly as Mr. StockCharts.com defined it.

But Mr. Kewltech sir.   The definition also states and I quote. "The act of buying more shares of a security without causing the price to increase significantly. " How does that happen? How pray tell do you build up bullish tones without causing the price to increase significantly?   How do you buy shares and not affect the price?

Why does one accumulate? The act of accumulating suggest that you were from a state of deficiency. "After a decline, a stock may start to..." In order to orchestrate a significant rise in price from your current state. You must amass ... "The act of buying more shares of a security..."

Logic states that since there was a "decline", that there must have been a massive influx of sellers. In order to offset the voluminous bear attack, the initial phase of the bulls come back is to accumulate and nullify the bears advantage. This act will not affect the price significantly because most of the bullish volume will be absorbed to offset the bearish volume.

An accumulation is useless if it does not result in an uprising. As soon as the bulls offset the bearish volume. They finally overcome the bears and drive the price back up.

ACCU-CHING!!! LOL and I was told the funnymentalist tagged this stock "over valued". Funnymentals go out the door compared to techs.

Now knowing this. Could you attribute the security to move up in price without you knowing it? It must be the news right (barring some unforeseen catastrophic event)? You funny mentalist!

How can you tell this act of accumulation is working?
Its in the chart.

Issue 003 - Distribution [redacted]

Distribution StockCharts.com Definition

The systematic selling of a security without significantly affecting the price. After an advance, a stock may start forming a top and trade sideways for an extended period. While this top forms, a security's shares

may experience distribution as well-informed traders or investors seek to unload positions. A quiet distribution period is usually subtle and not enough to put downward pressure on the price. More aggressive distribution will likely put downward pressure on prices.
When the market wants to drop the price, it must perform a distribution process. You get peaks, double top, head and shoulders, are distribution processes. There are only 2 mechanisms to move the market. Accumulation to go up. Distribution to go down. It happens in tick charts, timed charts and volume charts.

According to Mr. StockCharts. "After an advance, a stock may start forming a top and trade sideways..."

When do distribution processes occur?
After an advance...

What will you see?
May start forming a top and trade sideways.

Mr. StockCharts.com is correct again with his definitions. In this tick chart you see how well defined the sideways movements are to help you identify the distribution process.

But Mr. Kewltech sir. The definition also states and I quote. "The systematic selling of a security without significantly affecting the price. After an advance, a stock may start forming a top and trade sideways for an extended period." How do you sell without affecting the price significantly?

Distribution suggest that something is being dispersed. What is being dispersed is bullish volume. "After an advance, a stock may start forming a top and trade sideways..."   In its place, an accumulation of bearish volume. "The systematic selling of a security..."

In order to offset the bullish volume, the incoming bearish volume is absorbed and thus the price is not significantly affected. Why is there a need to offset the bullish volume? Because we just saw an advance in price. Therefore a massive influx of bullish volume. Until the break out where the volume of bears is able to overcome the volume of bulls, we see the effects of distribution, thus lowering the price.

Accumulation and Distribution is the Ying Yang of the market. The market cannot do anything without setting up these too primal mechanisms to move the price up or down. Unless something catastrophic happens, the effects of the news is always pre-staged. Somebody knew before the news was made fully public.

Don't rely on the news to trade. Watch the technicals. Not funnymentals.
Its in the chart.

Issue 004 - Falling Wedge

One of my favorite chart patterns is the wedge. There are 2 basic types of wedges. And one of them is a Falling Wedge or a Bull Wedge.

The falling wedge is a bullish pattern that begins wide at the top and contracts as prices move lower. This price action forms a cone that slopes down as the reaction highs and reaction lows converge.

The falling wedge can also fit into the continuation category. As a continuation pattern, the falling wedge will still slope down, but the slope will be against the prevailing uptrend. As a reversal pattern, the falling wedge slopes down and with the prevailing trend. Regardless of the type (reversal or continuation), falling wedges are regarded as bullish patterns.

FallingWedge StockCharts.com Definition

As price action travels down a bull wedge, a high probability bull wedge actually sets up an accumulation. This accumulation setup is why the pattern is said to be ... "The falling wedge is a bullish pattern..." The other name "Bull Wedge" describes the outcome. The pop in price expected to occur just before it reaches the apex of the triangle. Generally the candles will travel 2/3rds of the wedge. It should not reach the apex at all. A textbook return of a bull wedge should be to the 2nd touch, approximately 1131.75 in the above example.   A wedge is a triangle. The falling wedge is a downward sloping wedge.

What do you mean by "high probabily"? Do you mean Mr. Kewltech that there will be times this will not work? As I suggested, a proper bull wedge is an accumulation pattern. If the market is terribly bearish and the process of accumulation, where the offsetting of the bearish volume fails, so will the bull wedge attempt.

You may see that in a short timeframe you are looking to accumulate within your wedge. However in an adjacent timeframe (ie 5min with 15min adjacent), it is extremely bearish. There is a very good chance that bull wedge will fail. A good signal to note that your wedge is going to fail, your MACD in the higher adjacent timeframe and its higher adjacent timeframe is strongly opposed to the move, like a wide open mouth of an alligator hungry to eat your account capital. Do Not Feed The Animals!!

A great resource to visit for chart patterns, visit The Pattern Site.

It didn't fail because the Market Makers are personally targeting you. Simply, the accumulation attempt was absorbed by a strong longer term trend. The longer term trend is usually affecting its own distribution process. And your short term wedge cannot, technically, mathematically and logically work against it. The bulls did not step up enough to make the accumulation work. Keep things technical. Do not succumb to funnymentals to explain why the market did what it did. Technical analysis is why you are here. Keep things objective so you will not be a victim of analysis paralysis.

It is in the chart.

Issue 005 - Rising Wedge

The second favorite chart pattern is the Rising Wedge or Bear Wedge. Sibling of the Falling Wedge. These 2 basic chart patterns really represent the basic cyclical waves that generally describe the movement of the market. O boy I said waves. Not talking about Elliot Waves. Elliot Waves is a different tool all together. But yes I did say waves. If you press the issue hard enough, go into a lower timeframe chart, a 1min or even a 133/233 tick chart. You should be able to draw, ever 1-3 candles, a series of bull wedge then bear wedge on after the other.

Bull Wedge - Bear Wedge - Bull Wedge - Bear Wedge / Accu - Dist - Accu - Dist ...

Rising Wedge StockCharts.com Definition

The rising wedge is a bearish pattern that begins wide at the bottom and contracts as prices move higher and the trading range narrows. In contrast to symmetrical triangles, which have no definitive slope and no bullish or bearish bias, rising wedges definitely slope up and have a bearish bias.

... As a continuation pattern, the rising wedge will still slope up, but the slope will be against the prevailing downtrend. As a reversal pattern, the rising wedge will slope up and with the prevailing trend. Regardless of the type (reversal or continuation), rising wedges are bearish.

"The rising wedge is a bearish pattern ..."
Well its going up? An upward sloping triangle. But its Bearish? Yeah isn't that a bit of twist in your brain? Just before it reaches the apex of the wedge, about 2/3rds, the price action dips. Ergo Bear Wedge. The name describes the outcome. It is a distribution pattern. As the price travels up the channel, an exhaustion of the bullish tones set in, and the distribution process takes over near the apex of the wedge and the price drops accordingly.

What will hamper Rising Wedge?
If the longer term has set in motion its accumulation pattern and your wedge is no where near the top of the push. Your rising wedge will fail. Longer term trends override shorter term trend. Generally the market is really bullish in all timeframes. The distribution fails to offset the bullish volume. You may notice the candles looking toppy, but really it is basing again. You may have a low point scalp to the down side, and even closing outside the wedge itself. And then the candles will ride and almost hug the lower trend line of the wedge, continuing its upward momentum.

The reason it failed. This chart shows that it was still bullish. See how in the previous chart the candles hugged the bottom of the channel. This 4hr charts shows that the bearish accumulation was not as drastic as in the 1hr, it was absorbing much of it. Wedge fails.

Comparative Chart Analysis

Generally all chart patterns have a probability of failure. The astute trader knows how to use his charts and compare long term vs short term to derive the actual outcome. The astute trader doesn't focus on how something will fail. The astute trader looks for an opportunity that will work. Up or down. The astute trader is not stuck on 1 chart and forms a strong bias based on that one chart. It is through comparative analysis, that the probability of an opportunity can be gauged to help you limit your risks.

Text Book vs Actual

A word about chart patterns. The purist and inexperience will always look for the text book chart pattern. That isn't really a double bottom its weird and skewed not like the picture at all. This is why people miss out on the opportunity, they don't recognize potential. What is really happening? They don't recognize how accumulation and distribution process can work. Ugly is profitable. Its in the chart.

Issue 007 - Distribution Delayed

Distribution delayed and could be knocked out.

How? Volume.

Big Boys are no show. A good volume day would start around 2 million. Hardly getting 1.5 million. Technically , this can engineer what the analyst projected for Feb 2010. 1200 here we come.   Yes I used engineer. But since they can't hide what they are doing, we can take advantage of whatever happens.

The low volume has risen the price and has reset many of the short term momentum. But because it is low volume, in the longer term, the picture has not changed much.

Potentially, this weekly rising wedge will fail. The reason is that it has not displayed a large lost of bullish volume. It is flat.

Funny things happen when there is low volume. Not really funny, technically correct. You can notice these things happen when you look at the price action in your 1 min chart, when the price goes against your oscillators, up becomes down and down becomes up. Oscillator cycle says down but price goes up. What is really happening, is that price action defaults to higher trend ergo higher timeframe. So you look for where it is coming from and you notice, the only one that is agreeing, is your 15min or maybe your hourly. And when that happens, the volume is really low. Market defaults to following the true trend. Higher timeframe trend. Logically, if your bullish volume is 2x more than the bearish volume overall, if the volume drops and you drop even a penny to the bulls, then obviously the price will go up. If you take out a penny, can you significantly affect the price? Can you significantly offset the volume in your favor? No to both.

If you were trading Friday, you would have noticed how slow and how low the volume was. And then near the end of the day, it pops up. Your key to projecting the pop? The 15min chart. You had a flat macd in generally all of your lower timeframes. When this happens, you can't tell what is accumulating or distributing. A flat macd signals something big will happen. It was your 15min macd that was trending. Showing you how it was building bullish momentum.

As you can see in this monthly, there is very little sign of weakness. Where is distribution happening? In the daily, continuing to go higher and higher on lower bullish volume. I wonder what that means?

Upcoming levels are from the 2003-2005

Issue 008 - Support & Resistance

Support & Resistance StockCharts.com Definition

Support and resistance represent key junctures where the forces of supply and demand meet. In the financial markets, prices are driven by excessive supply (down) and demand (up). Supply is synonymous with bearish, bears and selling. Demand is synonymous with bullish, bulls and buying. These terms are used interchangeably throughout this and other articles. As demand increases, prices advance and as supply increases, prices decline. When supply and demand are equal, prices move sideways as bulls and bears slug it out for control.

"... where the forces of supply and demand meet."

OOOH! Skeery!! Sounds so ominous. Kinda gives me the willies.

This is Walter Cronkite. Bearing witness to this gruesome epic battle. Bulls fighting Bears. Its a gory sight indeed. Out gunned and out numbered, the bulls have manage to temporary repel the scourge. Oh!! The filet mignon! And this reporter, here at the 1136 price level, has failed miserably. I brought the grill and the charcoal but I forgot the A1 sauce!! An epic shameful fail indeed. "And that's the way it is."

Funny but true. Support and Resistance are price levels are sites of accumulation and distribution. Supports are sites of accumulation. Resistance are sites of distribution. Once support is lost, on the way back up to that price, support becomes resistance. As resistance is passed, resistance becomes support.

Support StockCharts.com Definition

A price level at which there is sufficient demand for a stock to cause a halt in an downward trend and turn the trend up. Support levels indicate the price at which most investors feel that prices will move higher.

Resistance StockCharts.com Definition

Resistance is a price level at which there is a large enough supply of a stock available to cause a halt in an upward trend and turn the trend down. Resistance levels indicate the price at which most investors feel that prices will move lower.

I love StockCharts.com's consistency in its definitions. Is why I love to reference them.

Support is a "price level at which there is sufficient demand for a stock to cause a halt in downward trend". Goes well with Accumulation ... "...After a decline, a stock may start to base and trade sideways for an extended period. While this base builds..."

Resistance "...is a price level at which there is a large enough supply of a stock available to cause a halt in an upward trend..". Goes well with Distribution ... "...After an advance, a stock may start forming a top and trade sideways for an extended period. ... distribution will likely put downward pressure on prices."

The more a price is level is held as a support or a resistance, the stronger that price level will act as support or resistance. When resistance levels are gained or passed, it allows the price action to move upward. When support levels are lost, it allows for the price to drop further.

In order for the trend to be technically reversed, it must first reclaim the previous support lost. Which is now a resistance. And then reclaim the previous high and overcome the resistance. On the way back down, it will try to go to where it had found support. The price level it acquired to enable it to move up.

Markets move randomly? Its in the chart.

Issue 009 - Trader VS Scalper [redacted]

I just couldn't resist this topic any more. Primarily because many "experienced" traders just don't get it. Some of these "experienced" traders have been trading for "years" and yet they don't get why the scalper was able to collect 40pts-100pts when the market only moved 3pts at the end of the day.

The question is like asking a doctor how can you have miles of veins and arteries inside this kid when he is only 4yrs old and 3 foot tall. And what do you mean that basketball player ran 5miles playing basketball when the court isn't even 100yrd long. In my former job, we would label such an "experienced" trader as, 1D 10T. This same "experienced" trader would have no issues collecting 4pts and attempt multiple times trying to collect 4pt during that 3pt day and still be too 1D 10Tic to get it that he may have attempted to get that precious 4pt at least 30 times that same day. And how many points did he lose? Did it really cost him 20pts to get his 4pts? More than likely.

Considering how some of these "experienced" traders trade, it really isn't so far fetched that the most obvious possibility eludes them. While they are trying to be a scalper, they use 1min, 5min and even tick charts, but when they consider what the scalper is collecting at the end of the day, what chart do they reference? The day chart.

1D 10Ts, if they weren't around, who will fund the scalper's winnings? Thank you 1D 10T

Issue 010 - Momentum Part 1

Understanding momentum is important to the trader. Going long while the market is selling off is an example of a trader not understanding the market's momentum. Or he was a scalper playing a pop, knowing full well it was only a scalp.

Momentum Merriam-Webster Definition
2 : strength or force gained by motion or through the development of events
I chose this definition because trading sites reference something else regarding momentum. Also I want to stay consistent by the main premise of this technical perspective that I've gained. As you know, I'm big on Accumulation and Distribution. To me those are the primary mechanisms of moving the market up or down.

So lets break this definition down for our purposes...

2 : strength or force gained by motion or through the development of events

In grade school, you learned a little about physics, specifically kinetic energy, and potential energy. Many of my mentors always said... "...the wider the base, the larger the space". This statement is not reserved for explaining a pop or rally, also for a sell off. It describes a market going sideways for sometime and then expelling that potential energy by moving the price. Ultimately what we are describing are results of accumulation and distribution.

On many occasions, you will hear traders talk about consolidation. They usually say the market is trying to decide which way to go. Its waiting for the earnings report, the report on this and that and or the government to speak. But for me, consolidation is a flag.

"...start to top or trade sideways..."
"...start to base or trade sideways..."

For me, I know that the market has already decided. This is where you use comparative analysis to your advantage. What? Flip through your charts of different timeframes and examine the trend. Generally, where ever you are noticing the sideways movement, you want to look at the next adjacent higher timeframe. So if I am in the hourly, I would look at the 2hr, and then maybe 4hr. If it is still not clear, I'll look at the daily and then weekly. You must not trade on 1 chart, 1 timeframe only. How can you gain perspective of what the market is going to do, without you understanding what it is already doing? Understanding of the picture of the immediate situation, the intermediate outlook and the long term outlook. Give your-self the advantage to limit your risks. Understand the big picture. Not just the one in front of your nose. Look at those charts with purpose. Is this Accumulating or Distributing? Where is this current action with respects to the intermediate and longer term trend? Are we being subdued or supported by a long term level? How significant are the levels above and below?

Signs of Distribution
Bear Wedge, Double Top, Head and Shoulders
Signs of Accumulation
Bull Wedge, Double Bottoms, Inverse Head and Shoulders
There are other patterns mind you, these are the most common and prevalent.

In order to recognize some of these patterns, should you limit your-self to a 1 year chart? NO! Why limit your vision? Some patterns take mins, hours, days, weeks, months and years to develop.

In order to understand momentum, you must understand what caused it.
This concludes this first primer on momentum.

Issue 011 - Divergence [redacted]

Divergence StockCharts.com Definition
A situation that occurs when two lines on a chart move in opposite directions vertically. People often look for divergences by comparing a stock's direction to the direction of its RSI, its MACD or its Stochastic Oscillator. There are two kinds of divergences: positive and negative. A positive divergence occurs when the indicator moves higher while the stock is declining. A negative divergence occurs when the indicator moves lower while the stock is rising.
I'm going to use this term in the same way most people understand divergence, to demonstrate the definition accumulation and distribution as we've discussed thus far. A good example will be yesterday's action on the ES. I found it amusing to hear many people were ready to short the market hard. So sorry. So sad. Some people used the news and government has made trading the market hard. I agree with them but not in the same way. If you truly understand technicals, you will not subscribe to trading the news. Don't get me wrong. News has its place on how the market moves, but to trade relying on it as it breaks, is like voodoo.

If you truly understand technicals, you should know that the technicals have to provide the means to allow the pops and drops that occur when the news is made public. And that means, market must accumulate or distribute prior to the public release of the news. Is there a private release of the news. Hmmm....

StockCharts.com says "...situation that occurs when two lines on a chart move in opposite directions vertically". There are 2 lines in the Stochastic and MACD.

Positive Divergence

On this chart, you will notice the macd and stochastics are in their positive divergence cycle. The 2 lines of each oscillator are apart from each other. Ergo Divergence. Where the fast runs opposite the slow. In this case the fast is above the slow, therefore the oscillators are said to be in positive divergence cycle.

Negative Divergence

On this chart, you will notice the macd and stochastics are in their negative divergence cycle. The 2 line of each oscillators are opposite of each other. Where the fast is below the slow, this is known as negative divergence cycle. So far pretty text book right?

StockCharts.com also goes on to say "...positive divergence occurs when the indicator moves higher while the stock is declining."

How many of you were sure the market would finally correct hard? So sad to see the funnymental bears were so painfully served yesterday. The price action of the ES re-tested the previous low on an escalating MACD. This is known to us as accumulation. StockCharts.com and the entire technical community knows this as positive divergence..

StockCharts.com also goes on to say "...negative divergence occurs when the indicator moves lower while the stock is rising".

Were you caught going long at the top with this? Market kept going higher and higher. The funnymental bulls thought this is where we breach the previous high and zoom to 1200 on the ES. Higher highs on lower and lower macd is text book definition of negative divergence. Head and Shoulders pattern is known as a distribution pattern. Imagine that.

Some funnymentalist who figure they are smart and maybe so in their own right, would say, "well this is all after the fact"..."hindsight is 20x20"...BLAH BLAH BLAH BLAH BLAH! You've just been equipped with some technicals, see if you can gauge it as defined while the market is in play. Its in the chart!

Issue 012 - News Trader

"We're going to rally because GS beat estimates!"
"We sold off because the unemployment was bad!!"
"Why are we selling off?!!! All the news is good!"
"Obama just talked !! Its why we sold off" ... before that "Bush is talking. Short it!!"

Ever seriously listen to the funnymentals that follows every news trader's lips when they explain how things work? If there was any consistency to it or not? Ever really made sense of it all? Have you ever notice the air of conspiracy in their tone?

Why is it when the news announces that we are in a rally, we sell off? Why must you find an excuse to everything, when the only real thing about the market is in your charts?

How the heck do you trade when you have to have a reason outside of the charts to trade. It is why most traders are so confused. They have nothing concrete to base their trades on. Something consistent and pure. With all the tools available for today's traders, why even have a chart and candles and any technicals at all if all you need is to interpret the news. Its like psychiatry. Out of all of medical science, it is the most unscientific branch of medicine. How can you explain and even measure (IQ) something you don't even know how it works or what it is. The science of psychiatry is just like the funnymental news traders. Full of contradiction.

We reached a significant level at 1139.25 causing a distribution and therefore we sold off to the next significant support at 1130.75. In shorter timeframe we accumulated for the pop up and re-tested the previous high but met resistance and failed. Retraced to the previous low on higher MACD, accumulation, popped again. Simple repeatable technical analysis. The blind news trader doesn't see the setting up of the effects of news. Some setups are weeks in the making and many news traders fall prey of buying at the top and selling at the lows.

The Truth
Since Jan 4, 2010, based on this chart, does this look like an accumulation or distribution to you?
Can you therefore conclude that due to this chart that Obama or any other news was the single cause the sell off?

Here is the challenge to you. Be completely news free. Try noting the accumulation and distribution as the world awaits for the publication of the all important news. Today before the open the news traders were calling rally. LOL !

Issue 013 - Trading The News

There are many things that help move the market. The media makes it seem that it is due to these "news" that the market behaved in such a way. Then when there appears to be many news worthy issues happening in the market they like to try to put the blame toward a single event.

It seems that some of the media blamed it on Bernake's precarious status to maintain his office was bigger news than Obama, and bad earnings expectations. To the news trader, these events proves their point. The underlying condition of the market didn't matter. Perhaps if they, the media, spoke of the underlying, would they therefore be suggesting or making market calls? That definitely, they are not allowed to do. But it is funny, that after something has taken place, they do have the right person on hand, with charts and all, who can explain the technical nature of the news driven event.

It amazes me to hear that some so called "experienced" traders, never saw it coming. Some of these "gurus" to whom many pay to hear their calls or subscribe to gain their "expert analysts" are left saying "news and government making this trading environment difficult". The thing that amazes me most, is that these people will provide you technical explanations of their setups. Yes, they even use charts. But when it comes to trading this drop that we've experienced. They failed to notice what the charts have been leading to this outcome for quite a long time. Every stock that dropped, were poised for the drop, prior to the news.

By the time news is made public, the market or the equity has already been poised to the desired effect. What?!

Do you mean to tell me that this setup, in this chart eluded the gurus? This very same chart that the "experienced" and "gurus" and media will use to show how the market tanked, caused the market to tank, due to those news worthy events as it was made public? Then and only then? The high 1148 occurred on the 1/11/10 1am and on 2 attempts we failed to get news highs. On 1/14/10 1pm, and then again at 1/19/10 1pm and on each those latter 2 attempts, the MACD, progressed lower and lower, suggesting the lost of bullish momentum. By 1/21/10 1am, the bears took over and technically, by any technician's standards, the 1/21/10, where many funny news traders expected a rally, the bears had their grills hot with coals ready for a feast. Not only were the bulls on the menu, but these funnymentalist news traders. This was not obvious enough to merit caution on longs and take advantage of the short?

How do you trade the news?
You silly funnymentalists. You have charts, use them! You know your technicals too. Use them! Clear your head of all the news you know is coming and just read your charts.

Its funny how people can talk about chart patterns but only after the fact. Its funny how they can talk about divergences, but after the fact. During the trade they resign to one explanation. "Predicting the news is difficult at best." LMAO!!!!

News is "a" reason why markets move. The trick is knowing that the results cannot happen without setting up an accumulation to support a pop, or a distribution to support a drop. Just like any other trading day. How does that happen, that markets setup prior to the publication of the news? Read any trading books you can get your hands on, they all say the same thing. "NEWS IS LATE!!!"

I have to wonder what news traders do when there is no news? Horoscopes?

Its in the charts.

Issue 14 - Setting Stops [redacted]

Setting a good stop is essential for risk management. Not too many people understand how to do that properly. So I'm gonna take a stab at it and hope you can benefit from it.

Stop Lost StockCharts.com Defnition

An instruction to the broker to buy or sell stock when it trades beyond a specified price. They serve to either protect your profits or limit your losses.

What is it for?

To protect your profits or limit your losses.

Setting Stop On Distribution

Here is a sample of a distribution play. We recognize the toppiness as a sign of distibution. This toppiness demarcates the resistance and our entry price range for our play. So we want to short. The median box highlights potentially good entry zone, along with the resistance price level. Isn't the market very nice.

Identifying the stop price

The yellow line spots the stop for us at 1096 on GC this fine 8:33 am est. Why do we choose 1096 as our stop? The logic is very simple. At 5:36 am est, it is 1096 support that we lost that allowed us to move down. So this retest of that lost support is now resistance. If we close above it, then we will move higher.

Setting A Stop On Accumulation

Here is a sample of an accumulation play. As you can see we have candles moving sideways, demarcating our median price range for our entry, including the support price. See how cooperative the market is on showing you an opportunity?

Identifying the stop price

We will consider 1104.75 as our stop price. Because at 10:07 am est, we sold off at this price level and when we closed above it at 10:28 am est, the price moved up. Simple logical way of identifying your stops.

Playing spots of Accumulation and Distribution provides you safe entries. The candles help you identify your entry and your stops. All you have to decide is which way it will go. Is it a scalp or a longer term play. Scalps says, your target is conservative and tight. Longer term, suggest you have confirmation on higher timeframes that the move will be larger and that is where you will get your target exit price from.

As you notice these charts are on my tick charts, the same process is consistent on higher timeframes. So be comforted that the technicals are the same on any timeframes.

Protecting your capital and your profits is good risk management allowing you to continue trading. As usual, everything you need for a good play is in the charts.

Issue 015 - Trendlines

Support and Resistance are really lateral trend lines. There are trend lines that move diagonally and are the primary components of a wedge. The wedge has a floor and ceiling trend lines. When you combine trend lines in such a manner you get what is known as a channel.

Trend StockCharts.com Definition

Refers to the direction of prices. Rising peaks and troughs constitute an uptrend; falling peaks and troughs constitute a downtrend. A trading range is characterized by horizontal peaks and troughs. Trends are generally classified into major (longer than a year), intermediate (one to six months), or minor (less than a month)

What is a trend?

Direction of prices.

Now regarding the classification. I really don't care for the bracketed info, not that it isn't correct but its a matter of perspective. The major is the larger overall trend, inside of it there is an intermediate trend that will bounce up and down inside the major trend without breaking it. And inside the intermediate, you have a minor or more immediate trend that does the same thing.

You may have a major trend in the hourly and it will have the intermediate trend in minutes and then minor trend in the tick charts. And then you can shift your perspective in the weekly, daily, hourly. Psychologically, this is where people break down. They don't understand how to work in these timeframes where they are confident that the trend they understand is still intact. They work in the daily weekly trend and see the hourly take them down in points and they think they have lost their trend but they haven't in the larger timeframe from which they based their entry on. More on this later.

Trendlines StockCharts.com Definition

Straight lines drawn on a chart below reaction lows (in an uptrend) or above rally peaks (in a downtrend) that determine the steepness of the current trend. The breaking of a trendline usually signals a trend reversal.

Trendlines give you a graphical understanding of the market movements. So long as the action does not break your lines, the trend remains intact. Breaking the trendline means the candle closed outside of the trendline. If it just deviates the boundary but does not close, then your trend is still sound. We've already discussed how to set stops.

In this image you see #1 as the major trend, and #2 as the intermediate or minor trend. One trendline on its own is not as powerful as when you combine 2 trendlines to make a channel, and it will help with that issue we mentioned above.

Channel StockCharts.com Definition
When prices trend between two parallel trendlines, this is referred to as a channel.
In the graphic above, the green lines are more textbook to the definition of a channel. However, a wedge is a channel as well. The lines not parallel because eventually they meet, but it is still proper use of trendlines to form a channel.

The yellow lines show you a major trend. As you see the price action bounce within that channel, it is quite obvious that you don't want to go long at the top of the channel but at the bottom. And you don't want to short at the bottom of the channel, generally (if this was a bear wedge and it is about mature and you are late to the party, perhaps you can get a few points, perhaps), because you will sustain major pain. The general rule is this: "Short at resistance. Go long on support."

All seems like simple common sense, but you wont believe how many people don't take the time to understand. They get all mean and angry and hateful about the world, the government, and whom ever else they think is messing with them. Fate has conspired against me and I know who is responsible! Laughable!! If they took the time to understand the technicals, they would be much happier. I know, I was once like that.

If you notice the crazy ups and downs within a long term trend, you will also see the same kind of action in the hourly minutes of the intraday, just to form 1 day candle. What you have to decide is this, what timeframe are you basing your trading decisions on? If you are in the daily, stay with in the daily expectations and don't fret about the wild swings of the intraday. But by all means understand your stops on the daily chart basis. In the course of the day, you may see that stop deviated but if the daily candle doesn't close at or beyond it, then your daily play is still intact. Understand your range and understand what needs to happen to get to your target and what must not happen (stops) to break your play.

Use the shorter timeframes to get the best and earliest entry you can. If you are about to short at resistance, you can get into the shorter timeframes and wait for the distribution to happen at resistance. If you are about to go long, wait for the price action to come to your support and begin to accumulate.

For a more elaborate explanation trendlines and channels, checkout StockCharts.com Trendlines and StockCharts.com Channel. No I don't work for StockCharts.com, I just like their site for info. Check out my links on the left for more sites I visit.

Issue 017 - Momentum Part Deux [redacted]

In order to understand momentum you must under stand what caused it. We've talked about news, and divergences. Many people trade the news. Technical traders do it too but by understanding how the market sets up, prior to the public delivery of the news.

Public delivery? If you had the resources of the MM's, what could you do? Mind you, the retail traders are a small percentage of the trading population. The truly large MM's have massive staff. One celebrated hedge funder hires many talented mathematicians to calculate probabilities. Would it behoove these large MM's to invest time and money to understand the sectors they have interests in? Use your mind to extrapolate from there, to the extent of how they would wisely use their resources. As for reports and federal changes. Do reports of over 100 pages suddenly and be so easily interpreted the moment it is released? Many reports are actually sent out 2 weeks in advance to those who require them. Do you really think that the feds would do anything without discussing their proposed changes to those most affected? Ever heard of lobbyists? Google has their own lobbying machines. Would the fins also? You know those industry news that covers specific industries, they can come up with their niche market's share and can guess how well companies are doing and knowing who got what contract and who didn't. News is therefore late.

Ever noticed at earnings, the stock that is about to release their earnings, experiences a rise in price. People and news buzz with excitement. People go long on the stock driving up the price. Earnings released it was great and wonderful but something fundamentally was wrong. Sell off. You should have noticed the negative divergences. MM's were selling systematically. What do people say after that. The response was already baked in. People knew in advance.

Its market manipulation!! If it were market manipulation, should you have the means to detect it? If it is being manipulated, would charts be any use at all? The data would be lacking and unreliable. For your information, there are interests to hide transactions so the charts wont reflect them. Who's lobbying for that I wonder? But the charts truly reflect the market. It isn't lacking or unreliable. So many people work so hard to link news to extremes that everything becomes a government conspiracy to them. Most of these people are bitter angry people. And the sad thing is, they don't even have their facts straight.

It is like the Made In America campaign vs Globalization and Free Trade. The real reason Free Trade makes sense is that we've become a highly developed technological nation. And due to our labor unions, cost of production is too high to compete with the emerging markets. Free Enterprise is about buying cheap and selling high. That's the American way! So what is the natural progression? Move the production to 3rd world countries and take advantage of the cheaper labor. Build up their economies and then gain market share over there. Ergo, more jobs for us. Not labor jobs. But technology, management, support and infrastructure. Why? Its what the hard working Americans dreamed for their children. The reason they paid for their college education. The shift is from manual labor to using our minds. Its called progress.

The point is, people are being misinformed. Politicians make it hard to believe anyone because they are a bunch of turncoats themselves. Who's fault was it that caused the problems? Was it Obama? Or was it of years of policies the senate and congress passed prior to Obama.   How is it that these guys are now suddenly experts on economic policies and yet through their tenure, they didn't see this coming? Some are pretending badly. What are they focusing the blame on? Not on those policies they passed but how Obama and company has chose to address them. Its a voting year people. There is meaning in their madness. Who has a longer tenure? Presidents or Senate and Congress? Who will lobbyist talk to more? Lets get back to the task at hand.

Enter the Divergence

Why do complex chart patterns form? Double tops, double bottoms, head and shoulders and inverse head and shoulders? All about divergences.

Distribution patterns happen because on the lower timeframe, you have declining bullish momentum. In the higher timeframe, it has not experienced this decline of bullish momentum, because it was heavily bullish, and so as the shorter timeframe continues to lose bullish momentum, the higher timeframe's bullishness pushes the price higher and you get negative divergence in the shorter timeframe. The shorter timeframe maintains its decline in bullish momentum , finally causing the higher timeframe to weaken. Bam!! Price pops up forming a double top. Price goes down hard. O but wait the higher timeframe's next adjacent higher timeframe is still a bit bullish. Bam! A head and shoulders formation. And then finally all of them are weak. Market tanks.

Which of these 2 charts is showing a more pronounce negative divergence? How long did it take the weekly to reflect the sustained events in the daily?

Obama took office Jan 09. Since then the market skyrocketed from its lows. And last 2 weeks we've seen a draw down. Is it back to previous lows? Not even close. People for months have been saying the market is moving sideways. Its the policies!! Who cares! Trade what you have before you! Don't engage in funnymentals. You'll just get angry, especially when you hear these "expert" opinions in the chat rooms.

A correction was due. We were oversold. The momentum down was built up due to the distribution that started back in June-July09. You get a little pull back and all of the sudden Obama and company are crooks.

2 words. GET REAL!

Momentum moves when you finally have all your timeframes working in the same direction. When the offsetting of the bullish and or bearish volume surpasses the other. This is true in all timeframes. Why do the longer timeframes have to participate? Because the longer timeframes are the truer representation of the market status.

Can it be made to move the other way and avoid the completion of the pattern?
Yes. To divert a distribution pattern, you must set up an accumulation and have sustained bullish move upward to change the dynamics of the longer term. Detectable? Yes! Absolutely.

Putting it all together

- The longer term trend rules.
- The shorter term trend can show you the trend changes early.
- If the shorter term trend is sustained and strengthens, it will affect the longer term trend.
- Complex chart patterns form due to the offsetting of bullish and bearish volumes between short and long term timeframes.
- When timeframes are inline with each other in direction, you get moderate-strong moves
- News happens, but release is usually late - reaction to news is set up prior to release. The release of news accelerates the outcome.

Its all about the price action

In another point of view, without noting divergences in the oscillators. You can detect the these divergences by just looking at your candles. You may notice your candles trading sideways and forming distribution or accumulation patterns but on your higher timeframes, the candles are not even going sideways yet. They are still moving based on the accumulation and distribution they affected in the higher timeframes. Therefore what you are noticing in your lower timeframes is the weakening or pause of momentum. Until you have the longer timeframe moving in the same direction of the shorter timeframes you will not see the momentum in the opposite direction. What do you need to see? Longer timeframe candles move sideways to reflect the accumulation and distribution patterns of the lower timeframes. Basic and logical.

The mechanics of this price draw down we are experiencing is really mechanical. It is a process that occurs everyday with or without the news. It is an exhaustion of resources. Any chart patterns that you see in the daily occurs in the tick and in the monthly yearly charts. What ever timeframe you choose they occur exactly the same. The offsetting of bullish and bearish momentum can sometimes be short or extended. Some move quickly some may take years to develop.

Get rid of the emotional trading that can cause you to over analyze the market. Stay technical. Fundamentals and news has its place. But when you are getting into a trade, decide based on the charts.

Momentum is gained when the accumulation or distribution of 2 or more adjacent timeframes are inline with each other, producing a strong move up or down respectively. The more timeframes working in the same direction, the stronger the move. The result could be the formation of 1 candle or the finalization of a large chart pattern. It all depends where you are playing your trade.

Go listen to some baroque music. Breath deeply and engage in thought. Much better than going ba-roke because you listened to some funnymental conspiracy. Think for your-self and read the charts!

Issue 018 - Chart Patterns

It is said that the chart pattern is the psychological representation of the market. Many traders successfully use chart patterns to their advantage. Some only play a particular chart pattern and make a good living out of it. But many experience traders can't see them till after they have formed. I'm not going to talk about all of these chart patterns. If you want to learn about the different chart patterns, go here, The Pattern Site. This guy, Thomas N. Bulkowski, even wrote a book, Encyclopedia of Chart Patterns (Wiley Trading) , well a few other books. His website has great info even though it looks a little rough.

The problem with chart patterns is that people don't look for them. They don't understand how they form and even why. And therefore they don't see them until its already too late. Or many don't bother to look. Which is sad really. Considering the value of chart patterns isn't just in the perceived outcome, but as they form, they serve as a guide for the perceived market momentum and direction. Ergo...confirmation of what you are reading is true or false. That is valuable.

The Trap

There are probabilities of success fail on all these chart patterns. I've already discussed with you why there is failure on the basic chart patterns. If you dwell on these numbers and it is all you're basing your understanding of chart patterns on these probabilities then, it is of no use to you. Oh look a double top! Oh but the probabilities of it working out in this environment is bad, it wont work out. Its not the pattern. Its the underlying.

The How and WhyThey Form

By now you should already understand the main theme of my message. It is all a matter of accumulation and distribution. The basic chart patterns are the bullish/bearish wedges. The more complex are the double bottom, double top, head and shoulders and inverse head and shoulders. And there are others, which are variations of the basics patterns I've already mentioned.

The problem is that people don't understand how they form and therefore cannot utilize chart patterns to the full extent. Complex chart patterns are a result of accumulation distribution initiated by lower timeframes, against a heavily one sided higher timeframe. The highly bullish higher timeframe, while the distribution is already working in the lower timeframe, this will causes complex distribution patterns to form (double tops, head and shoulders, ect.). The distribution must be sustained or substantial to offset the bullishness of the higher timeframe.

While the highly bearish higher timeframes causes complex accumulation patterns to form (double bottoms, inverse head and shoulders, ect.), as the lower timeframe starts its accumulation. The lower timeframe accumulation must be sustained or forceful to offset the bearishness of the higher timeframe.

On both instances, what do you use to see if the efforts of the lower timeframe is working? Look for you higher timeframe MACD to converge. Review all of my previous charts and you'll see what I mean.

What is it about lower timeframes vs. higher timeframes? Buckets. The higher the timeframe, the bigger the bucket. The higher the timeframe, the larger the volume it represents. The larger the volume, the truer the trend it represents. Timeframes is sampling. Gives you near term, intermediate term and longer term views of the market. In order to bring the price down/up significantly, you must see the accumulation/distribution from the lower timeframes affect the higher timeframes. So if the higher timeframes are bullish, you should understand why the head and shoulders form, the peaks are being formed because the bullishness of the higher timeframe impose their strength.

Text Book Chart Patterns

Sometimes, in fact most of the time, the chart pattern before you wont be text book. There are variations of these chart patterns. It isn't the exact shape that is really important. It is the underlying. The process of accumulation and distribution. Remember also, that each timeframe has an agenda. Lower timeframes work to hit their levels of significant. Accumulation moves toward lost support and previous highs. Distribution moves toward previous support and previous lows. This happens in all timeframes and so a higher timeframe usually has a higher price level in mind while the lower timeframe is incremental to that goal (higher timeframe goal). Deformations are normal and the uglier the chart pattern the better. Those who have no imagination or are anal about exacting chart patterns fund your winnings. This is why those who can visualize well, make better traders.

If you haven't understood yet, don't have tunnel vision. Tunnel vision can be deadly. You may have a head and shoulders in lower timeframes and only have a 2 bar reversal in a higher timeframe. Your huge 5min head and shoulders may only be a inverse cup and handle in a 120min chart. If you see a chart pattern, figure out how the higher timeframes will help or fail that chart pattern. It will help you on managing your risk. It will help you anticipate the formation of the chart pattern before it is even recognizable.

Setting Stops On Complex Chart Patterns

Ideally, you should your stop based on a higher timeframe. Primarily because, it has a higher level of significance will be easier to assess from there than if you are gauging from a lower timeframe event. This will prevent you from losing your stop money. You may be playing a lower peak only to have it retest the previous high off another peak. My general rule, set your stop based on the higher peak for distribution, lower bottom based on accumulation.

No Shortcuts

If you're too lazy to put in the work to figure out how to play these charts patterns and understand how they form and why they form, then you're not going to be able to use a very significant tool in your arsenal. To use it you must practice. It can be argued that they are not necessary. Semantics. A tool is a tool. Why labor for something when a tool can make your life easier. The only shortcut you have is for you to visit Bulkowski's site and get familiar with the chart patterns. Invest time on each chart pattern so you can recognize them and know the in's and out's of each. Another good site to visit AskBucky. This is the guy who taught me about chart patterns and trendlines. Comb through each of his charts. It only took 4 of his charts for all the stuff I've ever read about chart patterns and trendlines to click in. Visit him here too.

Issue 019 - Comparative Analysis Part 1

As you know already, the 2 mechanisms that move the market- Accumulation and Distribution, occur in all timeframes. The lower timeframes work to achieve the higher timeframe's agenda. It is that simple. The problem is when people disregard this relationship. This is when they don't see the limits of an up move. Primarily the up move. Many still don't know how to short the market. So many really lose their money because they are have the Johnny Come Lately disease.

Mental Midgetness Issues

I laugh at this term. I learned it initially from one of my favorite high school teacher. Only to come back to me as one of my mentor's name, Mental Midget (levels master). There are many "experienced" traders out there that only go long. The concept of short is foreign to them. There are many "experienced" traders out there that deny the truth about technical analysis. There are many "experienced" traders out there that cannot grasp the possibility of being able to play every pop and drop in the intraday, but they on the other hand try to play them off the longer term charts. What is the issue? Mental Midgetness. The moon was once unreachable. These "experienced" traders don't know how and therefore it must be impossible.

When people think of investing, they want growth in their accounts and growth in the stock that they invest in. The concept of making money when stock and markets goes down was impossible at one time and yet people get into their comfort zone and only see what is at the tip of their nose. This problem is prevalent to many "experienced" traders. They impose limits when logically there is none. They don't want to use charts larger than 1yr daily, they don't see the benefit. They don't want to use historical data. They don't even believe that what had happened back in 2008, 2001 was all predetermined, prior to their famous events. Chart wise and indicator wise. They learned to make some money and when they are wrong, they look for news to rationalize their mistakes or label it as a conspiracy. Why? Because they stopped learning.

Comparative Analysis

Many traders seem thoroughly circumspect prior to entering their trade. They consider many things all at once and when you talk with them they have many technical analysis, fundamental analysis, greeks analysis. Primary driving factor for their trade. News. Basis for their trade. News. What is it about the news? The fundamentals and the expectation of the news (earnings or what not). Basis of their technical analysis. It appears the stock is moving up and so it will move even higher due to the news. This is for 1 trade, for 1 play. A scalper makes many decisions on the fly in less time that many "experienced" traders take to sip their coffee. This demonstrates a level of skill that is needed.   Somethings are simplified to the scalper vs the trader. No news. No fundamentals to consider.

Comparative analysis is not about fundamentals vs technicals. Comparative analysis is understanding the true trend. That means you know the near term, intermediate and longer term trend. When it comes to movement in the market, it is really all about the charts. What is technically possible is what will be the outcome once the news is released.

From the March lows, all people could think the market could do by June is to go up.   Weee! We're going back up to 1500 in no time. The economy is good says the news. By May 11th, you should now recognize something, as followers of this blog. Mental Midget says, its not what you do during the day that matters. We may have broken through it during the intraday, but based on the daily chart, you did not close there. It is where you open and close at the end of the day. I don't recall what the government was doing back then, but I assure you, the funnymentalists were hot and mad. Market Manipulation!!! What was happening by May 11th, 09. Distribution of course. The error is framing. Piercing the price and closing are 2 different things. If you close at or above the level. That is more significant than just piercing.

What is the significance of that blue line?

A significant price level of course!!

Jan 6, 09, demarcates that price level. Since it was a significant level, in order to go higher we needed to close above it. Momentum was to the bears by May 11th. So there was no more gas to push it through by June 10th. Technically not possible. This is the first test of the price level since Jan. Generally, we always fail at the first attempt.

March Lows 09

Bear Side of the Story

They tried desperately to hold that 942.75 support, reclaimed it a few times. Until Nov 6, the bears took it over. But the bulls were not done yet and they took one more valiant surge come Jan 6, that is when they received that fatal blow that brought on the Mar 09 lows. This will be how the bears will remember this story.

The Bull Side of the Story

By Oct 27, 2008, the bulls started to take control. By Jan 21st, 09, we thought we had them. The bears have had their fill but there were still few who wanted to drive this back down and their last ditch effort was in March. That is where we took our stand and finished our accumulation. Weeeeeee! If you can identify this. You're getting there.

Comparative Chart Reading

A picture is worth a thousand words. The chart above should get you at least 5000 words. If you can't find the stories that are in your one single chart. You wont notice significant price levels. You wont notice points of accumulation and distribution. You wont notice what the market has to do to move higher and where it will close to move lower. You wont successfully read all the charts that help you make a decision.

Issue 020 - The Indicator

When I first looked at indicators, I honestly didn't know why people say this is a lagging indicator and this is a leading indicator. Then there is this negative divergence and this is positive divergence. When you compare candle to candle, it is very clear to the novice, they are all lagging. And seriously, it is right.

When it comes to indicators, people look to them to predict the next move. Holy Grailers want their indicators to tell them to buy or sell. To do the trading for them. So much faith is placed on custom indicators it has become big business. I think people who rely only on their indicators, perpetuate their ignorance. For the most part, ignorance is not bliss in the market. The problem is not the tool. It is the user of the tool. The other problem, the user doesn't know how his/her indicator relates to the price action. Beyond the obvious. I say this because, in order for you indicators to work, it considers the same incoming data to produce your candles. The underlying. People just take things at face value without really understanding the why. The why is always left to divergences.

Divergences are true enough but it doesn't explain to you the why. Ever wonder why you don't have faith in what you see? I'm a bit of a quant. I like to know the underlying.

Many people who have tried to understand how to use indicators have failed miserably. There is no faith into them primarily because, their use of indicators is casual empirical. The other reason why they fail. They don't understand how to relate them to other timeframes. Effective use of comparative analysis.

To compensate, people use multiple indicators. They go from 1-2 indicators to 50. Ever wonder why the carpets in the casinos have busy patterns? Visual stimulation. Mixes in with the beeping noises and flashing lights and keeps you thinking of playing the game. Too much visual stimulation is death by indicators. Paralysis analysis. Really all you need is 1-2 if any at all. But that depends on the person. Like I said, I'm a bit of a quant and I like to see the underlying.

Why indicators work

It is really silly to say that indicators do not work. Not to offend some of my mentors who don't really care for them, but for me, based on how I've come to realize how indicators work. Based on my understanding, it is the same thing as using candles. The reason is, they both use the same data to produce their graphical representation. Applying effective comparative analysis, provides you the same reads, not price based, as if you are using candles. The difference is how the indicators represent the market.

People make things more difficult than what they really are. There are only 2 things that result in the intrinsic value that we know as price. Buy/Sell. Bull/Bear. 1/0. On/Off. Extrinsic is supply and demand. Don't really care about them. People know them as oversold, over bought. But those 2 extrinsic entities are relative. Relative to the timeframe. Don't really care to know them. Cut it out from your considerations and simplify your decision making to - accumulation and distribution.

The difference in how indicators represent the market is the key to why they are known as momentum indicators. You see the real idea that indicators came to be, is to describe a non-price base representation of the market. In the same manner that people try to understand trend in the market via candles, is the same way these momentum indicators work. The failure. Comparative analysis.

All indicators are lagging. Through comparative analysis, they become leading. What separates a pro trader from a novice. They know the trend. If trend applies to your candles and chart patterns, why don't they apply to your indicators? They use the same data!

You got the hook from this article. There are a lot to consider from here on out. I refuse to hold your hand. Think about it and apply what I'm leading you to understand. Cast your ego aside and open your mind to what you thought was originally not possible. Logically what I'm suggesting is true. Do you remember the scientific procedures you learned in 3rd grade? Well I learned them in 3rd grade. Casual empirical is lazy. You don't need to be a rocket scientist to understand what I'm eluding to. It is so basic. When you get it. You will laugh.

Issue 021 - Comparative Analysis Deux [redacted]

OH!! CANADA!! CONGRATS ON THE HOCKEY GAME IT WAS EPIC!!

Before

Does this look like distribution to you? Now you can't deny the accumulation from Thursday. But in larger picture, can this be distribution?

This also shows some kind of distribution formation and shorter term, an accumulation.

A more distinct accumulation in the short term but the range of distribution is still evident here.

An accumulation is building here for the short term play. Nothing to suggest what is building in the longer term. So don't be lulled to carry a longer term bias and not play the short term.

Confirmation of the short term play. The levels which will be hit are marked. Can see this going higher to test the previous high because 30min, 60min are helping.

The accumulation pattern here is quite clear.

Result

The short term accumulation play works out.

Hitting all our targets.

This is why you have to understand the short term and longer term. If you formulated a bearish bias and had entered based on the 60/120/240min charts. You would be suffering some pain right now.

Your short term must not be ignored. Although the long term is indicating a short bias. You must still play the short term because that is the incoming.

Many traders look at their charts and create a bias based on daily/weekly charts. They enter the trade and ignore the intraday charts which may drop them a few more points before it moves in the direction they desire. What happens next is this, they suffer intraday draw, and get scared away from their trade and take the loss. Come the end of the day, the draw is not significant, the daily trend is maintained but the clueless trader already took the loss.

One of the main reasons they felt the heat early, they really didn't understand the short term trend vs. the longer term trend. They don't know how to add up the details of the charts and base their play in the correct timeframe. The draw they felt was completely unexpected and then they made their decision based on the daily candles and so the wicking of the daily candle put in major fear.

What is that? You don't see the distribution you say?

Yee of little faith...

Been since Feb 14.

Issue 022 - Metamorphosis

In the beginning, when I first looked at charts I tried to look at it with a mathematical perspective. I tried to understand the seemingly symmetrical movements of the market. I tried to have an objective look at the market but being ill equipped about technicals, I soon abandoned the notion.

After engaging in some chats, I came to be a funnymental news trader. It was the natural way to go. Everyone else was doing it. So after almost losing my shirt, I needed to go back to technicals. It was the only way to really understand how things moved. Certainly, after so many hundreds of years of trading, someone would have documented some truths about trading. You don't need to buy a book. Everything is online.

The truth in trading is, everything is technical. Yeah yeah sure sure news this and that, but in the end it is still technical. The market does not move randomly. It requires to accumulate and distribute to move the market up or down. So simple. The symmetry I knew of before came back. I understood momentum and I understood support and resistance. And I finally understood how the market moves.

So read up on all the truths about trading and get technical but then there is one more hurdle in your journey. Daily you are bombarded with stupidity. It doesn't matter where you turn there is stupidity continuously suggesting this and that, contrary to what you know to be technical. And so you have an illness. Some people identifying it as an "emotional" issue. You can't trade what you read. You can't trade what you see and you get shaken out of your trade too early or not soon enough.

"I saw it. I read it. But I still traded against it or didn't trade it at all." Sound familiar? This is the final stage of your metamorphosis. What is the real problem? Attachment. It isn't emotional. It is what separates you from the beginner to the advance trader. You are still clinging onto the stupidity you once knew before and you are not letting your technical understanding of the market lead you. You are mindful of your trade and your grasp of the technicals waver. It is like training all your life for the Olympics. You have had the best training. The best nutrition. The best physical conditioning. When your moment comes, you doubt.

Doubt is easy to fix. Find out what you think is missing from your understanding. If you have doubt then there is something you have not sold your mind into believing. Perhaps you didn't get everything. But if that isn't the case...it is attachment.

Trade with no mind. Get out of your way.

Issue 023 - Moving Averages vs Levels

Moving Averages are a great tool. I'm not going to go on and on about them. It is part of my tool belt but something I rarely use anymore. Many people can sustain a good income playing them. And I'm not knocking their value and effectiveness. Utilizing them as part of your trading system is great if you know how to use them effectively. I highly suggest for people to use them if they can figure out how.

The main use of MA's (8,20,50,100,200,300), is support and resistance.

"When the price action stays above the 8/9 ma, it is a sign of a rally." AskBucky.

As a quant I also understand that they are calculated averages. So when it applies to your chart where your candles sit, those lines will run with the price action because they are averaged prices during that time of day based on some history. It is a really kewl tool to use. In the same vein, person pivots and Fibonacci lines. Mathematically, they are valid. What is interesting, is that they always match up with price levels. So in the spirit of KISS, I do without them. I just use levels. But that is me.

What is more meaningful to me is how levels are lost and gained. With levels you gain the actual mechanics of candlesticks. A thorough understanding of levels give you where the candles will try to go and where they will bounce or be repelled. Those are in the same manner that people utilized pivots, moving averages, poc. They all do the same thing, just different names and different rationalities. Regardless, the root is levels. How do scalpers scalp with accuracy? Levels.

See a long term level always manifest itself over and over again. You will always notice opens, closes and tips over and over again. What is also most interesting is they are usually spots of consolidation. So why complicate your life with fibs, ma's, pivots, poc's and what ever else if you can gain the same and even cleaner understanding if you use levels.

Another use of Moving Avergages for me is the MACD. The macd is an oscillator that is known as a lagging momentum indicator. With the macd and comparative analysis, you gain a confirmation of accumulation and distribution. Effectively, it becomes a leading indicator.

The problem with MACD is people don't really know how to use it. They don't even know how it works with consistency. The problem is they don't know what the underlying it is really using. Seems funny but go to any website talking about them including StockCharts.com, StockCharts.com MACD Definition, scroll down to the drawbacks. Proper use and interpretation of the MACD negates all of these drawbacks.

I especially love this one
"*As a security increases in price, the difference (both positive and negative) between the two moving averages is destined to grow. This makes its difficult to compare MACD levels over a long period of time, especially for stocks that have grown exponentially.*"
It has nothing to do with price. If they can't explain why I think this last statement is laughable and can be negated, remember 2 words. "Casual Empirical" And then run.

I love how people suggest to play the cross over the MACD. While generally it is true to go long when the fast is above the slow, and short when the slow is above the fast. Many of you know how disastrous that worked out. The reason it didn't work, you didn't know what is really going on when they cross over. If you come across someone who will tell you to play the cross overs without explaining how to do it without killing your account, get the hell away from them.

Divergences of the MACD are awesome to play, but again you will need to understand what the market is doing and why even on negative divergence, the price is still moving up. Well because the fast is above the slow, is not gonna cut it.

So in closing the only use of MA's that I like is within the MACD. It takes a lot of study to understand how I use it, but I've given enough examples in this website to guide you. Casual Empirical is lazy. Think like a quant and learn what the underlying really is.

Issue 024 - The Way Things Are

MM's, Institutions and Retail

By now you know how I hate funnymentalist with their news and conspiracies. It is a real sad disease a trader gets by not wanting to truly learn. Instead they rely on drama and romantic notions about how markets move. It is a lot easier than looking for the truth. It is very hard when you're fed by the media and lot of "gurus". Regardless, we hope to correct some misconceptions and try to get you to understand the order of things. So here is my stab at it.

Market Maker Investopedia.com Definition
A broker-dealer firm that accepts the risk of holding a certain number of shares of a particular security in order to facilitate trading in that security. Each market maker competes for customer order flow by displaying buy and sell quotations for a guaranteed number of shares. Once an order is received, the market maker immediately sells from its own inventory or seeks an offsetting order. This process takes place in mere seconds.

The market makers play an important role in the secondary market as catalysts, particularly for enhancing stock liquidity and, therefore, for promoting long-term growth in the market.
Institutions Answer.com Definition
An institution that acts as the middleman between investors and firms raising funds. Often referred to as financial institutions. (banks, hedge funds, mutual funds, insurance companies)

Retail Investopedia.com Definition
Individual investors who buy and sell securities for their personal account, and not for another company or organization.
I am a retail investor. I am not a bank or a market maker. More than likely you are like me.

Market Makers provide liquidity. They posts bid/ask to facilitate the trade. Market Makers are required by law to provide the best bid/ask price for market orders. Since they also guarantee their prices for a certain quantity, they must honor it regardless if it is favorable for them or until that quantity they offered is consumed. They are responsible for matching buyer for every sell and a seller for every buy. And somehow, they are considered the bad guys. So when you aren't getting filled at your price, it is because there is none available at that price. Enter the "Specialist". The specialist is an MM, who takes your order and holds it until the price of the security matches your price. He tries to get you fair pricing and must address the customer's orders prior to his own. Why do people think they are the bad guys again?

Institutions create trends
Between the institutions, market makers and retail...who gets the news first and who gets the news last? And who will make up the larger volume of trades between the three?

Market Makers and large Institutions get the news first, retail almost always gets them last. So who has a clue on how the market will move? But does this put the retail in a disadvantage? No!! Because Institutions make up the greater volume of buys and sells, they create the trend in the charts that you see. Retail generally follows the trend. Well save for the funnymental retail traders. They don't really read the charts. They rely on news to react. The not so savvy retailer ends up buying at the top and selling at the bottom. So in order to set up the trades, institutions allow the market to go up and set up the distribution stages of the market by getting the retailers to buy while they sell. Why are they selling? Taking profits of course! And shorting the market. To set up the accumulation, Institution get the retail to sell while they buy. Why are they buying? To profit from their shorts and to buy low. The tech savvy trader and scalper always gets in the beginning of the move because they understand how the market moves. Because they see what the big boys are doing.

Issue 025 - Occam's Razor

Occam's Razor
"Entities should not be multiplied unnecessarily."
A more popular expression of Occam's Razor:
"If you have two equally likely solutions to a problem, pick the simplest"
There are many ways to invest in the market. There are many ways to read a chart. There are many ways to profit from the market. Many employ various strategies and profit. But when it comes to execution and arriving at the decision to enter a trade, people employ myriad methods to rationalize their trade.

Fundamentally you can look at the company and determine whether or not it is a winner or a loser. But fundamentally Lehman looked real good but the books were cooked. Fundamentally, and historically Lehman was a sound investment.

Long term investments can be profitable. However, technically played swings and or scalps can reap higher profits than long term investments. Many people try but few really get there. In the end they over trade and lose many of their gains if not all. At the end of the year, many are satisfied with 3% gain. Obviously there is an issue with their execution and selection of their trades.

Occam's razor would have us remove all unnecessary theories that just complicates your decision making. And one of the simplest ways you can trade is to note accumulation and distribution. Markets move in cycles. You would be hard press to find a honorable professional analyst who would contest this notion. Significant price movements upward require the market to accumulate. Significant downward price movement requires the market to distribute. You don't need to have super fast internet access to get a head of the market. You don't need to hack into the market's servers to take advantage of these movements. You don't need a super algorithm to exploit ticks. And you certainly don't need insider information.

What you must simply understand is that any heavy buying and or selling will propagate in your charts. There is no hiding it. The difficulty comes when people read charts. They fail to employ comparative analysis. Comparative analysis allows you to determine what the long term accumulation/distribution (accu/dist) targets are, and how they relate to the intermediate and current trend.

You don't need to employ fibos, pivots and other technical studies. The price action alone demarcates the levels of interest that will act as support and resistance. Price levels are simple to identify. Price levels are easy to understand. But because of long history of mis-information. People consider it too easy to be true. It is difficult to understand why people enjoy complicating something that is so simple.

Generally, the target of accumulation is the last lost support and overcome the previous high. Generally, the target of distribution is the last strong support and overcome previous lows. On the way up or down, when encountering a strong level of support or resistance, it will fail on the first try. Many books you read attest to these simple rules.

How do we complicate it all? We employ guru tools. Guru magic chart patterns. We employ 16 redressed indicators. There really isn't anything wrong with many of these things. The only thing that is wrong is that we resign to them instead of fully understanding how the market simply moves. Yes the common indicators are not so flashy and they have limitations. But the limitations to those indicators vanish when you learn to read them across complimenting time frames. But a sound understanding of accu/dist, you can do away with indicators entirely, because you can relate the price action.

This requires study. And it requires you to empty your cup. Simplify.

Issue 026 - Time Machine

If you could stop time and inspect what is coming and get an idea what the market will do next, would you gain an advantage? Obviously, if you could see tomorrows paper today, it would be better, but that would be cheating. If you could gauge what is going to happen by stopping time to give you an understanding of the trend without cheating would you?

Well to tell you the truth, you already have that capability. Some people use it but don't realize what they are really doing. Some people just refuse to use tools that are already available to them. Some people think they need to hack the servers to do this. How dumb!! It just shows you how stupid a bunch of geeks can be when led by greed. Some people are stuck in time and only use 1 chart. Now you can get by with one charts just fine but if you have the means to analyze what is coming and then be able to gauge how it will affect the current trend why would you limit your-self? If it is there, use it if you can gain an advantage right?

Can you actually grasp what stopping time to inspect what is coming means?

Imagine a faucet turned on to high as you are filling up the bathtub. And you want a perfectly warm bathwater. (BTW this is a magic bathtub where entropy is not a factor. Ergo hot stays hot. ** The point is, what is already in the tub cannot change. Change comes from what is coming in.) In order to make this perfectly warm bath water, you would like exactly 50/50 ratio hot to cold. If you could stop time and see exactly how many hot water and how many cold water molecules coming in, you could relate that to what is already in the tub. If you could get that granular information about the water, you could slice time more and more, so you can count how water is filling your tub in 1 sec, 1min, 10min, or even hourly increments. I wonder how kewl that would be.

Each slice of time will represent a finite amount of water expanding out from the point the water comes in to the tub to encompass the entire tub. It is like a series of concentric circles each with its own picture of hot to cold ratio. It would make sense what you would look for when doing comparative analysis. Each contributing to the make up of the water as a whole or as part of a shorter time slice. If it helps you any, imagine the series of concentric circles as a series of buckets inside of buckets. You would see how things can change from shorter time slices and see how things lead to the trend or how the trend develops. I wish I had such a time machine!!

But then you would say, well that sounds really kewl and geeky but I'm not a math wizard. I'm really a mental midget. Now what if I represent each of those buckets graphically so you can make decisions. Maybe some line graphs or hey what about candles that turn blue and red if it is mostly cold or hot. And maybe some oscillators? Would that help?

Just a thought. Perhaps if you watched enough Strar Trek like I did, you might be able to understand what I'm eluding to. Imagine the type of analysis you could do if you had such a time machine.

Issue 028 - Consolidation

Hey its been a while, I took a little break and starting to get back into the game again. Anyways, MentalMidget and I were chittychatting and we were talking about charts and some stuff we hear every time. One of the most ambiguous words I hate is the word "consolidation". You hear it all the time. The reason I hate this term is because people resign to one thought. Always!

When they see consolidation. When they talk about consoliation. There is only 1 and only 1 thought in their minds.

"the market is still trying to make up its mind"

How incredibly inaccurate!! How incredibly useless assessment!!

What it does is leave you to resign and say you don't know what will happen. One suggestion. Get rid of that term from your mind other than to describe the candles bunching up in a same price range. Nothing more.

If there is something you can gain from "consolidation", you should determine 1 of 2 things. Am I accumulating or distributing?

I totally hate that word especially when people make it a reason to stop thinking. They wait for the "market to decide" and when it does their analysis is after the move is already done. Oh it moved because we had negative/positive divergence. But the determination is after the fact. Useless to you because the move already happened.

Consolidation is NOT the market "trying to decide". The market already decided!!

If you noticed, each example of consolidation, they are sites of accumulation or distribution. The momentum was already indicating the direction the market would move prior to when the "market decided" to move. And where did each accumulation and distribution go to? If you really want to know. If you really do! Go read my blog entry on accumulation and distribution. No. I'm not here to hold your hand. Figure it out. Everything is so basic. If you have problems putting it together. Get out of your way. The chart above shows how it works.

When you talk to your-self, talk to your-self in a manner that empowers you to make a decision.

Sorry for the spelling mistakes. Guess I was having issues with my "d" key and didn't notice.

Issue 029 - Not A Glitch [redacted]

You can understand how people are confused. Too many misinformation spread by "experts". Consider who supposedly also chimed in with Geithner on "computer glitch". I really don't know. I don't watch Cramer. He is as he agreed with Comedy Central, a snake oil sales man.

Who is more believable?

A more level headed and correct view was issued by Marc Farber in his Bloomberg interview. He said the market went up too high too fast. Through a more technical view that goes in-line with accumulation and distribution, we went higher and higher on lower bullish volume ergo Distribution. Those in the know, knew it would go down. The markets were trading on very very low bullish volume. Ben Lichenstein was interviewed in CNBC, weeks before talked about how sellers during that time were not engaging. Technically as a market profiler, Ben understood the build up of bearish momentum back then. Since when has this been going on? If you look at a weekly view, you should notice the bears have been building up since Oct. 09.

As you examine this daily chart, what do we have? Distribution. And where did the price go to? Go read the blog entry on Accumulation and Distribution.

Another interesting view coming out from the "experts" talk about how the government wants to tax the "high frequency" traders because they help cause this situation. Who are the market makers?? What was significant before but not so today, are the hedge funders. Many hedge funders were wiped out in 2008 or consumed by larger companies. The ratio of volume of retail to institutional traders still goes to institutional traders. So why blame the retail? Misinformation. Who is buying the rationalization? The all of the sudden "economic expert" elected officials. Computer glitch!!

Meredith Whitney < sigh > addresses this issue by saying such laws are "reckless". The issue is really this. How often do you hear the word "bet" when talking about placing a position into the market? They consider it a gambling situation. Considering all that we already know that the market for those who know how it really works, it is not a "betting" situation. Farber also dismisses this notion that high frequency traders are causing the huge drop down. He explained that most of these computer based trading are momentum trades. Legislation to tax the traders is based on faulty thinking. These government officials have no clue. Computer glitch my foot! Sorry Timmy. Get a clue! That alone shows you how they have romantic notions, funnymentals, about how the market truly work. "Reckless".

Those who understand momentum and true technical analysis do not bet. They play what is before them.

This charts shows you how the market volume bars are generally more bearish as we go higher and higher. Huge distribution pattern here. In this chart, you can see that the bears started to accumulate since late February. There is no bullish volume here propelling this rise in price. This is not something you get excited about. This is not a healthy bullish run up. When market goes up on ever decreasing bullish volume, there is a single chart pattern definition you can think of. A bear wedge. There is also a mathematical consideration. If you are going up on less bullish volume, what is increasing? Bearish volume.

Askbucky's chart

Thanks Bucky!!

Issue 030 - Fundamentals

Today I had some time to watch Bloomberg on TV. Yeah I do watch some news from time to time. And it really hit me what and who really uses fundamentals. For us small fry, we can rely on services to provide us with some of the info, but realistically, unless you have the means to understand the industry, the accounting and whatever else that is included, then really, fundamentals is useless to you. Don't get me wrong. Many people are able to trade successfully on fundamentals. I'm sure there are. But who would know everything about the fundamentals, government policies, events and the like and piece it all together than the market makers? Back to idea of resources. They have the resources to gather all that information.

Peons such as us only have Cramer, CNBC, sexy Fox and Bloomberg and all the other services. The problem is, they are always late. Early this morning on Bloomberg, a headline read to the effect that the American futures rallied on rosy statements made by Bernake on the economy. Later on that morning, market drops. The headline disappears and replaced by Bernake's statement about employment. I love reading the headlines in the news and watching the news before the market opens. Almost always, when the news reporters are excited very bullish, it is the time to start shorting the market. And when they are gloomy, is when you should consider going long. Sounds comical, but most often true.

Ever given thought to the Goldman accusation, that when the company was going short on some stocks, they told their customers, well "recomended", some of their customers to buy said stocks. Please buy this stock because we are exiting our long positions to go short. We will provide the liquidity you need to take out all of our long positions. I don't know if that is how they decided things would work, but that is what is necessary for a distribution to happen based on bad fundamental findings on whatever entity will be traded. As the news breaks about the not so rosy fundamental aspects, the market or stock is primed to drop.

Now back to the main topic. Fundamentals.
In all truth, the basis for the market moving the way it does is truly based on pure fundamentals. Market makers and large institutions are responsible for setting up the market for whatever it does. Since they buy and sell just like we do or make available the necessary liquidity to move the market one way or the other, we can track what they are up to from our charts.

We poke fun on the funnymentalist traders out there because they always talk about the news. How this news made it drop, and how this up and coming news will make it pop. Really, when they talk about the fundamental reasonings behind it, for the most part we cannot disagree provided it isn't some red neck explanation. We feel sorry for them because, they don't get that the setup for the resulting pop/drop, was predestined before he even heard the news.

What is a red neck explanation?
The economy is going to tank because Obama is a socialist.

Why is this a red neck explanation?

Democratic party usual platform is based on social handouts. To make it so that it is specific to Obama is red neck. People usually elect the democrats when there is an economic issue because they want to make sure they get some government help. Not usually a republican stance. It is what it is. Some of the pictures of Obama and stories that are circulating in the internet is beyond red neck. I remember back in the last presidential election on Good Morning America. A lady was asked if she would vote for Obama, and she said, she wouldn't because he isn't even American. ROFL!!! Can you believe that?!!

The decline really started back in June 1, 1999. Now based on buckets, who has control of the market right now? Now consider the fundamentals. If the economy is turning for the better, what is necessary? People will have to have a lot of disposable income. In order for that to happen they have to have jobs. In order for that to happen, companies must be able to get loans to get money to hire and have someone to sell to.

Has any of the required been met since the market popped rapidly from March 09, lows? No!!

Now, I'm not an economist by any means. I've only had the standard Micro/Macro economics classes, however, one can deduce certain things that comes to play. Since the 90s the world has become a much smaller and connected place. Products arrive from any place to anyplace. Third world economies receive influx of companies to help educate and build their manufacturing and production capabilities offsetting labor cost in originating countries and keeping competitive advantage. Everything sounds good so far until you notice the trade deficits. Why is there a deficit? Although by moving manufacturing to underdeveloped countries, we help increase their output, however, their economies are still unable to purchase our own products. Supply is high. Consumer consumption globally is lower. I'm leaving it at that.

Technically what must happen in order for the market to return to bullishness?

We need an accumulation to start up. We would require the market to produce a failed new low or new low on more bullish volume. What price are we going to test? March 09 lows, the previous low. For a new low, it may take us down to 477-456ish in this SPX monthly chart. Scarey!! After that 419/20 then 385/86 yikes!! So what do we know about the market when it is so one sided. When they sell. They sell. My lines may be a bit off. My allergies are so bad, I can't have my contacts on and too lazy to look for my glasses, but I think I'm in the ball park. A technical perspective.

It would be nice if we stayed above 900 on this next drop down. Facilitating an accumulation from that point on, but the bulls must not allow it to dip past the previous macd low. The weekly not comforting either. Nothing showing turn around. If we do pop, we will just form a triple top. I hope I am totally wrong.

Issue 031 - Two Bar Reversal

In my group, we call these tubas, as per Mental Midget. Two bars was introduced to me in myriad books I've read but never clicked with significance till my chart analyst mentor AskBucky showed me what they are. 2 Bars are best viewed by using bar charts. They are commonly described as railroad ties. In Nison's terms, the 2 bar is generally a bullish/bearish engulfing pattern or a candle combo like a piercing or a dark cloud cover. Regardless, the benefit is understanding how it is formed.

Essentially 2 bar is a reversal signal. Along with 3 bar reversal. The mistake is that people generally think that they happen too fast to be able to play it. The other issue with 2 bar reversals is that it needs confirmation. A good 2 bar reversal cannot have its 2 bar'ness violated by the adjacent candles. Why? Because it loses its distinctiveness as a 2 bar.

Here is a few examples of 2 bars in Goldman. What is more meaningful is how 2 bars are formed. AskBucky taught me to look at how the 2 bar is represented in other time frames. This was a great tip.

Because it didn't allow you to stand idly by trying to wait for confirmation as the 2 bar forms. While you are waiting for it to form and get confirmation, you could lose the bulk of the move.

For instance lets take a look at the weekly 2 bar of 10/5-10/12. These 2 candles produced a 2 bar reversal signal. When we look at this from a daily perspective. How was this 2 bar formed?

Here in the daily in the yellow, I've bracketed the days that produced the 2 bar of the weekly. The oval is where this 2 bar was defined. But what is more significant is the overall chart pattern here in the daily that helped define what the 2 bar reversal will actually do. As you should know, the 2 bar signals a reversal from bullish to bearish or from bearish to bullish. After this pattern, you should have a continuation to the price action to create the full effect of the reversal.

So what we have here is a type of HnS pattern. As you can see in your momentum reading, you have had a build up of bearish momo since back in late July. By understanding the lower time frame action, you can determine how it will form a 2 bar and if the 2 bar will be confirmed.

Hope this helps you JB.

Issue 032 - When Trends Collide [redacted]

Understanding the trend can get confusing. Especially if you are only looking at short term and completely discounting the longer term trend. The other problem comes when the momentum of the short term seems more bullish or bearish and the longer term which is showing the complete opposite. The ensuing result shows up in many occasions as failed chart patterns. And failed chart patterns can be unforgiving when you are in the wrong side of it. The mistake could have been prevented by understanding the longer term trend. Because it was completely discounted, a strong bias was formed.

What is the technical reason? Longer term trends will always overrule short term trends. Many people entered Sunday 6/20/10 and then Monday 6/21/10 morning's market with so much bullish bias. In one of the chat rooms I frequent, some funnymentalist were calling for 1200 on the ES before Sunday night would be over. People have to learn to read charts. People have to understand simple technical analysis.

The bounce from previous lows took almost 3 weeks to set up on this daily chart that brought us up from 1032.75 to current high of 1129.50 on 6/20. If you were only looking at the day candles you would be mistaken in thinking that from 6/15-6/20 we were going to try to go further up.

If you just ignore the candles above or ignore the current candle, could you say with all honesty, that there is a lot of momentum to the upside? If you try to appreciate the failure of the close of the 6/14 candle you would also understand from a levels perspective that this red candle would follow.

O no, this is all due to the news!
I won't argue with you on the news aspects. But you do know what I say. It can't pop or drop, without it being setup to do so.

According to this chart, it started 6/10 to build up the negative momentum it needed to drop the market. By the time we hit that high, we would be describing that pop on negative divergence. The after the fact people all called HnS!!! The conditions were there before it formed.

And if you consider the length of time the 1hr took to create this negative momentum, it eventually affected the 4hr. The confirmation before we even reached the 1129.50 high, was already set in stone by the 6/15. This is comparative analysis. You can't be surprised by these moves if you employ these methods.

If you consider the currently weekly status. What is it suggesting to you? We will see a pop sometime soon but we will be doing it on more bearish volume and so a correction will follow.

Issue 033 - Stop Losses Don't Work! [redacted]

In a recent comic relief session in a chat room, someone said Stop losses don't work because the MM's just takes them out.

MM 1: hey look that dummy just put on a stop.

MM 2: hey i have a sucker here too
MM 1: i'm so glad we have this "Sucker Just Put On A Stop" alert system
MM 2: fer sure! our lives is more exciting
MM 1: ready to take these dummies money?
MM 2: K A C H I N G!!!!
MM 1: WEEEEEEEEEEEEEEEEEEEEEEEEEE!!!
MM 2: let's call Obama next so we can pop it and drop it hard soon as best bud pres gets on
MM 1: yeah lets do it after lunch

It is highly conceivable that these poor blokes, the market makers, are targeting people specifically. I have to wonder if they are off shore contract workers. If we could get those jobs back here in the states, I bet we would resolve our economic issues.

Motivational Quotes Hanging In MM Cubicle

A Sucker Is Trading At Every Tick
Blow Their Stops

Surely, my stops are being blown, are the maniacal workings of the evil MMs!! There is no doubt about it! "They" are personally and unfairly targeting me. So I no longer put on stops!! I only cry like a little girl when I'm working through a 30pt draw.

Mystery of Setting Stops
Here is how i set my stop. I see a price. I think it will go up from there. Nothing specific. Just up. Yeah you heard me. Then I decide how much pain I can stand. And voila! A stop is set. If you don't like how I do's things, you can kiss my big double bottom!

Yeah, you know that is what people tell you how to set stops. The amount of pain you're willing to endure.   Sounds scientific. Sounds like it makes sense. Sounds extremely logical. Hey! I'm willing to lose 2 pts. Its only freaking money. Who needs it.

The wonderful thing about setting stops is that they usually get blown by like 1 tick. And then completely reverses and goes your way if you were only in the trade. O I love how that happens. The memories of yelling profusely at the computer.

When you set a stop, you must fully understand where you are in the move. Ideally, you would like to go long at support, short at resistance. And yet in our haste, we forget that little thought and we short at support and go long at resistance. And with much certainty we declare. "Dang MMs did it to me again!!!"

The best way to get blown out of your stops. Chase the trade. OMG it is going up!! Should I go in? Dang its going up more!!! Buy market now!!! WTF!!! Go up not down!!! NO!! NO!! NO!!!! Not my stop!!! ((scalpersue exclaims with much fiery emotions))"Don't you dare blow my stop!!! Or I'll be pissy!!" Market resumes to move up. "Curse you MMs!!!!"

The Solution

I've covered some general instructions on setting stops before. Issue 014 - Setting Stops. It was just amusing listening to the comics in the chat room and seeing how many clueless people there are. Our next issue will cover: Can you tell me what time frame I should use so that I wont get emotionally constipated? LOL NOT!!

Issue 034 - Trends

What is amazing is the number of people celebrating when the market hit the 1216.75 high. I remember watching Bloomberg and listening to some guy talking about 1300. The reason that guy gave was so way off, you saw dung beetles crawling all over him. I can only imagine what the comics at CNBC were saying. It was sad to see that these so called "professionals" would be so bullish.

I love the statement about people not being able to see past their noses. Really is the case when you try to understand why the market moves the way it does. Too close to the trees to see the forest. Oh and another cliché. Some people can't think that far. Mind you, I'm not poking fun at you. Just trying to make you aware of a symptom. So lets figure out the all important question. To what force is price really subject to? Is it the long term trend or the short term trend?

The pop up to 1216.75 is a great example. People in the short term time frame never really understood why the ensuing sell off occurred. It was shear folly to expect it to go to 1300 from there. If your broker told you to go long. Fire him. If your trader pal said told you to go long, he isn't as hot a trader as you thought. And if you thought that you should go long, you might be a red neck. If that is truly the case, you are blaming the government, because the news may have tied it to a government announcement.

The people who told you to go long or if you thought to continue to go long, failed to understand the trend all together. Failed to see negative divergences in the daily and the weekly. People generally see the price up and have no clue what is actually developing or has been developing. Then they are quick to blame anybody but themselves for their bad trades.

If you examine the daily chart, the daily was going sideways since early April to May 3. Since Aug 5, 09, the momentum to the upside has been fading. Distribution and negative divergence. What a nice combo!

Fat finger day occured, Issue 029 - Not A Glitch, discusses the technical merits of the move down. The real power behind the move came from longer term view.

Now look at this same action from a weekly perspective. Although the daily started in Aug/09, the weekly only started to confirm the lost of momentum in Oct 09. The progression of the relenting momentum, finally affected the weekly. And on that new high, you can clearly see the negative divergence, a new high on lower macd. The weekly continued to progress weakly as well, and then finally, affecting the monthly, who up until May was strongly bullish. Wow look at that monthly!! There is this trader in one of the chat rooms, who consider him-self as an authority, declared that an ascending wedge is bullish. If it is, then no wonder some people had such bullish expectations. In Bugs Bunny's immortal words..."What a maroon." Perhaps all these people went to the same funny mental school.

It really doesn't matter if you are trading in the daily, weekly, monthly or 133tk, 1600tk, 15min or even 30min, 1hr, 4hr, the basic rule applies. The longer term trend always over rules the short term trend. In the same way a short term trend pops up after selling off and then retests the previous lows, so must a longer term trend. The only difference is that the longer term trend takes much longer of course.

Since the Mar lows of 09, people thought that the market moving up, in the strength that it did, could only continue to go up more. Hopium addicts wanted it back up to 1500. What explains the strength of the explosion from the lows? Would you believe an accumulation, clearly seen in the weekly is responsible for this pop up? Can't see it? It started just before Dec 08. And the new low of Mar 09, finalized the move.

So here is what happened. People who's vision can only go as far as their noses. Did not pay attention to the longer term trends, to see that the monthly reached a significant level. This level was established back in June 05. Wow that long ago? Yes!! We retraced back up to previous support we lost. Isn't that the target of an accumulation? Of course it is! And as usual, we say that the shorter time frames, will show you the changes first. When did the daily and weekly start to put on the breaks? Ergo, failed to close above that previous support in the monthly perspective, end of move up.

You are always subject to the longer term trend whether you like it or not. The price can fluctuate all it wants so long that it accomplished the goal of the longer term trend. People can blame whoever they want, the government, the economy, the currency issues. The fundamentals globally had already set the technicals in motion. How can we avoid the technically inevitable retrace down to potentially lower lows than 09? Call everyone you know. And tell them to tell everyone they know. Tell your mayor, governor, and even your president. Help the economy in this way. Buy up this market in large quantities. Although this pop up to 1200+ was impressive, we did so on very low volume. This is the mathematical reason we are facing strong fat finger drops or "computer glitches". There was no real bullish volume to offset the bearishness Change the picture en mass. What will buying en mass achieve? A new low or failed new low on more bullish volume. Resulting in....Accumulation.

Issue 035 - Momentum Progression [redacted]

Momentum progression is something people have a problems relating the market movement to. Progression as in continuation of bearish or bullish divergences. The issue really is determining what those divergences really mean and how does it relate to the price action and to do in real time.

The main problem is real time assessments. Some people really have no clue how to relate time frames to stitch together the price action and even momentum. Some people have a flawed understanding of oscillators. They know what a certain divergence looks like but have no way of understanding how it relates to the price action. This is another topic of discussion all together.

What is momentum progression?
When reading momentum, you must understand if it is strengthening or weakening? How does it relate to higher time frame? Is it affecting the higher time frame in the same manner or is it being absorbed?

Lets revisit the bucket analogy. If your 133tk chart is looking like it is building up bullish momentum, but your 1600tk or 5min is still highly bearish, you can easily say, that the 133tk bullish build up is being absorbed. Your price action would follow the 1600tk or 5min chart. The 133tk chart represents a tiny bucket. It may sow your momentum go up and down like crazy. In order to see what it is really doing, you look at a larger bucket like the 1600tk or 5min chart. Between the small and large, which will have a more true representation of the momentum or trend? Yes, the larger.

Why is my price continuing to go down when my momentum is trying to go up? Its like applying your breaks. You wont go to a full stop till you build up enough force to do so. But if you broke down your elapse time, and notice the speed dropping for insignificant amounts to significant amount, the change in momentum in the 133tk, is why we say that, you will notice the changes in your lower time frames first. Will the car stop at this point. No, it still moving and so will the price.

Although the price continues to follow the trend, the 133tk build up of bullish momentum continues after some time, that the 1600tk momentum begins to turn bullish as well, you are starting to see confirmation. Your price action should start to move sideways.

Why does the price action go sideways? Because now those breaks you have applied and continued to apply, has started to affect the speed so significantly that you slow the car down. Is the car still moving forward yes. Because you have not come to a complete stop. The amount the price can continue in its current direction is limited.

The next thing that will happen in time is that the 5min will turn up as well causing the 10min, ect ect. This kind of progression does 2 things.

- Offsets bearish volume (in this case) with bullish
- Causes a potential change in trend

Depending on the time frame you are viewing this kind of action is repeated in the smallest time frame which can turn around in minutes or seconds, to days, weeks and years. Regardless the whole process will happen in all time frames over and over again.

When you reach a price, for example a revisit of the previous high/low, you want to ask, was I more bullish/bearish then or now? A really important question to ask. Because if you are bearish, you must really consider to short before it drops on you on the new high, or go long immediately if you are more bullish on this new low.

I'm not going to share anymore charts on this concept. There are plenty in the blog already. Yes, seriously, it is that simple. And yes again, we are describing Accumulation and Distribution.

Okay i'll share 2 charts:

Bearish Progression

Bullish Progression

Special thanks to OptionGal, who saved these files that I lost.

Issue 037 - Time Shifting

Time shifting is understanding what time frame has current control of the trend. The difficulties of trading is knowing how to use time frames to your advantage. As we've learned thus far, you want time frames that are complimentary to each other in detail, from low to high. And that price is always under the influence of the longer time frame trends. What does that all mean?

Complimentary Time Frames

Complimentary time frames is critical for scalpers and for any other trader for that matter. It allows you to not only see, but also understand the near, intermediate, and tertiary trend. You want time frames from low detail (longer time frame), to high detail (lower time frame). Why?

Longer Time Frame Controls Price Action

Price as we know is alway under the influence of longer time frame trends. Many will say, "Well I understood the trend, I went long (or short), because the longer term trend said it will go up, but then the price went the complete opposite and blew me out before going to my target.

It really doesn't matter if the person was scalping or playing a longer trade. This scenario happens all the time. It isn't because the person was wrong in the direction of the trend. It is just because of execution placement. Let take a few examples.

From this daily chart we can understand by 7/1/2010, the accumulation has been set. Since we understand accumulation is set, we know to go long. Longer term trend is set. Not a bias but a completely sound technical understanding. Low detail perspective.

Low Detail

What does that mean low detail? It took 1 whole day for these candles to form. If you went long inside or even at the open of these candles from 7/2 and on, would you safely say that you would not suffer a draw. Just take a look at the range of 7/6 or 7/7's candles. This is what people don't account for, it is how the candle will form.

What can we understand from this chart then?
2 things:

- Momentum is set to the upside
-
- Accumulation based on price action is set and we expect the price to move up. The move is going to the previous support lost. 1070.50 then to 1090.75 then to 1110.75, provided momentum holds up.

Will these movements change the trend? No. It may but not until it reclaims the previous support lost back up at 1192.50 and then pass the previous high at 1216.75.

Moderate Detail
When we investigate further into this potential accumulation play, it seems that today. We may see 1092.00/75. Achieved more detail than the daily. And momentum is starting to turn.

More Detail
To get there we need to break through the levels at 1086.50, then 1086.50, 1089.25 and hey we may even get to 1095.50/75 for the huge inverse head and shoulders.

But what we are also gathering is that momentum has slowed and is setting up for a correction already. What are those levels I mentioned? They are spots to look for resistance. Some are not major levels and some are. If you play them against the tick charts, you will notice how significant they can be.

Longer term, we are under the influence of the daily trend to go up But as you know, the market doesn't really travel in straight lines. It zig zags it way up. From low to high details, you gather the longer term significant levels, and then you break down the action to understand what are the levels inside that range that will affect the price action.

The more the details you get, you can limit the draw down you would potentially experience by not going long at resistance and then short at support when you based your trade off a longer term perspective.

Time shifting dictates you go from low detail (longer term time frame) to understand the move, and you shift to high detail (shorter term time frames) to get your entries.

There is a lot more I can say about this topic. I think, I've given you enough to extrapolate the rest. It is up to you to think through them.

Issue 038 - Entries And Exits

Entries and Exits are tough to figure for most people. *The general rule is long at support, short at resistance.* The problem is many wait for confirmation of the move so end up going in at the middle of the move or sadly at the end of the move.. Sound familiar?

There are 2 things you can do to avoid this.

The first solution is to understand the momentum. Momentum will start to fade before the end of the move. If the momentum fade in the lower time frame has been sufficient enough to affect the momentum of the higher time frame, your move is about to end.

The second is understand the level of interest.
The accumulation causing the price to go up has a specific target. The support it lost for the sell. Level of interest for accumulation.
The distribution casing the sell off also has a specific target. The support that allowed it to move up. The level of interest for distribution.

This tutorial is now done.

What you expected more? Its as easy as that. By understanding what is causing the market to move one way or the other, you will understand where you are in the process and select the best places to go long or short. You will use comparative analysis to ensure that you will choose the shorter time frame to enter in a good phase the price action is currently taking. What? Well if the move is 20pt move. It generally will not do it in a straight line. There will be series of accumulation and distributions in lower time frames to achieve the larger accumulation distribution. Thus the candles with long bodies and wicks.

Have fun enjoy.

Issue 039 - Beware of the PPT

OMG!!! Here is an example of a little knowledge is a dangerous thing. Many moons ago, when the market does something completely unexpected, people blame the MMs. Now they blame the PPT.

Who are the PPT? They are a group of people who will try to save the market or slow down a sell off. This group was instituted way back by Pres. Reagan in 1988. This group is known as the Plunge Protection Team. It consist of 4 people, that include the Sec. of Treasury, Chairman of SEC, Chairman of Board of Govenors of the Federal Reserves, and the Chairman of Commodity Futures Trading Commission. The group's name says it all about their function.

What is ridiculous is how people think they are there to affect a complete reversal without them knowing it. That it will happen instantaneously.   Erroneous!! Any transactions that take place to affect the market will show in your charts. The problem with some "traders", is they rely on news but not their charts. They are also stuck correlating events and things that doesn't even have relevance.

Can this be the infamous PPT in action. Setting up for the resulting pop here. Seems like some bullish tones to help apply the breaks to this drop. This sustained effort from before 8am est led to the 1600tk to follow suit. It is just so strange how people hate to follow what is already before them.

All that work the 133tk took, finally affected the 1600tk to help form what we call .... Accumulation.

So many "traders" were waiting for the news. Speculating funnymental reasonings for the move that is expected. But failed to understand the move being set up the last few days.

Can you say distribution?! I love this one guy in trader chat. He wanted to test 1100 this morning. No way! Not a chance would that have worked out. He was lulled by a potential inv HnS. But failed to see the HnS that formed due to the distribution.

PPT will do their job. It doesn't happen instantaneously. It must be technically supported. Stick to the charts and get educated about how markets move. It is a lot easier than you speculating on fundamentals and government announcements and news.

Issue 040 - Fundamental VS Technical Analysis

Fundamental and Technical analysis are really 2 different styles of trading. The problem arises when people who are day trading think they can use fundamentals to help them in their swings or scalps. When fundamental traders get shaken out by the intraday volatility, not realizing that, for their longer term outlook based on their fundamental analysis, the intraday zigs and zags is only noise.

If you are scalping the ES and you make decisions based on funadmentals, news, economic outlook. You are definitely royally discombobulated. I'm being nice. As funny as it may seem, you can go to just about any chat room and see people commenting on the news, the government, the earnings, ect ect on why their scalp failed them. The fact of the matter is, the people who are trading daily, are trying to be day traders, scalpers. They just don't know that the basis of their thinking is flawed. The scope of their analysis, should be more technical rather than fundamental. Many of these so called investor are looking for a quick buck. A get rich quick scheme.

Fundamental Analysis:

You will consider the financial reports of the company. You look for long term profit projections. You will consider its leadership and you would like to invest not for quick gains but for longer term profits. Fundamental analysts like "investments". You generally want to buy something up. Talk to any layperson. Ask them about what they think investing is and they will talk to you about the fundamentals. And who would they like to be? They would like to be like Warren Buffet. **Your judgement is based on the company's track record, its financial, its management, its potential to grow.**

Vocabulary of a Fundamental Trader:

What's the news?

Earnings should be positive today.

You must have balls of steel to take a position at the open.

The acquisition of xyx corp should cause their stock to split!

This is a strong balance sheet in their quarterly report.

Technical Analysis

Technical Analysis, requires you to consider the charts to help you identify the trends and the momentum. You want to identify the levels of support and resistance. For the day trader, they like volatility. They want high volume trading days. They want quick returns. **Your judgement is based on where the market will move technically, bracketed by the levels that will delimit the extent of the accumulation or distribution.**

Vocabulary of a Technical Trader:

Go UP!!! Weeeeeeeeeee!! Go DOWN!! Weeeee!!!

The trend is your friend!

The hns should work out on this divergence.

As you can see, there is a distinct difference between the two schools of thought. The ineffective day traders, are those who can't distinguish where to draw the line when making their decisions about their trades. We can point the blame to many people that influence their thinking: the news, their brokers, their guru's. Inevitably the blame is to the person who placed uneducated barriers that will hinder their ability to make sound decisions by accepting "expert" opinions.

The Happy Medium

Really as an "investor", you should not only consider the fundamentals, but you should supplement your decisions with technical analysis. But this is from the aspect of being an investor. You are looking at longer term viability of a company.

Being a swinger, a day trader or scalper. You are more empowered by learning how the market moves and you consider the fundamentals as rubish. Now consider what really happens in a market setting, when news is about to break. If the Market Makers want the stock, the market to sell, they will make you buy it up. Why? It doesn't make sense or dollars for that matter, for them to sell their positions when the stock is already weak, like you as newb trader would. They would rather sell when the market is going up. So what do they do? Make a distribution pattern and sell heavy at the top.

To make the stock or market to go up. They will make you sell, so they can get out of their short positions at the lows and start buying at the lows. Why? Because it is more profitable for them to do that than when the market has already popped. Buy low right?!! So they set up accumulation.

Issue 041 - Where the money flows [redacted]

People love correlations. "Traders" love to correlate news, government, yadi yadi yada....got so repetitive. But there is another correlation that is worth mentioning. It is the Obama factor. LOL not! It is where the money flows. This is a correlation worth noting because it is consistent and makes plenty of sense.

What is this awesome correlation?

Gold (/GC), Oil (/CL), Dollar(/DX), ES (/ES), Bonds (/ZB)

When the money flows from one of these, it will go to another one.

Market goes up. Dollar goes down.
Market goes down, gold goes up, dollar goes up. Oil goes up.
Dollar goes down bonds goes up.

It doesn't always happen as cleanly, however, it seems that when you take from one it gets distributed in some way to one other four.

How does it make sense?
Well if the market goes up. Fundamentally, you want the dollar to go down. The dollar going down helps our revenue generating from companies and establishments outside the states. Also, the products and services we provide outside the US will become more affordable.

The market goes down. Gold goes up. There is fear in the market for a recession of some sort. And so instead of investing in the dollar, gold will retain its value more than the dollar. You may see bonds go up too.

The reasoning is fundamental. The technicals are also interesting to note. That when one sets up a distribution, the other sets up and accumulation.

ES GOES DOWN

BONDS GOES UP

DOLLAR GOES UP

OIL GOES DOWN

GOLD GOES DOWN

This is how money flows.

Issue 042 - MACD Dawgie Style

So there was this kitty person, asking about an oscillator to use to help gauge volume. And being a eager helpful dawgie, I suggested the MACD. This rude ... hmmm ... (be nice) raunchy feline. =), proceeded to call me a liar and said that the MACD is price base. How rude!!! And how stupid!!!

To argue with some one who thinks they are so smart, is really not worth it. So I will address the issue here.

It is impossible to defeat an ignorant man in argument. ~William G. McAdoo

What?! MACD isn't price base?!!

Hell ya it is!!!

So why is this feeeeeeeeeeeeeline stupid?! Why does a dood call himself kitty? Does that put him under homo suspicion? Hmmm. Well lets answer what we do know and care to know. And a cat to be rude that way to a dawg, is far less intelligent than a cat, with mouth wide open, who frequents the receiving end of a defecating 5 ton elephant who couldn't find his immodium. But I digress.

Why is this newb a boob?
What does the 2nd letter in MACD stand for?
A V E R A G E ! !

What does the word AVERAGE in math stand for?
Are you smarter than a fifth grader?

Lets consult a math definition for **AVERAGE**.
Mean or Average is defined as the sum of all the given elements divided by the total number of elements.
Sum of what??
ALL the given elements.

What does **ALL** suggest?
A quantity of stuff, elements to add up ergo sum.

If some of those "elements" that make up the "ALL" is of the same value as in prices, what significance will that have to our Moving Average?
The moving average will be found at the price level because the "**AVERAGE**" will be strongly swayed that way due to the "frequency" of such "elements" at that value. Is why ma's are often found at levels.

Frequency of elements at that value will sway the price. Average is the sum of all......blah blah blah.
Could you therefore assert, that these elements can also be described as the volume of stuff?

Now how does the MACD represent volume.
Secret!!! Best place to hide a secret. In front of your nose. For those of you who trade with me. Not top secret.

To be conscious that you are ignorant is a great step to knowledge.
Benjamin Disraeli (1804 - 1881)

Don't mess with **THE DAWG!!** kitty!

is that an hns? pop to daily target then drop? its possible its possible
i wonder what flip flop gooroo would do

And the result...

And from the daily perspective...

After the fact? Hell no!!!

Issue 043 - Expectation Management [redacted]

Expectation Management

You go through life with many expectations. You start your day with some expectations. You do your work with expectations. Some people forget that expectations are not law. People become befuddled by their ruined expectations. Some people fail to adapt to changes in circumstances and become paralyzed because their expectations were not met. Traders are big on expectations. Some pride themselves on the accuracy of their expectation.

Bias

What we are really talking about is bias. Bias can be deadly to a trader. Many traders will endure much pain because of their bias. Compartmentalization of the price action through the time frames poses most difficulty for people. The failure to recognize that price action is under the influence of larger time frame is part of the cause for many trader's angst. The levels of significance that larger time frame accumulation and distribution actions are cleanly defined.

There is this gooroo in chat today who said 1090 would be bounce level. Declared this before the open. Meaning he would go long at 1090 because he believes that would be a good support level.
Bad bias would have cost you about 7pts?! As you know we like to see a new low on the accumulation or failed new low.

Don't you just love parabolic moves. The strength of the market before the open and before the "news" was very weak. For the market to maintain 1090, would be nothing close to a miracle, considering the supposed news would like to accelerate the selling, especially from 1092? The short was clearly the play before the news. What is also clear based on the 5min and even the 1600tk was an accumulation play would be in order. The accumulation started with previous day's low at about noon time which we tested and blew through today for the new low, which is the more significant level based on the hourly chart. There were more levels below 1083.50 that were possible levels. We only considered those due to the longer term trend's distribution process. What were these levels coming from below?   1081.25 1077.50 1075.25.

How do we temper our expectations? As you approach each level, you evaluate, technically, the momentum if it will have more to take you to your next level. You should see in your tick charts the set up for the fading of momentum prior to you hitting the target.

What do you call this action in the 133tk? If you don't know by now, read my other blog entries. The arrows tell you what is happening. Those of you who trade with me know, that the set ups are clearly visible prior to the major move. Nothing fancy, price action and momentum.

Issue 044 - Doji Magic

I remember back in the day, when I just started to trade, and there was this video that TOS was showing off because the music video had TOS platform showing on the screen. It was a pretty kewl video. There was a shirt that was on the "wife", I think it was Joe Kinahan was on the video. Well that shirt said something about "doji trader" or something like that. It stuck to me because I needed to know what doji trading was. I didn't have a clue till really early this year. The final piece of my trading education was taught to me.

Doji trading is for stock, option and scalpers like my-self. See the technical style of trading that I do is consistent regardless of market or time frame. The people who don't know pure technicals are simply speculators. And most are "fantastic" speculators, key word, fantastic. How do dojis fit into my trading style? Lets find out!

Look back to my accumulation and distribution articles and lets add dojis into the mix.

Doji StockCharts.com Definition
A candlestick with a body so small that the open and close prices are equal. A Doji occurs when the open and close for that day are the same, or very close to being the same.
Do you know how dojis are formed? Well basically it is formed when both bulls and the bears agree with the price, as some people might say, or the bulls and the bears are at equilibrium.

Huh?!!

Well if you actually understood what that meant then, you are a genius. But being a quant, I need to know how that actually translate to my charts. Yeah so if you're a dumb dumb like me, you probably said; "Yeah kewl I get it! Of course doji. That is kewl!" Somebody do a vulcan mind meld or something I don't know what the heck all that meant. Big fake smile. Yeah I get it!

Well here is a fine doji from 9/14/10. Picked a nice day chart because StockCharts' definition was talking about day. It doesn't have to be day. It can be 1600 tick or whatever time frame.

Well this is the same day but on a lower time frame. 10Day30min chart. This looks a lot like it was a tame equilibrium day doesn't it? All that action only to open and close at about the same price...ergo doji.

In many instances the price action to form the doji is much more flat than this. It is a few sideways moving candles. The open/close of the doji is the significant level that is being highlighted. Don't take my word for it, you lazy lump, look it up. Do what I did. It isn't a brain surgery.

So where ever you see a doji, understand this. In a lower time frame, a bunch of candles consolidated at the price level of the open/close. And this is significant because, the areas of consolidation, are generally areas of rounded tops or rounded bottoms, where momentum finally turned. These spots are points of support or resistance, points of generally longer term significant levels.

Okay so now that we got the theoretical mental meanderings out of the way, how do we apply it all in practice? Do 100 push ups before the open. Drink a keg of beer and then trade just by whatever you think might be a doji.

As you know, accumulation is the process of building up bullish momentum, to push up the price. Its target will be the previous support lost. Well at each of those support lost, one will always find a doji. Similarly, during a distribution process, it will target the previous support that lead it to the high, and again, you should find a doji.

Well Dawg!! Wait. Here I am looking at my charts and there are at times many doji's to choose from. How do I choose the right one?

The shorter the time frame, especially in the tick charts, you will find a ton of dojis. Yes I know, the plural of doji is doji. It just weird not to have the s. Regardless!! You should also see tons of dojis when the entity you are looking at is extremely low volume. The thing to do is to bump up a time frame. Just like with trends, the rule of higher time frame trends apply to dojis. The higher the time frame which the doji is seen, the more significant it is. In the examples above, what did you notice the doji really did? It removed the clutter of thought that progressed the entire day. It summarized it and said, there is something here that was hard to pass with the current momentum. Yes, if you get it, you will understand in the granular sense what Nison was teaching about doji and reversal patterns. If you don't get it, guess you need more studying.

So what do all of these things imply. I kind of want to be more explicit with some of these things. On the way up from an accumulation set up, you will hit many previous supports that you may have blown through on the way down. When targeting as to how far the accumulation pop will go, here are a few things to consider:

1. If there is a doji at a higher time frame but not in the low, from which you are basing your entry on, you will experience significant resistance at that price level.

2. If you only see it in the low time frame, and you have confirmation of the momentum from your adjacent time frames, you will see a pause there and then blow through it. The pause may cause you to draw back down, but due to the momentum, it should take you up to the next level.

A two stage accumulation play always has a mid point to where price action pops up to and then draws back down to test the previous low. There is a doji associated with the mid point and you know this pattern may be the start of a significant reversal for the time frame. The question was always, how do you know if the 2 stage accumulation will produce a new low before it pops?

If you figured it out, the process of accumulation and distribution, is drawn out. Logically, this process is necessary. It is the applying of breaks to provide the necessary momentum change to move the price action from one cycle to the next. Go with that thought. Applying the breaks.

That thought alone suggest, you are about to arrive at your destination. It doesn't mean you arrived, you are about to arrive. This is important to understand. People tell me, I saw the accumulation/distribution, but I got stopped out only to see it do what I expected to do.

Just because you saw the accumulation, it doesn't mean the distribution that preceded the accumulation got to its target. So you must understand what higher time frame was truly responsible for the distribution to make the price go down, and find the actual doji it wants to hit. Guess where you want to set your stop? Not at the doji, but 1 tick past the bottom of the stem, for your buy order, or 1 tick past the step for your sell order. That is stops!!! Not exits. Exits. Whether you are long or short should be at the body of the doji. The magic is always, that body exit will always get filled.

Where are the doji?

Look for the next immediate doji to your left.

Aside: I apologize for not having new content up, I've had quite a busy family life with all kinds or events. I will add some before the fact charts by Monday, some people have been hounding me for new content.

Issue 045 - ES Go! [redacted]

Wider the base, the bigger the space. Was taught that once. As we see this huge accumulation play continue to move up after passing the sideways range at about 1130. The whole thing developed from May to September. The July low was the final stage of the accumulation where bullish momentum was set in.

The low volume has been doing their magic on the market continuing to push the market using the monthly trend. The daily has become more bullish in its underlying. However there is still more work ahead.   The daily is a smaller bucket than the weekly. Which means what?

It must overcome the negative divergence being enhanced by the daily's move. The low volume pops essentially feeding the bearish wedge of the weekly.

What does the sage know about the potential of double dip recession. Warren Buffet was said to have said that there will be no double dip recession. Should the daily sustain its bullish run, it may defer the possibility. The technicals will be satisfied in some way. Maybe another fat finger day. Computer glitch!! Like I've said before, it is in the market's best interest to move sideways for some time and build bullish momentum. The daily outlook has been changed but the weekly has not. What will be interesting is how fast we can get to previous weekly high. If we do get there too fast too soon, then a major correction will occur. Driving up the price and establishing stronger support and resistance on the way, will help put technical stops in place. For example 1103/1104 and 1120/26 area.

There was this dumbo in chat, the other day. He wanted to know what the "news" was that caused gold to sell. I tried to explain to him that there was distribution that set up the intraday sell. Then the dumbo says..."gold has been accumulating since April". LOL dumbo. You can't ask about intraday fluctuation by using daily weekly view.

The point is, to make proper decision about your trade or your analysis of the market. Always understand how what is happening now relates to a higher time frame out look. We were bullish and then it sold off. Why? Its the fed!! Its the news!! Don't be a dumbo referencing the wrong time frame. Oh by the way did you catch the google pop the other day. Did you know it popped because they announced their auto pilot car? I wish I knew about it before.

Interesting similarities in the daily chart of google and es. Accumulation targets what again?

Issue 046 - GOOG POP [redacted]

How?

The progression shows accumulation. enuf said.

Issue 047 - The Responsibility For YOUR Trade [redacted]

There is this guy in chat today that kept on screaming at the locals. Because he was short he blamed them for the market going up. The funny thing about these people is that their failure in trade is never their own mistake. Their failure in their trades is never their fault but someone else's. Arrogant? I think that word is a little soft. What is interesting are the rationalizations they come up with. Bottom line. News.

You know these people. It may even be you. They are the angry and bitter people in chat. There is this other guy who calls the phenomena the "invisible hand". You know I've come across that term in economics class. This mystical hand is responsible for stealing the monies of many traders. This invisible hand is so powerful it will change the perceived trend in an instant. Obviously I must have missed that part of the class because I thought it did something else.

So I told the opinionated person, to read his charts. He told me the charts are useless. The bearish trader told him to get a clue.   And the invisible hand guy starts talking and helping the other guy off load the blame to ... the government of course. How do they know for sure? If they are so intelligent to know all this stuff, why are they always caught in the wrong side of the trade when the "invisible hand" comes to work. Their speculation is so fantastic that many people think it is credible because they sound like traders. If it sounds like a duck is it a duck?

Charts are useless? Have you ever taken a ride in the subway. Having the charts and not reading them is like contesting whether or not you will stop at the next subway station even though it is clearly showing in the lighted map following the sequence.

How powerful is this invisible hand? If it is so powerful to steal your money by making the market go the other way it ought to move...why did the people who control the "invisible hand" not prevent the sell off of 2007-2009? The government is manipulating the market. Why didn't they manipulate it so it wont sell off? So they wont be so obvious? It seems obvious already because every time you are caught on the wrong side of the trade you know it is them. If that is not obvious, I don't know what is. If big brother is so involved? Why didn't they shoot the CEO's before they could inflict the damage that they did? If big brother is this intelligent, then are you not negating all the negative comments about how they are screwing up the economy?

Is there really news for every dip and pop of the market price? How many stock entities are there? How many times does the market or stock fluctuate during the day. Is Bernake's bodily functions news worthy enough to affect all of those? Does Obama yawning also equivalent to him saying something in public to cause the market to drop. Why would I say that? Because he opened his mouth and air did move. Laughable? Insane? It takes a lot of talent to spew a bunch of half truths together and weave a compelling story out of it. Perhaps a profession change is in order? Be a writer or a comedian?

Read your charts. Take ownership of your own action. It isn't the government, the news, the MM's or the PPTs. It is simply YOU!

Issue 048 - Over Thinking It

Even after learning some techs it is difficult to not over think the whole process. I have people that trade with me that still over think things. You get rid of news. You equip them with all the foundation concepts and definitions but come time to trade. "Be careful there is an earnings report today and there is a gap up there." The gap becomes a point of bias, even though the gap is well above the price action which has been distributing. Distribution alone says it will dump but the fear of the report says it may pop.

People study technicals. Read everything they can about it, only to discard its full use by mixing thought process that no longer lends to logic but funnymentals. Some people pay $3k to go to a class that teaches them technicals and leave again to blame the government announcements.

What is causing over thinking? Fear. Simple as that. And due to this fear. Logic goes out the window. What is the cause of this fear? Conditioning. From what? News and experts. News attribute market events to other events. Experts and people whom you would pay to provide you a service perpetuate the notion that trading is a nebulous undertaking. I know a former broker with a Series 7 certification who never really understood how the markets move the way we've explained it to him. How was he thinking before? Same as everyone else. Fear the news. And then trade the news. Not very far fetch if you think about it. How many people do you know have degrees to do the work that they do but you know for a fact they have no clue. It is just a piece of paper that says you are trainable. Why do you think doctors go through the hands on training that they do before they can practice? Would you like a plain old "degree holder" to operate on you?

How do you counter the fear. Well you need granular understanding on how the market moves. So that there is no doubt that 1+1=2. The process of accumulation and distribution is a description of momentum. The understanding of levels and legs provides you the entries,exits and stops. All crucial to making a solid trading decision. Identifying the actual price using the dojis further simplifies the thinking process. Accumulation and distribution can be identified through visual queue. Such visual queues no longer need further thinking on your part when you see them because you understand by the definition provided what the granular meaning of each. Do you need to think about it over and over again? If you do. Guess you need to study more.

Cognitive Bias WikiPedia.Com Definition
A cognitive bias is the human tendency to make systematic errors in certain circumstances based on cognitive factors rather than evidence.

Understanding accumulation and distribution provides you the evidence you need to make a decision. But people allow their fears to get the better of them. Understanding the legs that due to the accumulation distribution provides you the concrete evidence of the direction the price will go. What more can you ask for? Logical and consistent. Just what you want to make a non-bias, fact base trade. Is it really this simple? If you took the time to know it know it, you tell me.

But fear is a tough foe. GI Joe always said. "Knowing is half the battle". People are equipped with the knowledge to understand the market but are not necessarily adept to those knowledge. Do they know it know it? No. Can they recognize it? No. But when it is pointed out to them. Oh yeah clear as day. O now I see it. Ergo ... After the fact. Everyone knows what an ascending wedge is but can't recognize or even quantify the exact conditions that make is a reliable chart pattern to use. Do you? What is the other half of the battle? Execution. Can't execute if you are filled with doubt.

Why do you over think?
Because **you** don't know it know it.

Issue 049 - ES Review [redacted]

To the moon they say. To the moon!!

One trader thought that we should be at 1250 by this time. Can you say crack head? Why do people who think of themselves are "pro" traders ignore the very thing that they consider time in and time out? There are levels to be respected up and down the charts but people love to be over zealous about their expectations. I wonder if they traded it that way? I love this other dood in chat the other day. Says daily charts are not necessary. They have no influence on intraday. Okay...

Sure we are up here nearing the 1200 range. Sure I've been bearish about it. And seriously folks how can you not be? Sure we made it up here but on low volume. Am I disappointed that we are way up here? Hell no. People don't seem to get that distribution in the daily takes time.

Enough of that hoopla. Lets talk about business.

The red lines show how much more bearish we were with yesterday's high and so we had to sell from there. Some people wanted it to go higher maybe up to 1223-27 and maybe up to 29. Um no. Not yet. Dotted yellow lines tell you a different story. Showing you the distribution that has been in place for a while.

The next areas of support will be at 66ish and then 63ish. Already the market is setting up the response after reaching those levels. Lets see how it all plays out shall we. As you may already know the right leg of the yellow dotted line always does the same thing over and over again. The 30min already wants to pop this thing up but we can expect 1 more draw.

Don't be bearish. Don't be bullish. Just follow the market.

Issue 050 - And It Goes Boom

Well finally the market retraces back up to the April highs. As discussed before, the market produced a huge accumulation base starting from May to Sept.

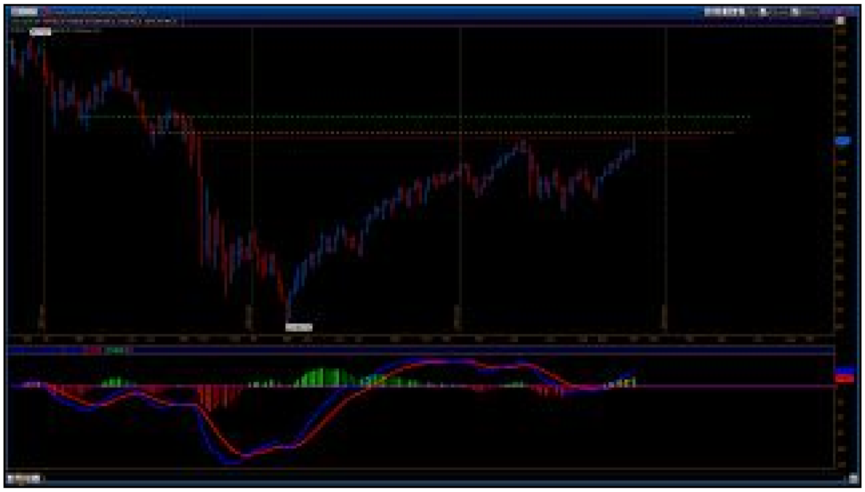
The funnymentalist were all so busy trying to short the market. Some had really exuberant expectations. The crazies were all pointing at the PPTs and the QE2. Give me a, ahem, a break.

The day was really was pretty uneventful. So uneventful in fact that I took a long mid-afternoon nap. Just in time to see the 2pm est pop. A lot of people kept trying to short. There was no significant shorting opportunity. The whole year has been moving that price up on low volume pops and non-committing bears. And yet to them this is market manipulation. Blame Obama. So much effort to cling to inconsistent reasonings by stitching together news from different sources. Are they really that intelligent? Why don't they just admit they don't know what they are talking about? The market has retraced all the way up here. These funnymentalist still blame Obama because the market popped and they were short. And claim the economy is in ruin because of Obama. Why? Because they were long and the market sold. Isn't it an inherent trait that intelligent people look for the truth and are open minded?

This accumulation pop is textbook by definition. Sell off, market moves sideways, build up bullish momentum. This is done in the basing process. Then pop to reclaim the previous support lost and then reverse the trend by closing above the previous high.

Some have said that the strategy I talk about here are not for intraday scalping. Hello! I'm a scalper. Obviously these people invested a lot of time to educate themselves. The accumulation and distribution I discuss is not a strategy. It just describes how the market moves. It is technically consistent across all time frames. It doesn't care if the market is bullish or bearish. When market is bullish then we play accumulation. When market is bearish then we play distribution? Is there something I am missing?

Where to next?



We gain a different and cleaner perspective from the weekly view. Here we can clearly see how we have reached the April highs. And now for our next target, where we must go to reverse the trend that cause the huge sell off of 2007-2008. Which takes us now to the previous support we lost back in Sept 2008.

The more immediate levels that we are coming to are at 1220.5, 1223-24.75, 1237.75. Just to name a few. And where are these levels coming from? Back in 2004-2005 weekly perspective. A few weeks ago people were claiming we would be at 1250 by last week. Some of these same people were the one's trying to short today. Go figure.

Issue 051 - Distribution Constipation [redacted]

A lot of people have been trying to short the market. Granted that there are technical basis for their observation. Their problem isn't that their analysis isn't good. It is just not supported by the proper time frames and by the amount of volume. This situation makes it seem like the market is being manipulated or is in major constipation. Lets talk about manipulation first. I can't say if it is being done so or not. Bottom line for me is that whether or not it is being manipulated, as long as they can't hide their transactions, I'm good. The second thing that must be noted is that, since the low achieved in 2009, the market has done one thing really well. That is, pop up on low volume. There are a few things that you can attribute to the low volume. One, people were wiped out of the game. And secondly, many hedge funders, and there were many back then, who would have taken every opportunity to short, were wiped out also or consumed by larger institutions.

There are a lot of people who have said fundamentals are out the window and technical are not working in this market. Fundamentally you shouldn't be investing with fundamentals if you are short term. Technically everything has been technically perfect.

What is driving the market higher is really longer term trend. People don't understand that, a huge accumulation process discussed in the last issue is largely responsible for us regaining the April high and surpassing it. Even the weekly closed above the April high. The other major component to the drive up? Low volume.

The bears are not participating in the market. Take a look at the volume that has been in play all year. Is this the volume you had in 2007 or 2008? No. Is this the volume you had pre-2007? No. Not even hitting 2million by 10am est.   So what has been happening. Some people have wrongly identified distribution in the 4hr time frames. Yes progressively there is distribution. However, in the 4hr realm, it can take weeks for it to play out. And it if happens, it will be short lived if the volume does not participate. And so where does the trend go to follow. Longer term trend, back to the daily.

This 4hr shows distribuition and trend and how momentum works.

How do you determine what volume is doing?

People understand some technicals. But when you are trading for the short term, you really have to understand momentum. A lot of people don't know how to see momentum A lot of people can't use their oscillators or even identify the patterns that turn momentum in their candlestick charts. It was funny last Thursday and Friday, people were really adamant about their shorts. Whenever I saw the momentum turn against them, I would ask if it would be okay if I (moo'd) go long. O no you can't this will go down more. No it isn't, momentum is turning. Not only did it turn on them after the open, it also setup a turn by mid-afternoon in the intra-day intermediate time frame of the 1600tk and 5min.

Trend

Some people don't understand what trend is. And why it is crucial that trend is not deviated. If the basic principle of trend is loosey goosey, then trend is not a technical consideration. There is no such thing as trend. But trend happens. There was a generalization told in chat the other day, that when volume is low, the market will pop up. Yes but only if the higher term trend is up. One of the first things I learned with stochastics, when volume drops, is that price will follow the higher time frames trend. Generally people equate the fast line of the sto to the price action. But it doesn't always happen like that. Sometimes the price will not follow that line's direction, but a higher time frame's direction. Volume dropped during those times.

Why will the dropping of volume follow the higher time frame trend? Because it is the trend! The lower time frame is subject to that trend.

If you claim to be a technical trader, then uphold the principles that technical trading requires you to understand. Some people claim to be technical traders, but utilize funnymentals to explain why the market moved. You can't be divided in your thinking process. If your understanding of technicals isn't sufficient, that you change your technical analysis for different situations, then you do not have a solid grasp of technicals.

Issue 052 - S/R Revisited

I really want to revisit this topic because while it is the most simple and basic concept in technical analysis, many traders have no clear idea what they are and how to use them. There is this one trader I know that has them backwards all together. He calls support resistance and resistance support.

While both lines or price levels do the same thing as you approach them. They repel the price movement. Support is the price level from which the price bounced from. It is the level that you approach when selling off. Resistance is the line that stops the price from moving further up. It is only natural, that once you have overcome resistance, it becomes support, because now price action is above it. In the same vein, once support is lost, on the way back up to it, it becomes resistance, because price action is below it. Not rocket science.

Resistance

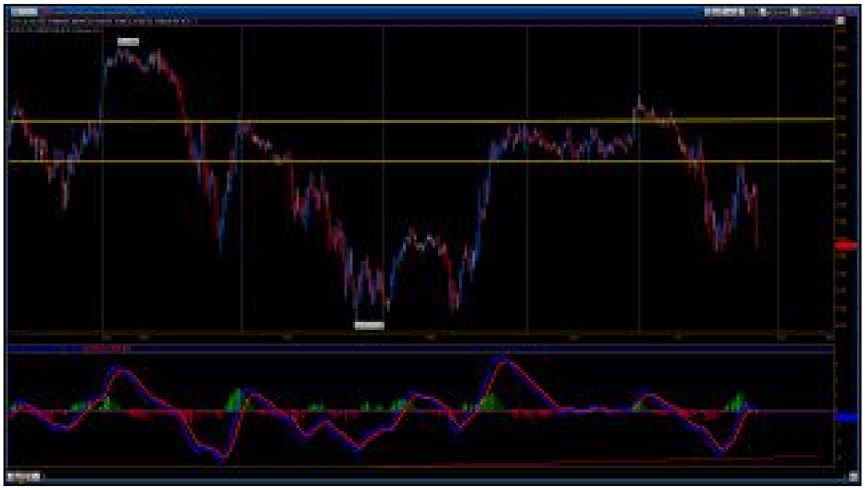
.

Back in April 2010, the es tried to reclaim the support that we lost back in Sept 29, 2008. At this point es met some resistance. And the week of Nov 1, 2010, the es closed above that candle and gained it as support. However the following week, the es closes below that price level, and once again that price level becomes resistance again. Very simple concepts thus far.

Support

The week of Aug 3, 2009, the es claimed support at 1005.75, which lead us to the April 2010 highs. This support is tested in latter part of June, and first week of July 2010 which lead us to the Nov 2010 highs.

Areas of Consolidation



As you can see in this image, areas of consolidation provide 2 very important pieces of information. The range provides you level of support (at the bottom) and level of resistance (at the top). It is a beautiful thing. As you can see in this example, these levels who played significant roles in the past, will continue to influence the future. In this 5day15min chart, you can see that 1192.75/1193.00 was a support that the es tried to hold back in Nov 19 at 5:30 am est, and again at 6:15am and we finally lost at 7:15am. And then we reclaimed that support again by 11:00am to lead us to the 1206 high. You can how influential this level of support became throughout last week. And because of the North Koreans, we failed to reclaim it and caused the es to sell. You do know I'm being sarcastic about the North Koreans right? Technically we were bound to fail. We will discuss this further in later on..

The top of this consolidation range is the resistance. Again, through out last week this range played an important role of keeping the price contained. Last Monday, we came up past this level, but could not close, and got here on more bearish notes than when we arrived there the first time on the way up back in Nov 18 10:30am est. And so it is natural that it would sell. We again go above it after struggling to get over it all day Nov 24th, by end of day 10:15am. But to hold this high was not possible, because again on even more bearish momentum, so it sold once more.

The channel produced by areas of consolidation provides you a way to identify levels of support and resistance. I could have identified more consolidation areas at each peaks and bottoms, but I just wanted you to see how powerful and useful areas of consolidation can be.

Lets discuss Friday's action, as an example of application of knowledge gained. You see, some funnymental traders and the news blamed the negative results of the market on the N. Koreans. I suppose that it could be but really, I honestly don't care to know with regards to trading because, technically the sell was supported.

Since Wed, 10:30 am, the market has lost a lot of momentum during the consolidation. Even as the es got to 1200.50 by end of trading day, the distribution process is quite obvious. The distribution returns the price back to where the left leg started. At that area of consolidation, at around 8:15am on the Nov 24th. And because this was a level of significant support, the price action bounces, with the support of the momentum by 7:30 am that Friday morning. And the accumulation led it to return to where? Back to where the leg down started and the consolidation point at about 2:30am Nov. 26.

By this time 1192.75 is not a support, it is resistance and after a sell, you will not accelerate beyond it at the first try after you just sold. You will require more momentum. It is just how the market moves. But really, we all know technicals is hum bug and there is no such thing as trend because this price movement was in response to N. Korea.

As we continue to discuss S/R in later issues, we will discuss more about what is now really clear and apparent, to you. If market consolidates on its way up, it will respect those areas of consolidation on its way back down. Simple rules of S/R. The higher time frame S/Rs have a lot of history and are more significant.

Aside

I love it when people talk technicals but then start talking about funnymentals. They say, follow the trend but beware of the news! If the news can gum up the trend, was there really a trend to begin with? How can you follow the trend but then it will be completely violated by the news. Does the trend exist? You are caught in a contradictory position with such logic. How can you be trusting a trend when the trend can be violated. Yes, I see, it is covered under market manipulation, PPTs, QE2 and MMs and Obama and Bernake and the North Koreans. Did I leave anyone out? Jorge tells me POMO. Yes! Nothing is my fault I am an exemplary trader ... It is all these yahoos who are screwing with me personally!

If the trend did exist and the reaction to the news was within the confines of such trend, then the only reason you did not see it coming is because you had the wrong trend to begin with.

A question was posted by an "expert" trader, why FMM would suggest to have someone look at a large scope of time because he felt it unnecessary. This is the same trader who suggested that you don't need to see the chart past 1yr. Why look at 180day 1hr why not use a smaller scope.

And herein lies the issue why some people miss the trend all together. People like to put themselves in a small box. Why would you limit your view? If all you used was 1day15min, would you have seen this huge distribution pattern? Unlikely! Progression is a very important thing to see. You must not limit your view. If the market movements has you baffled, cycle through other time frames. And don't just cycle, zoom in and zoom out! If you can't see what is developing, you will be caught unaware.

This box that people self impose on themselves is the very reason why they are caught going long just as the market decides to end its rally. It is also the very reason why they are very wary of the "news" and "events". It is also the reason why they don't know how to identify and play significant levels. They don't know the history. They don't know why there are pivots and ma's. Anything they can't explain technically, goes into the X-files, market manipulation and conspiracy theory. Progression tells you how you got to where you are, if progression or history or the price action to the left of your chart is not important, then levels and support and resistance are not viable technical consideration and neither will trend.

And one more laughable statement by another one of those "experts".

"I don't trust the doji unless supported by volume."

It boggles the mind.

Enjoy this post gang! Sorry it took so long :).

Issue 053 - S/R Action

So now that we know how to find S/R's, lets discuss how they work. One of the simplest concept to learn is the leg. Any chart pattern can be divided into specific parts. The primary distinctions will be focused on the legs of the chart pattern. A double top and a double bottom has 2 legs. An Head and Shoulders or Inverse Head and Shoulders chart pattern has 2 legs as well.

Legs

Legs are a great guides for you to pattern the price action. If you can identify the pattern, and the momentum to support it, you will be able to use the originating left leg of the pattern.

THE DOUBLE TOP

Here is today's double top play in the early morning. The leg up is the template of your leg down. The start of the leg up is the actual target of the leg down.

As the double top's highs are hit, it will trace back down the the mid-line. After all, a double top is a distribution pattern. The mid-line is what distinguishes the double top. This mid-line bottom is defined by the area highlighted as significant level #1. This is the level that we by-passed on the way up, because we have more momentum on this run up than when we hit the first time.

So the mid-line will pop from here. Why will it pop from there? Because on this first attempt to sell from previous high, we are still more bullish or just as bullish when we arrived here on the leg up. The distribution continues to progress. By the time we retest the previous high, we are more bearish. So we sell and hit the start of the leg up. There is 1 wrinkle to this pattern because on this drive down, in the lower time frame, the test back down to the mid-line, we were still a little bullish, so it popped it up to exhaust the bullishness and we sell toward the start of the leg down.

This is how momentum and levels interact to define the price action.

Useless funnymental quote:

08:32 dumdum: jobless #s were exactly what bears needed
08:32 dumdum: to damper yest. rally

During this sell the people who don't know how to read charts wrongly assumed that the rally was over. Because they don't understand the accumulation that produced this pop, they conclude due to the news that the move is over. If you have to subscribe to funnymentals to make sense of every move with such wild justifications, then you have no grasp of technicals at all. Go find a job and stop trading.

The Double Bottom

This is the 4hr view, you really have a giant double bottom formation here, and it is an accumulation play. Where does the accumulation play want to target? The previous support it lost and then the previous high. The useless comment up there was so wrong, because the little bit of draw had not enough strength to off set the huge accumulation momentum created by this base. Very ill informed. Now people will claim pomo and what ever funnymentals. In this example the leg down is the pattern for the leg down. If you read the levels to momo as I did in the double top formation, you can see why you will be repelled by each S/R.

Another silly gooroo, told me that I should learn how to read a chart. He was calling to go to 1150. The last week or so. Due to this accumulation, there is no way it would go to 1150. Then the silly gooroo tried to tell me Monday and Tuesday that there is a EW 5 wave down. Based on his own lame charts, there was no way according to any other spx wave setup that there was even a possibility for the 1150. So who needs to learn to read a chart? Can't even read his own EW charts to know that to deviate to 1150 would break his count and wave structure. Here is a great EW chart: A real EW analyst Based on this gooroo's previous work, there is really no way he could have produced his EW chart on his own. And for him to claim Wave5 draw at the wave 4 and even wave 3, just shows how much he really knows.

A second look

If you consider this 15min chart, there is no real way for you to determine that this huge pop would occur. The only way for you to determine the momentum for this move is to really put it in reference to the higher time frame move. That 4hr accumulation is the reason you are up at these prices, and due to the consolidation that occurred on the leg down, from 11/9-11/11, the support we tried to maintain before selling, the test of this level on first attempt will sell and sell to the next strong support.

The draw down helped build more momentum to the up side while respecting the level as it came up to it the first time. I can't but feel bad for people who tried to short this all the way from from yesterday. The 4hr was very clear about this accumulation play.

Accumulation targets previous support lost. The start of the leg down. Can you make it any simpler? Isn't it easier to think technically, rather than making up rationalizations you gather from the news, pomo, and other silly inconsistent imaginings?

Issue 054 - Raid Awareness

World of Warcraft came out with Cataclysm. Its fun!! One of the skills you need to play WoW is known as "Raid Awareness". In a raid, a lot of things happen as the fight progresses. You need to know when to move and position your character, when to stop your attack, when to interrupt an attack and other things that normal gamers don't get to do in many games. You will also come prepared knowing what the fight mechanics requires. You will also know how to react if certain role players fail, so you can step in and take over. Many games really just have you stand in one spot and attack and you can win. The latter is not too realistic. And that is how many people who trade, trade.

Have you ever heard of that ex-cme floor trader who claims to not use charts? He poopoos charts but the truth is he can't trade without them. He uses PnF charts. Its an old school charting but highly effective. You don't have to wonder too long why he was fired from the floor. He goes out and says things like "you just got to feel it in your gut". Comments like that really lessen your credibility. It shows how much market awareness you have. The beauty about PnF is that is provides you the range and they will be hit every time. So how can you say "gut move"? unless you are trying to bolster your ego?

Market Awareness

Market awareness is being prepared. Market awareness suggest you understand the longer term trend, the intermediate trend and the current small trend. Not only do you understand it, but you know how they will all fit in together. Because all those trends can seemingly contradict each other. "Seemingly"? The real trend is always the higher time frame trend. The smaller time frames meander through the levels and sometimes will sell to build up momentum to the upside and rally to build up momentum to the down side and all that work to effect the rally of the longer term trend.

Really a lot of what you must know is to thoroughly understanding the S/R that are relevant to the current move. Momentum will adjust accordingly to respect those levels of S/R. You must match the current action to the definitive time frame. The definitive time frame is the time frame that has matured in its accu/dist process and is/will be affecting its pop/drop. It will be at the significant S/R.

Lets consider BAC. A few people in my group played this out really well. In the weekly, BAC has been selling but was about to arrive at a region of support.

The daily and the 4hr and 2hr were very telling of the accumulation process. It formed double bottom with supporting momentum. Kudos to the gang who took the profits!

If you consider the 4hr, it dropped really low, before popping. The low was achieved at 1pm 11/30 est. Some people classify those moves as shake out or false moves. Market awareness and because you now know about S/Rs explains that it was necessary to hit that lower price. It was the level!! So was it false? Was it a game being played? Were you being shaken out? Hell no!! It was technical.

What is interesting to me about some traders who claim to trade the futures is that they have no market awareness. They don't know what the higher time frames are doing. They don't even know what their intermediate charts are doing. They don't understand progression. They don't understand how the market moves. You hear a lot of POMO, market manipulation, PPTs and crap like that. They are your number one resource for market events. They are your number one resource for news. I really love it when they flood the chat room with a novel for you to read. To them this is being market aware. How many times have you seen these people frustrated and angry. Dejected that things didn't work out how they figured. Market aware? Hardly.

Trade well, read your charts!

Issue 055 - Just For Jorge [redacted]

Jorge has been a TOS pal since I've been in TOS chat. So here is a lil analysis for the Jorge.

So this morning, 6e lost a little ground and lost also the support at 1.3130 area.   Based on this 1600 chart the rest of the day after dropping to the low, it was accumulating. Now the perceived support that was critical since 10:47 est on 12/17 was at 1.3129/28. Where is this number coming from?

4hr chart, 12/1 17:00 est.

Daily chart of support area.

Now after selling below this support in order to pop up, it must be tested at least once and build up momentum to punch through it on 2nd turn. This is how momentum is used to punch through significant levels.

So in the 1600tk time frame, at 11:23-27, this level of previous support is now resistance and it fails to close above this resistance. Why? If you look at the last time we bounced from this level, we were significantly more bullish. Back on the 12/19 at 19:43 est and 20:03 est.

So accumulation continues to set up the move. Including in the 15min time frame. So momentum is supporting this pop. Conservative target is 1.3157-65-68, where the leg down started from.

Hope this helps Jorge!!

Issue 056 - Questions On Risk Management

Happy Holidays Everyone!!!

People love to talk about risk management. And one of the best things to have are stops. The question I have is how do you prevent loss of capital from all your stops? Stops aren't bad in of themselves, but is it the only recommendation for risk management?

I would have thought that in order to effectively avoid risks, one should strive to have better entries. But how can you achieve that if you can't read charts? A lot of people have no real clue what their charts are saying.   They focus a lot on on current price and try to guess what will happen next. Even though people read charts they wait on the news or fear what news is coming up. How then can you minimize risk without having something solid to base sound entries and or exits on?

Some people think they need to learn more about the industry or company. They subscribe to many news feeds and try to find all kinds of information that may affect their chosen stock. They think that this is what professional traders do. They consider themselves as being Warren Buffett like, but Warren Buffett is an investor, these traders are all swingers and scalpers. The distinction is lost somewhere. What is even more distressing is that they trade the futures and forex in the same manner. TOS had a day trader on in one of their Wednesday chats a couple of years back. And this guy was interesting because he basically blew away most of the listeners idea of what a day trader is. He was asked what was it about the stock/company he invested in that interested him. The gist of the question. So what does this highly acclaimed day trader say? Did he say he had performed tons of research? Did he say he knew the news about the industry? Did he say he had a tip about an event? None at all!! He said he saw and liked the price action. And he goes on to say..."I really don't care about what the company does and I don't really know what many of them do." And then he went on to ask Sos, if he knews everything about whatever company he puts a stock play in. Sorry I forgot this guy's name, but this was the important piece of information that I took from the chat.

If the foundation of what you believe to be "risk management" consisting on understanding the fundamentals, specifics about the company and news. If this is your way of knowing what is going on in the market, you may have some thinking to do. Your whole concept of what it takes to make a good trade was just blown away by this guy.

What is risk management? Is it merely setting stops? Ever use a butterfly option? In theory, you can make money if the action goes either way. It will work provided that you set the range properly. How will you properly determine the range? Well you have to read the charts! You also have to understand what the potential move will be in either direction. Now there are ways to hedge these things, but the point being is that you should have a fairly accurate idea what the price action will take. Even a butterfly is directional in that if it goes one way vs another, you can make more money. So is it possible for you to lose money even on a butterfly? Yes! And you even have to pay for setting one up.

Do options then minimize your risks? Yes! But what skills do you still have to have? You still need to learn how to read a chart!

Ever ask a trader how he can see momentum. Bet you not too many can. Bet you not too many can tell you what the long term trend is and what the intermediate trend is and short term trend and how they will work together. Even fewer still can tell you what momentum is doing in any of those time frames to assist the trend. Most will tell you, they expect a pop/drop because of some event or news. And if it goes completely awry, POMO, PPT, Bernake, Obama.

Ever heard of these frivolous law suits against McDonalds? Parents are blaming their family's obesity on McDonalds food and toys. Seriously if those parents actually learned how to cook many of them wouldn't be in that situation. If they weren't so lazy to cook, they would not have started their kids to eat out at the golden arches. If they actually cared for their children by being firm when they said no, instead of coddling them, then McDonalds wouldn't be an issue. If they actually paid attention to their health class back when they were kids at school, they would know that burgers and french fries, which really filled the air waves in the 80s as being unhealthy, they would know better. Who paid for the McDonalds? The kids? How did the kids get there in the first place? The toys!! Wait no the commercials did it! How can the parents compete with all the marketing? Is it really necessary that parents must obtain a license to have kids?

What does this have to do with traders? Same kind of thinking. People want to make money right away but wont put in the effort to learn what it really takes to do it. Instead they rely on things that really does not empower them in anyway. News and Funnymentals that have no consistency. Good News = Stock Goes UP. Bad News = Stock Goes Up. Good News = Stock Goes Down. Bad News = Stock Goes Down. If things don't go right...not their fault. A lot of denial and ignoring the hard truth.

If people are not smart enough to know what is healthy for them and their kids, are traders really that smart that they can process all these different pieces of information all at once and come up with the right answer? Are all traders qualified economist and political analyst? How many of these people are really smarter than a 5th grader?

You know it is funny, the market keeps going up and a lot of traders are upset. You would think that they would consider this as being good for the economy. I heard on the radio today, that companies will be looking to spend more money. Looking to hire more people. Existing home sales is up. If these traders get their way and the market goes down, the government isn't doing their job, they would say.

Issue 057 - New Year Weekly View [redacted]

Happy New Year!!!

It was great New Year, was even more hilarious seeing all the cars pulling over on the side of the road to spew their festive drinking. 2010 was great! It was all low volume pop. We had fun with the fat finger day which helped the bullish run even more. And although that seemed like huge volume, what people didn't understand about it, was it help extend the run to the upside by relieving some of the bearishness in the system.

The bearish notes have not gone away. Technically we are popping on low volume. There are great things happening with this action. It delays the bears and at the same time strengthening the levels of support that will act as a buffer to slow down the bears. This low volume will continue. The sideways movement will continue, and in longer term perspective we are distributing still. What? Really?

When we are talking about daily and weekly perspective, we are talking about very long time maturity of setting up. This is something traders don't seem to understand. They don't really put what they are seeing in proper perspective. They see distribution but don't realize that distribution is working to accumulate in the longer time frame. Then they have really large unsupported expectations about the distribution. For the last few weeks there are these poser EW people highly biased for the 1130 to hit, completely ignoring the longer time frame trends to hit the previous support as shown above.

As you can see, this weekly is targeting its previous support lost back in July-Sept 2008. We are coming up on levels back in 2005 and 1990's. The pop thus far has been on low volume. What exactly is going on with the market?

Well, if we sustain low volume, we will continue to follow the monthly momentum.

What does the monthly have to do with the low volume? Trend. Plain and simple. If monthly was bearish, a low volume will follow that trend and sell. Low volume does not mean pop. Low volume follows technical laws by following trend. Generally will default to a longer time frame trend.

As you can see from this monthly, we are currently working on reclaiming the support we lost back in Sept 08. The start of the leg down that brought us down to the 665 lows. Coming up here will also approach a level that was significant back in 06 that was overcame back in Sept 06. This level of support was a battle ground back in 2008, ultimately failing in Sept of that year. So do we expect a battle here as we come up to it as resistance?

Anyways have fun this new year.

Issue 058 - Levels And Momentum [redacted]

Well, if you know what levels are, you know that this will be about S/R. The misinformed have been calling moonshots all last week. What is so sad, is that whenever they call for the moon, the market pulls back. Clearly displaying lack of knowledge of S/R's and momentum. These poor blokes, I hope they are still taking gains. If they actually knew what they were talking about, they wouldn't have been making calls for 1320/30 back Monday and Tuesday and then again Thursday, Friday. If they understood what we discussed last week, that there will be some strong resistance in this area, then they would be more credible. Another important component that they forget is momentum. Momentum has been waning since 12/13 and before that with strength back in 11/18. These outrageous projections came from the same people projecting 1130 pull back 4 weeks ago. On Friday, they projected 1400 for the top of their trend line. As FMM would say, "O my lord!!"

As discussed in previous issue, we are still working on the weekly retrace back to Sept/08 levels. We are still on par for that target but there are more signs of weakness building up.

Hang out with reputable Elliot Wavers. Here is another no nonsense EW person with real projections. One Elliott Waver or DanEric's Elliott Waves.

Momentum and Levels work hand in hand. Momentum will change long before it reaches the level of significance in order to support the reaction that will occur prior to reaching that level. Meaning, if you are approaching significant resistance, you will know what will happen because of the weakening of momentum. If you are approaching an area of significant support, you will see momentum building.

Issue 059 - Levels in Context Part 1 [redacted]

Determining the levels of interest seems to be a tough thing to do. Not so tough when the action is moving as the result of the completion of the accumulation or distribution setup, but tough on some during the start during the sideways movement of the process of accumulation and distribution. Many people consider these sideways movements as chop. It isn't that the market action isn't trending. The market is always in a trend. It isn't trending in that particular time frame. It is in these times that people are trying to play a longer term trend and get stopped out long or short. Really, if they examine their losses during these periods, it doesn't really matter that the market was longer term accumulating or distributing, they still repeat the same mistakes over and over. And that is why we want to put levels into context.

The sideways action is always due to a significant level. Understanding the move in context is critical for you to determine your probabilities. Sideways movement can be the start of an accumulation or distribution, but also happens en route to targets of accumulation/distribution. They usually manifest themselves as the mid point of the double bottom, the mid point of the double top and finally the top range of a head and shoulders or bottom of the range of an inverse head and shoulders. What always seems to be lost in each case is the reason you are at that price level. The reason that the sideways movement is occurring. This problem is why people don't understand why the accumulation process produced a new low. Why the distribution process produced a new high. Why are you accumulating or distributing in first place? The immediate response is because we are about to pop up or drop the price respectively. But never, we are accumulating because the target of the distribution that lead to accumulation is coming to completion. We are distributing because the target of the accumulation is nearing and so the price action is setting up for the correction. They always forget what the original process is that brought them there. And then finally the other reason why they get lost, is they don't understand where they are in the leg. The first 2 reasons relates also to the latter.

The other part of putting things into context relates to the price action. Some people forget or don't even realize where they are in the chart pattern.

Primary Distribution Chart Patterns

1. Double Top
2. Head and Shoulders

Primary Accumulation Chart Patterns

1. Double Bottom, Head
2. Inverse Head and Shoulders

If you still have to ask me how to recognize accumulation or distribution, I'll hit you with a bat. And if you start with, that chart pattern doesn't look like whatever, again, i'll come out with a bat. If up to now, you are still looking at text book perfect chart patterns, it is time for you to take up another trade.

Price action produces these chart patterns. It is the manifestation of how volume is being offset. The representation of Accumulation and Distribution. When you are on the final shoulder of a head and shoulders, will you call out for the moon? You might think that is funny, but people do. Why does this happen? They don't understand the price action. They don't know how markets move. They have deer looking at headlights syndrome. Bottom line, they just don't know. Armed with all the technicals, they still have not put it all together but still brave enough to put in a trade. These are the people who say they know technical analysis or grasps concepts of technical analysis but when it comes to applied, their focus is too narrow and have no clue about progression.

This is part one of this primer. I've struggled writing about this concept because to me it is rather basic. It is the culmination of all the technicals already discussed. But in order to effectively discuss this issue, it will seem rather complex and drawn out because I am going to take painful steps to explain each concepts. And I say painful, because I actually have to slow down my own thinking to describe it. In practice, the visual cues are all I need to process the price action to act on them. And that is where you want to gravitate to. You look, you understand and you act. Sometimes in order to move faster, you must slow down. Just like the market, in order to pop/sell hard, you must sell/pop up first respectively. Take some time to think about what was presented above and how it relates to your trading.

Perception

Here is a chart. This chart does not show the price or the time frame. Can you tell me if this is an intraday chart? Or is it a longer term chart like a weekly.

In this chart, can you identify areas of support and resistance? Can you identify levels of strength? Can you see the legs? If you have trained your eye and mind to understand what support and resistance is and how you can see levels, then what I'm asking you, is easy as pie. If not, then you need more studying.

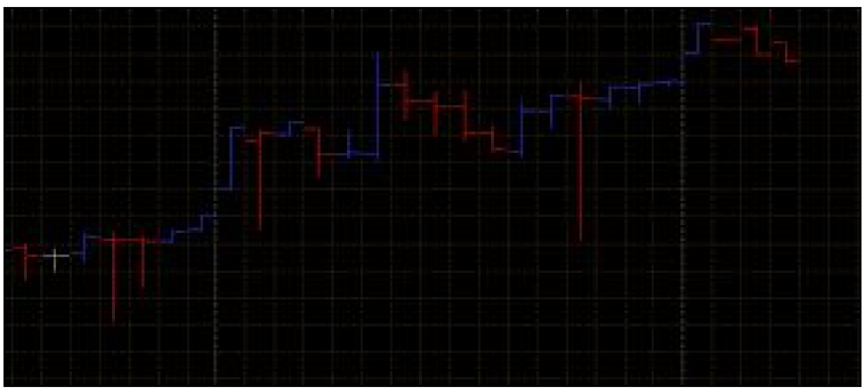
Can you form a bias as to what this chart is? Is it 5min chart? Is it a daily chart? Bias is what screws up people and their technicals. They form so many bias when it comes to time frames too. They think one is too fast or too slow. No possible way to trade the ticks. Is this a tick chart of some sort?

Before I reveal what this chart really is, can you tell me if you understand how price action produced the sell and pops in this chart? Can you identify the legs and how they came to be? If you are truly sharp and honest about your technical skills, you probably can. If you can't more studying is required. The visual cues is what you need to develop to make intelligent decisions about your trade. You will not make painful analysis. You will make quick and smart trades. No matter what time frame you are looking at.

Would it surprise you to know that the chart you were looking at is a weekly chart? Your perception of time frame determines your bias. But some people add an extra level of complexity. They think that one time frame is more difficult to trade than another. This chart could have easily been a 512tk chart.

Issue 060 - Impaired Trading [redacted]

Impaired traders are easily identified. They talk in technical terms but have limited their capabilities significantly. They are always waiting on "confirmation". Waiting for the "break out signal". I know about those things because I used to do it. Why are they "waiting on confirmation"? Generally, these statements are from people who do candle to candle analysis. Almost always, you can tell from their charts that they also limit their field of vision to accommodate their trading style.



What can you really gain by limiting your field of vision? You will more than likely end up to the same conclusion about this kind of thinking, everything is lagging.

If you understand how the leg up is related to the leg down, would you be able to gain more meaningful insight into what the market is doing? People talk a lot about support and resistance but have no real clue how to use them. People do understand that what was support becomes resistance, but because they are stuck reading candle to candle or have limited their vision severely, they can't think ahead to use what they know. Chart patterns are useless to them also because they never know how it will form.

People who don't understand S/R rarely ever get where the market is going to go. Near term or long term. They understand what is a projection. Much like how they would concede that this AAPL should retrace back up to 360, but may have gone long just before 356 and end up ruing the trade.

They would claim that the problem was contradicting time frames. It is so bullish here but then the shorter time frames were contradicting but they know it will go to their target. Again, ignoring the simple relationship of S/R and not understanding how price must obey their simple rules.

But what of the contradicting time frame or indicators of the lower time frame?

The only person thinking it was contradicting was really you. You see, the lower time frame knew that there is a significant level coming up, so it must prepare for the response as it approaches it. Technically, nothing can happen unless it is set up to do so.

I love how the news blamed the continued unrest that developed last Friday to cause the sell off. But if you read your technicals correctly, the sell off was pre-determined. It was setting up for weeks.

Do you see how it has been distributing? And where will distribution take you?

Where did the leg start from? Even in your higher time frames, its clear. Progression is how things work out. Progression tells you how things set up. But people don't care for progression. They think that anything on the left of the screen is nothing because everything on the right is a product of global events. Cause and effect. The funny thing is, they don't understand that cause and effect is the true nature of progression. To help the visually impaired people trade they plot ma's and fibo's on their screen. But even then, they aren't really sure how or why it works.

Issue 061 - Going Down The Leg

When you're going down the leg there is nothing to look at but the leg that took you up. The leg up has interesting levels in between. This 1600tk chart describes the leg that took us to the previous high.

There has been distribution. We sell and bounce at 27.5, now in order to change the momentum to the upside, the market pops up the price as observed here. This is a common action. Then after the pop, it will attempt to test the previous support, in this case, it will be 27.5. As you know, when you test this level, if you fail to generate enough momentum on the up side, this 2nd test of 27.5 will fail and go straight to the next level of support at 26.25. Why do we want to see the market go down to 26.5? Because it can be considered as the start of the leg up. Very simple. OMG!! Am I predicting the market? Or is this an "edge"?! Can't you just believe it is technical?!

As you can see in this 5min chart, at about, 18:00 hrs on the 28th, this was a level of support that helped us get to the high at 36.5.   Distribution leads to where? Can it be any simpler? Now structurally, this huge distribution should take you back to 19.75/50 then 17.75/50. At each of those targets, you should pop up first try, then go down to the next.

Now what about the macd on the 5min? That macd suggested that we popped up on bullish volume. Is it significant volume? Compared to higher time frames, like 30min or hourly, not very significant, but a retest of 26.5 should produce a little pop because of the elevation gained just in this time frame. If momentum will turn and change here, you don't want to see a retest of previous support on lower macd achieved on 1am est.

Voila! Now by this time, it appears that the 5min macd is still in process of cycling down, however, since this is the first test of this level, we will experience a pop. Then when we come back down, we should break through and continue the setup of the 5min macd cycling down. Where is the momentum helping this pop coming from then if 5min is more bearish?

Surely it didn't come from a higher time frame. It must come from the lower time frame. And the response is purely technical on how the market will test a level and break it. The market does not do things on a whim, it does them technically. Your job is recognize them.

Issue 062 - Market Does What It Does

Earlier today a trader was commenting about the tragedy in Japan. While all that unfolding over there is not something to joke about, it is also sad that this trader was trying desperately to relate what is happening there to the market. After the market hit 1251 early today, he remarked how can the market go up with all the turmoil going on in Japan. Then there was another, trying to talk about gold going down at the time like this. When the dollar is fading and there is so much fear, gold should go up.

It just shows how much people really know about how the market moves. It just shows how really consistent their understanding of news driven cause and effect from which they thrive on.

The market popped by achieving a new low at 1251 on more bullish volume. We call this accumulation.

And how does this relate to legs?

And why did we go down to this consolidation? Isn't it obvious, that from this consolidation area that it can be considered the leg start?

But when did this distribution began? Was it just the recent events?

The market clearly does not do anything that it is not set up to do. To the moon indeed.

Why did GC drop? Isn't it in times of fear and uncertainty that Gold should pop? This is the known correlation is it not? And when there is fear and hording...it is gold not green back or stocks that should pop. Isn't that what cause and effect of bad news should bring?

O but this is after the fact. Do you still not understand progression? The setup was days prior or even weeks. Yes the news accelerates the move. But the moves are still purely technical and set up technically to support the outcome.

Isn't it interesting what the dollar is doing?

Issue 063 - Price Action And Legs

I've covered some basics in the last few blog entries. In this entry, I want to highlight some key points before moving further. It is amazing however, how people just want to make things more complex than what they really are. Some people think they can learn more than one thing at once. It isn't really a question of whether they can or cannot, but when you are being taught something, learn that thing being taught. When I was learning new concepts like trend lines, that is all I did, trend lines. When I learned, wedges, all I did was wedges. Many of my trader buddies who went through the learning with our old buddy Bucky, know how I worked on my charts. I didn't just say I understood what I was being taught, I rigorously applied one concept at a time. As soon as I got comfortable with the concept, then I tried to apply all the other things I learned to see how they work together. That is what I did with FMM's lessons on candle stick mechanics. I learned what he said, then put it together with my buckets and voila accu/dist with legs. So, when you are learning legs, just do legs. So lets review some basic concepts:

Concepts of Price Action and Legs

1. When Price is going down, look to the immediate left and use the leg that brought the price up.
2. When Price is going up, look to the immediate left and use the leg that brought the price down.

Did I blow your mind yet?

3. Now the leg on the left, describes the levels that you will encounter as you move up/down that leg.

Some may say, I can't get how I'm suppose to find the levels. "sighs deeply" ... I would say, go back and review my old blog posts. There are a few that covered support and resistance and doji magic. This is where the issue of how to learn something comes into play.

The simple answer is, points of consolidation. If there is a pause in the price action, then there has to be a level there. If you look to the left of the of that left leg, and you see tops and bottoms of peaks and valleys in the general area of the consolidation, its easy to say there is a level there. There is a reason why we note levels as support and resistance. It seems hard to understand why people use the terms but have no clue how to find them and what they really are. If it seems I am venting a bit, its because I am. It is for your own good. Really.

The very important point that you **must** learn is that levels whether in the function of support/resistance when approaching it, must be respected whenever you pass through them. That is the whole idea why we find certain prices to be support or resistance. It is a terribly complex notion. You do need a degree in quantum physics to understand that.

4. When you approach these levels on the 1st attempt, you will be repelled.

I love how people love to point out the "fake" pops and drops. It popped there because that was a level and it was repelled hard because that was a significant level and it was your first attempt. This is a fact of how the market moves. It isn't about the news. It is a core idea of what support/resistance do.

When do you actually go through a level?

5. Generally, with momentum allowing, you will pierce through a support/resistance on the 2nd try.

Note, I placed a qualifier there. Momentum allowing. I will not go through this in detail here. I've covered them in previous posts. The whole idea is, if the market has set up a longer term distribution, don't be playing a hard pop up to new highs when you are not even at a significant leg stop.

Points 4 & 5 is very key to calling out those gooroo's who were calling for 1304 to happen early last week. These maroons, as Bugs Bunny would call them, forget these 2 key concepts. And more than likely, they blame other things like news, HFT, government, MM, QE2, POMO and whatever else they can make up. And because they don't understand them, how well do they really know how to trade? Blessings and guarantees indeed.

Point 4&5 is the why we form double bottoms. It is also how double tops work and hns and inverse hns. It is how the market moves. If you get it, you should be able to understand where to go long, short and where to exit with much certainty.

I did not provide graphics in this entry. I saved them for you to find and understand. Find them on your own. If you are too busy, you can find many samples in this blog. Learn these concepts and understand them thoroughly. You can't progress to other things till you do. Don't just say. "O I get it. It is so clear now." Do some work and see how they do work when applied in live price action. If you are too lazy, there is this guy who says he guarantees you will make money if not he's fee for his service is free. You should go see him.

Issue 064 - Consolidation

Areas of consolidation have so much information to provide. Not many people understand how to use them. When people see areas of consolidation, many people make comments like "the market is trying to make up its mind". Speculative analysis. It isn't even technical. What do most people do with such speculative analysis, they generally say they are SOH. Sit on hands. No real clue what to do. They think it is chop and have no idea how to play these sideways movements. Another thing that people do when they get into areas of consolidation is go long at peaks, and short at bottoms or valleys.

Technically, areas of consolidation are spots where momentum builds up. The more noticeable areas of consolidation people should note are peaks and valleys. Peaks and valley have 2 very distinct properties that you can immediately discern.

1. Support - *is the level below the price action. When lost becomes resistance. Lost meaning price action goes below this level.*

2. Resistance - *is the level above the price action. When regained, as in price action moves above it, the level will become support.*

Aside: you wont **believe** how many people still mix this basic fact up.

Top Range

Bottom Range

When you determine these 2 parts of these peaks and valleys, what you have is a range. And within these ranges will often see a doji contained within. Where the doji open/close will also determine your mid range. The top, middle and bottom of the range are significant levels. If there isn't a doji present, the next thing to do is utilize the opens and closes of the candles. You should see a price that is consistently being used as an open or close. A note about doji priority. People have these generalizations they like to make. One such generalization they make is "*it works till it fails*" pertaining to technicals. The failure is that they don't recognize their own lack of understanding. Not so much that the techs failed. You get remarks like. "*I don't trust a doji unless supported by volume.*" or one more less absurd is "*sometime doji's fail*". The less absurd is easier to answer than that completely brainless comment about doji's being supported by volume. The doji may look like it failed but it is a matter of understanding the **level precedence**.

If you suspect a level with a doji to be a strong support or resistance, look for that level at a higher time frame.

People often limit their view. The question is always...why? The real problem is that people really don't understand what it means to "**PLAN**" their trades. And with their limited view, they often form an irreversible bias. This bias then solidifies their generalization that "it works till it fails". How do you trade with that kind of "confidence?" in what you read. I kind of picture a person walking, completely focused on his feet but not the road ahead. Then he declares after each step, it works till it fails. And ahead of him, just a couple steps away is a cliff.

That is how most people trade. Most of their trading considerations happen at the spur of the moment, never understanding that what happens is a result of progression. The higher time frame will always have precedence over a lower time frame. If a level is **respected** in a higher time frame it will always be respected in the lower time frame. The doji that aligns with such higher time frame level is the doji of precedence. This will be the way you will prioritize levels that seem to have a clusters of doji within 2-3 ticks from each other.

Channel Range

There is another area that you can gain insight into support and resistance. Many people consider these consolidation areas as rectangles or channels. The channels I am talking about are the horizontal channels. These are also important and telling areas of consolidation and provide the same information as peaks and valleys. And are used in the same way.

This demonstrates what true support and resistance really work. If it was significant before, it will be significant again. And you can gain a lot of information from areas of consolidation. No I do not draw these lines all over my charts. I look for them as the price action brings these levels into play. I also try to understand how these levels have been played within the context of progression. Meaning, has it been tested once before in the accumulation/distribution progression. If it has, then more than likely, price action will go through that level on the second attempt.

Now if you are intelligent, you will figure out a way to utilize this bit of information.

Additional Charts

I enjoyed the calls from the room about 36, and one guy said POMO had $6.5-8 billon for today. He was long when it dropped.

How did momentum support this action?

What is the longer term view of this action?

Weekly view shows how it works with levels. Any different from any other time frame?

4hr shows how the intraday legs are being targeted.

And the 2hr momo that helped the bullish progression.

Issue 065 - Compartmentalizing The Price Action

Technical trading is a skill. It isn't an inherent talent. And like all skills, it can be learned and mastered. One of the skills that you will need to gain is the ability to compartmentalized the price action so that you understand how the long time frames will relate to the short time frames. The other day I heard a lot of static about CL, why it was selling. I heard people talk about their fibs, talk about their ma's and divergences. But the simple explanation was far from all their mental meanderings. And obviously, I wont mention the news hounds imaginings. So many people make up all kinds of justifications for the drop and some are valid and justified. But what was really annoying was, they used all kinds of indicators but failed to understand the simple.

Simply, we came up to resistance.

Wow really? It was the previous support that was lost back in 08/08. It was also a significant support back in 04/08, and so why wouldn't it be significant resistance when we come up to it? Support and Resistance? That doesn't make my screen like a NASA mission control screen. Too vanilla.

But people don't understand how to tie in their time frames. They become so focused in on 1 time frame and 1 bias. They also made their trading so complex by relying on their indicators that they simply forget about simple idea of support and resistance.

It is a good idea then to learn how to tie in the time frames. But one of the main complaints about doing that is their charts become inundated with lines galore. You know like the sethian fibos on your charts with psychedelic pretty colors and once in a while, when you wake up from your trance, you want to be able to move some of them so you can see the candles. That is not how you want to work.

How To Start

Start from a high time frame. And identify the S/Rs within the current price action context. On this chart I will start with the weekly.

What you will find is that when you change to a daily perspective, you will see these weekly lines line up to significant chart patterns.

Now what you have to understand is that you went from low detail to high detail. In a weekly to daily, you will see 1 candle to 7 candles. And you can discern different legs that make up certain candles. But the transition from daily to weekly, is not nearly as detailed when you transition into weekly to 4hr.

Now what you have to ask your-self by this time, is what is relevant to you for the day's activities. I could have drawn a ton more lines but I didn't. The reason is, I want to make a decision about what the possible action the market will do over the next few hours or so. What lines that I have now will be significant for the day. Mind you these are the weekly lines. As you can already see from the daily and 4hr, I can see some more lines that I can draw to make it more comprehensive.

I grayed out the weekly lines and added some 4hr lines. I could go crazy and add more. At this time I have not made any decisions about what the market is doing, just drew lines close to the current price action.

Even though I drew a ton of lines. More lines than I usually do, just trying to make a point. And when you understand what is necessary for you, you can do whatever you want. But in this 30min view, you can see that what you drew works really well, see how the current candle is bouncing off the support that you drew? Magic right? Uh huh.

Lets start thinking about what is going on. So we can get a good picture what the market is trying to do.

We know that in the weekly, we drew down from a weekly resistance that was support from 2008. So from the weekly perspective, we are currently trying to retrace up the leg that brought us down to the lows of 2009. And we found support that was also support back in 9/08 before we lost it 9/29/08. Does it mean we are done moving up? No. You are just respecting technicals.

So what do you think is happening in a shorter time frame?

First thing you have to do is understand what has happened thus far. So in this 4hr view you can see the leg up that took you to the highs. That is significant because it tells you all the S/Rs it went through to get to where it got. So if it was significant on the way up, it will be significant on the way down.

The next thing to note, is that we sold from the highs. And this will give you your current local leg of interest. Because it is the leg that is most immediate to the left of current price action. If we break down and lose the support we are currently on (the green line), then the primary leg that brought us up to the high will be your leg of interest. This is how you can compartmentalize the action in your mind.

So what has happened so far, is that we retraced up the big red candle on 4/12 9am est. As we tried to reclaim the support we lost from that candle, on our first try up the leg that sold from the current high, we obviously will fail. Basic technicals again. And then we drew down to 107.8, which is the support we held from 4/1 - 4/6. Wow, support before is now support again? Very hard concept. Need to be a rocket scientist to learn that. But if you are a lowly brain surgeon, you may grasp this in a week or so.

Now until it breaks that support, your main focus will be the leg down. And you will work on understanding how it is trying to go up. So on this support we are on, 107.8, we will try to test the previous high at about 109.32. What it has done so far is build up momentum, on the 30 you can see a little W. It failed to gain the support is lost from that previous high on the first attempt and will bust through on this second attempt.

Now the overall progression on this leg up, the retrace done to 109.32ish is the first attempt and on this push up, it should go to the next level of resistance and then fail again on the support that brought you to the high of 110.22 back on 4/12. So around 109.57ish.

These are the basics of trying to understand what the market will do. When you prepare for the market by understanding what it is doing in this way, you can save your-self some confusion and pain. (twiddling thumbs while waiting for market to do what it says it will do)   ho hum....blah blah blah.

Finally!

This is part one on how to think the market through by compartmentalizing the price action.

The next steps will be to use your projections and help you define your time frames that you will work on. Linking your time frames will help you understand the price action in proper context.

Issue 067 - How That Werk?

How come it popped?

Anyone? Anyone? The 1st issue on Compartmentalizing The Price Action, we saw the action down to the 30min chart. And for some of our scalper friends and people trying to figure out the action, says: "Hey Dawg? Why didn't you look at this in the lower time frames like ticks?" What is Dawg's reply? Dawg says: "How much have you read this blog?"

The thick yellow line going up is your leg up.

1. Is your 1st low. And the start where momentum starts to change.

2. Is your 2nd low. And where you confirmed the accumulation.
3. Shows your momentum was shifted from sellers to buyers..

Is this not accumulation?

1. Also shows you how the levels were respected. The 1st low retraced to the support shown by the leg up on 4/14/11 at 2:20pm est and was resistance back 10:00 am est that same day. And since it was the 1st test of this part of the leg, it popped at 5:20am on the 4/15. So far, very basic technicals.

After the pop, the price revisits 108.00 again. This level of support was hit a second time in the bearish progression that started when? 4/14 at 10:05am according to this 5min chart. Which eventually formed this Head n Shoulders pattern. Due to this bearish progression which has not confirmed the bullish progression that is has started, at 4am on the 15th, it will break through the 108 support on 2nd attempt and then take you to the next level of suppport (#2). Do you see the doji at 4/14 at 1:40pm est? And because this is the 1st attempt in the bearish progression, you will therefore pop!

3. Shows you how momentum was setup by the time we reach this second level of support. It describes how momentum produced an accumulation. This whole action **progressed** to produce a wide base. The base being the 1st and 2nd bottoms.

Dawg! Why does the 30min make it appear that the candles just burst through all the levels in between and here in the 5min, it didn't seem that it did the same thing?

Since the draw from 109.31ish, the pop produced here will be 1st attempts to reclaim previous support. So all of those consolidations you see in the 5min starting at 109.10ish and then around 109.22ish is the market obeying the technicals.

Well how did this all look in the tick charts?

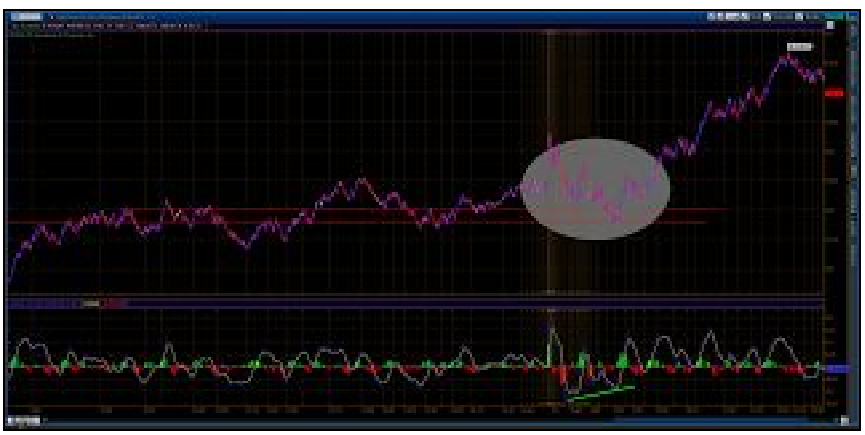
Huh? This doesn't look like any of the timed charts. Do you know why it looks so ... different?

I circled where this action that we've been discussing but where is the double bottom? Where is the Head n Shoulders? Did the Dawg switch screens on you?

The reason it looks different is...**VOLUME!!!**

Well you see time charts are time base candles. The tick charts are specific volume via tick base candles. So what can you deduce from the difference between the 5min chart and this 1600tk chart? LOW VOLUME Sherlock!! Now an astute chartist like AskBucky would call this pattern a cup. And those who follow this blog will also know that this is a bullish progression based on the momentum pattern.

Where is the accumulation responsible for the pop then?



Ye of little faith. Did the technicals behave the same manner in the lower time frame as they do in the higher time frame? You betcha!

Issue 068 - Lesson on Distribution

I love the reaction this morning when the market just dropped before the open. WTF happened they say. I love the remark afterwards. I predict a lower open. I know the guy was saying the latter in jest. But what are the technical reasons for the sell and why was it so aggressive?

The distribution started on the 3/27, long before we got the highs. If you look at the hourly, distribution started on the 25th, but that shouldn't surprise you, because momentum will change on the lower time frames first.

One of the key levels was tested first in are #1. The low of the 3/29th tested a support. Afterwards we pop up to the highs of April 6. Now as you can see, the leg up, (yellow line), your price action started to move sideways. A clue that distribution may be setting in. Another clue, is that your price got higher and higher on lower MACD. We know that is distribution.

By the time we get to the 4/14, we test the low of 3/29, we should surpass that, because we are still in the distribution process. The progression we noted from 3/27. We will test the 3/29 low and fail lower to the next level of support. Thus we are in the #2 area. As we hit the #2 area which is 1298.25, it is our first test. Progressively, from the 3/27, and noting the leg up, we never tested 1298.25 once. So on this test, you will pop! Basic technicals again on how levels are gained or lost.

Now, this facilitated the draw that we experienced today. And where will distributions take you? To the start of the leg up. Area #3. Do you see the doji candles on the 3/23 5:00pm est?

For those who like perfect HNS, this is a really ugly HNS. I **love** ugly chart patterns. What is the right leg of an HNS? It is a bull wedge. So when it hit the level of support at 1290.25, for the first time. We will pop! And this is how levels work in context and how you use the legs to your advantage.

Issue 069 - Leg Hopping [redacted]

"Reference the the immediate leg for your current price action and reference that leg to the primary leg to see the bigger move".

Imagine if you knew about legs. Would it have prevented you from shorting 43. So sad how people were trying to short earlier but didn't see that we are working to retrace up the leg down from 1.586k.

Now as you know, how we gain levels or lose levels, you will always test and be repelled on first try. Many people don't understand that. They don't get how to reference the price action to the immediate leg and reference that leg to the to a primary leg.

If you had done that you would know that reaching 43 again today would be your 2nd touch.

Now the first touch was done 2/18. We then sold and until today, we retraced back up. Upon reaching this level of resistance, it would be 2nd touch in the progression for the bounce from 03/10 lows. Now where do we get the levels from? The primary leg down of course. You will utilize all the levels relative to this price range. If you go to the weekly, you are currently retracing up the 6/16/08 candle. You will use that bar and grab all the levels going back to 2006 that will be significant as we retrace up that candle.

The leg hopping came from retracing back up that 43 Feb high then hop to the main leg that will tell you how we are retracing off a larger leg. This is no different with what you would do on the intraday. This also compartmentalize the action to help you see the range the trend is working on.

Now what will happen as you reach significant levels off this main leg? Same thing you did when you hit 43. Same thing you did when you hit 46.25 on the first try.

Implementation of this kind of strategy will help you increase your **probability** of a good trade and minimize your **risk**. By understanding what the market is **doing**. Not only in the short but in the longer time frame. If you can't understand what the market is going to do, that should be a **red flag** for you to know that you don't know enough and should probably sit on your hands. A good trader follows the will of the market and does not think his mental meanderings will move it. It doesn't matter if it is a pomo day or fed day or what have you. The charts will lead the way. Your job is to follow. This kind of thinking elevates you from a junior trader status. You wont care to note any of those funnymentals that others use as an excuse as to why the market did what it did especially when it does not do what they expected. You read the charts and follow the basic tenets of technical analysis.

Issue 070 - Traders Should Be Vulcan

So I'm a trekkie. I like trade with all sorts of traders all day. It can't be helped that I would say that traders should be Vulcan. Much like the famous Mr. Spock. Not to be confused with Dr. Spock the author who wrote about child care. Although, for many traders, it would resolve some issues.

Emotionless Vulcans would help many traders to trade better. They will trade with logical and almost mechanical analysis of the market. No more constipating about what the government policies will or will not do. No more being shaken because a falling market is sad. Or endlessly agonizing about how the good/bad news failed to yield the proper market response. And when they err, there will be no agonizing over the failed trade or agonizing over lost profits because of an early or conservative exit.

If traders were Vulcanized, Cramer would be poor. CNBC America would actually talk about something substantial. And I may actually watch it. Imagine a world without fear mongering groups like the Tea Party or Lou Dobbs. Ooops that one slipped. But you know those news hounds in the chat rooms who have a conspiracy theory about everything. But I digress. Did I?

Traders would analyze their charts accordingly without weird unfounded emotionally charge speculations. They would completely understand that momentum supports the move up or down. They would not blame hfts, pomo, qe2/3, ppt or Ben Bernake talking or the president talking or the Pope breaking wind. You know there was this trader that actually kept track of news and how soon they affect the market in a spreadsheet?

Traders would actually make intelligent comments about how the market moved. Instead of whacked out comments that don't make sense like:
"...the bull and bear trap and places that are targeted due to the bulk of stops typically located in that area, and big money builds inventory and dumps it into that stop liquidation "strength", ringing the register."

Can someone actually tell me what the hell this means without giving me a nose bleed? What is very interesting to note about some of these highly opinionated people is what are their qualifications to make such "informed" comments? This is where the Vulcan logic can help.

Do you know what other Star Trek race that would be equally as perfect as Vulcans, that would be The Borg. I miss 7of9, now that would have been a Borg that I wouldn't mind assimilating with.

Kev, thanks for the great idea.

Issue 071 - Supply And Demand

Thanks to my friend NPR, I got suckered to watch Ben L. in the CrackNBC channel. Not that there is anything wrong with Ben. I just can't stand CNBC. I prefer the soft porn at FoxBiz and the brainy chics at Bloomberg. Like **GREEK2ME THE GREAT** person I know... oh and **THE BEST LIVE GREAT AWESOME MONSTER FLIPPIN NOYPI**. (hmm..a cat "scanning" flippin noypi a bit redundant?) Becky had this bloke talking about Supply And Demand. Mat something or other. Ben actually provided more credible insight than this analyst. The move while looking drastic has been distributing since 3/9/11. And in the hourly charts, Since Feb 22. Why so much difference between the daily and hourly charts? Because change happens in the lower time frames first.

Some may attribute these to latest development in the news but in the chart world, it is baked in. Now lets look at this in a hourly. Yes this is omg after the fact analysis. But if you aren't a maroon, you would understand that there was a progression that the technicals adhered to in order to facilitate the move. How you would play it has been discussed in this blog in many ways already. So for some of you skeptics, try to use those spongy material between your ears not your rears.

Now what about silver, that thing just dove off the cliff!

Judging from this chart, there was no distribution that justifies the huge drop. Where did we say change happens first? Right! In the lower time frames.

Terrifying isn't it?! If you can actually see the action in this way, you would actually be skeered to try to go long hoping for a new high cuz this thing was screaming. There was this tart the other day in chat claiming that silver was going to the moon and this same tart wanted 57 on the es and the very next day was really bearish. Guess if people followed him, they would require a lot of preparationH.

So what of Supply and Demand. Seriously, no real way to gauge supply and demand in the charts. I mean sure you can correlate data that shows how it does it. Who really cares! Why add the complexity? Perhaps the only reason why you would do it, is to sound like a tv speculator. Who would want to sound like that? It just moves from level to level. Areas of support and resistance. And when the momentum starts to fade, down/up, you will see it before it makes the big move. What is really happening when you see those divergences? Go see definition of Accumulation and Distribution. Spend a little brain power. I mean some of you freely burn so many getting properly smashed. So supply and demand? PFFT!!!

Issue 072 - Making Sensible Trades

You have to wonder about what people say and do with their "scalp" trades. It is as if people don't understand the difference between a swing and a scalp. There are differences, but truthfully it can be a fine line. The problem comes when people see and understand a move in the short time frames and then make their decision to act or not because they are looking at the 4hr chart for confirmation. Really?!

You've seen me mention this 4hr chart scalpers on this blog before. Those are the extreme versions of people not making sensible trades. Because of this huge error of perception. People either get stopped out hard or take in huge draws before they see their profit. It also happens in the shorter time frames. Some people see the action but don't understand the mechanics or execution properly enough that they might as well be trading off the 4hr just like those whacked out people. There is a proper way to trade off the 4hr and an improper way to do it. But these people will suffer a lot of pain and losses because of perception issues and time to profit.

What does time to profit mean? Basically, if you are trading off of the 4hr, you should understand that your trade will be on for a long time. Because it is a 4hr chart. This is more of a swing. The time it takes for the 4hr to go through its course takes time. Well Dawg, that is what I know and understand. What is really happening is these people are looking at the 4hr for confirmation for a trade that is around 2pt or less, that will complete long long before the 4hr candle actually finishes. Well doh that is common sense. There was this guy in chat early this morning talking about a short at 1.461 on eur/usd or 6e, and he didn't want to short it because the 4hr was not saying it was a short. I was twitching when I saw that. One thing for sure, that guy has no clue.

Yes I know this is the one hour chart. The point is, how can you make such a call if you know how to read charts? Do you see how .461 has already been tested? The basic fact is this, change happens in the lower time frames before the higher. This is the kind of details that people don't see when utilizing higher time frame charts. This is the kind of detail that can cause these higher time frame scalpers eat or endure a lot of pain for their short term trades.

Well what is the proper way of scalping and utilizing the higher time frames? This problem is not uncommon. Part of the problem is that people are into candle to candle analysis. Meaning they are waiting for confirmation of their Japanese candlestick analysis. You don't use a ratchet for a hammer do you? Even more critical, they don't know how to stitch their time frames together to make sensible trades. Can they get lucky? Yes. But more than likely they will blow out if they weren't born under a lucky star.

When you use the higher time frames to help you with your scalp or swing, understand that you are only interested in 2 things.

1. If the higher time frame has been setting up for a large move, (its been accu'ing or dist'ing), then you want to be in the position to ride that large move.

2. if you are scalping for a point or a few, and the move is within 1 or those high time frame candles, you will look for the level of significance that you are coming up on or coming down to. This is for 2 reasons again.

i. If you are coming up to a level, then you may look at that as a point of exit for a long and or a point of entry for a short.
ii. If you are coming down to a level, then you may look at that as a point of exit for your short and or a point of entry for your long.

Common sense? Yes. But you wont believe how many people don't do it that way. It is so annoying to see these people with their pretentious calls.

Epilogue:
LOL Epilogue. But a mental midget asked why the hell would you choose to short at .461 anyways? I'd like to know that too. Long at Resistance and Short at Support. It worked out but...seriously sensible? The guy who made the 4hr statement would not know what to do anyways.

Issue 073 - Training Wheels [redacted]

When I learned to ride a bike, like many people, I used training wheels. Training wheels are great for simulating a real ride without letting you fall. Some indicators are like training wheels. For me, they were the linear regression channel, fibonacci and ema's. I used ema's because I found them more relevant to intraday trading. The point is to help you understand how to evaluate indicators and then use them till you find something better or you gain a stronger understanding so you can shed some of your clutter in your trading desktop. Some people though, really like looking at all kinds of indicators.

Some trading systems rely completely on indicators. They have a system that they adhere to. If you take away those indicators, these people are less likely to know what to do. Some of these groups are cult like. A lot of these people are holy grailers. But it is a system that works if you follow it specifically. The problem with some of these indicators base systems is that they will have weaknesses and they are taught that there are some things the feds or whatever is the cause of the failure. There are pros and cons to systems like these. And if and when they come about, to teach these people the real reason why things work the way they do, is to admit a weakness in the system it self, or they will have to actually teach people how to read charts properly, potentially negating the need to use their indicators. Part of the problem is, most people are too thick and impatient to teach. Being thick isn't too bad if you have great work ethic and persistence. But being thick and impatient and only want shortcuts, easier to thread a camel through the eye of a needle. So best thing...get them on the indicators.

I'm not gonna knock the value and effectiveness of indicators. All indicators are a work of art in their own right. I always saw indicators as a way to enhance my ability to see how the market moves. If you are anything like me, you would like to know what actually makes the indicators work. So I know what it really means when they do things. For those indicator systems, that is not necessary. They talk about certain "shortcuts" that will help them know what to do. Those shortcuts are generally some pattern. I know, because I traded primarily as a momentum trader, and I developed a series of visual cues that helped me and I still use to this very day.

There are generally 2 types of indicators. One are called upper studies and the other lower studies. Many lower studies are really used for momentum readers. Generally, most of these lower studies are a variant of macd and stochastic lines. What they do is combine them and specify different settings to mimic reads that can provide the view of lines produced in adjacent lower time frames and adjacent higher time frames. If you have multiple complimentary time frames open to you during the trading session, you could probably un-clutter your mind as well as your view by going to the root study itself. But only if you understand how to stitch your time frames together through the use of indicators. If you look at some of these indicators, you will see how they take 1 or both the lines of the macd and combine it with another line like a stochastic line.

Some like the macd can also be classified as upper studies. The macd becomes, simple moving average or exponential moving average. In this form they become support/resistance lines. Many upper studies are used for these specifically. POC, Pivots, fibs regression channels. All are used as s/r points. The only one in that list that doesn't really fit because of how it is calculated, are fibs. Fibs is a product of math magic. Some upper studies like bollinger lines are a combination of S/R and momentum indicators.

They contract and expand and clue you in on what is developing. You see these are predictive nature of momentum indicators. The totally uneducated don't really believe in predictive nature of the market and yet they like to use lagging and leading indicators. How do those indicators work as predictive? Through progression. You can't trade technically if you are still thinking of funnymentals. Tonight many people are waiting on China report.

Upper studies are studies that can float along with the candles. What do they really do? What do you want to know most from your upper studies? You want them to tell you where support and resistance lines are. These studies are definitely "training wheels". Why? If you progress as a trader, you should be able to understand how to get these levels of support and resistance on your own. Many people don't even take the time to understand how these indicators produce these numbers. The only upper studies that I would not expect a trader to explain to me how these lines are produced are regression channels, (but you can surmise how), bollinger, and definitely not fibs, unless you are a math nut.

What I've noticed about using these training wheels, not many know how to interpret them in relation to a longer progression. I've read an awesome book on fibos, produced by Bloomberg, and these guys know how to do it right. But the book is heavy into the math and may lose some people. I have never seen many people use them properly. What happens really is that you are too focused in on that one area that they will become baffled why it broke through some of their lines. With fibos, its hard to screw it up. But I've seen people talk about pomo's and feds screwing with the market as the reason why their fibos failed. If you are one of those people, you still need to learn more. Is this the state you really want to stay in, dependent on indicator and still under the mercy of funnymentals? This is where many people who are dependent on indicators for their analysis fail. Many when faced with bad reads, blame things external to the techs. Why? Because they really don't know how to read charts.

If you are one of the few who can do with or without, then it becomes a question of preference. But for me, less is more. Do I still use regression channels, fibos and ema's? No. I know how to find levels of support and resistance. I know legs, how price action moves up and down levels and how they relate to a larger progression. And finally I can read momentum. It took time to get there, but when you get to that point, you will see with much more clarity than before.

Get rid of some of your training wheels. By gaining better understanding of your techs.

Issue 074 - Parabolic Moves

Accumulation and Distribution view of market has made trend lines obsolete in my trading strategy. The reason is simply because I view all moves as parabolic. If you get a sense of legs also, you understand what iI mean. I don't care to really see trend lines any more because i know the levels that are significant to the retracements. So why should I clutter my space? On accu, price drops, goes sideways, follows leg down for the pop. On dist, price pops, goes sideways, follows leg up for the drop. While you can imagine that the action took place as a "U" or an inverse "U", you actually get Ws, HNS or their inverse counterparts. Regardless, the action is parabolic in nature.

What is the advantage of seeing the market as parabolic instead of trend lines base only?

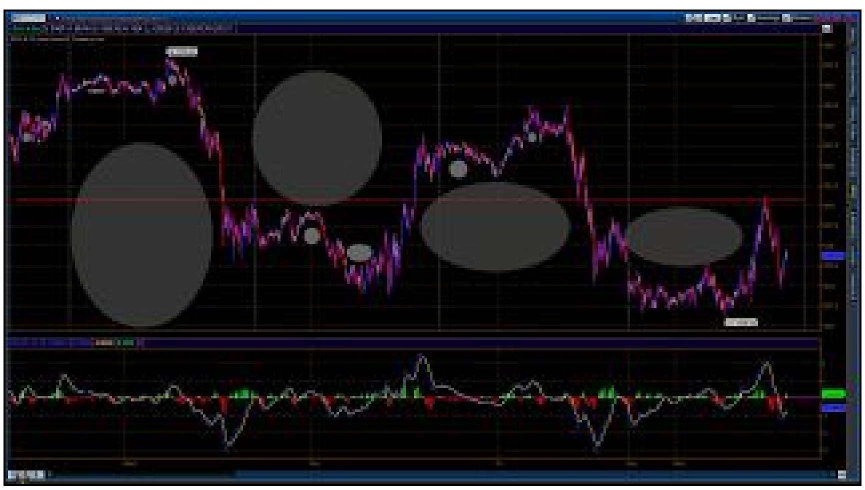
There was this guy in chat that said you didn't need charts past 1yr. Knowing what you know now about legs, wouldn't that blind you? While sure you still have fibs and fib extensions for uncharted waters, but why when you have something to reference.

Yes this is a top and bottom trend lines for the downward movement of the PCLN. Now, the generalization on how to play this descending wedge, is that, before the apex, or tip of the triangle, you should pop. There are some that says after traveling 3/4 of the triangle it should pop. Generally, the way many people have shown me and how many people do so in practice, is that they don't even have an exact price to settle on for the pop. Just a visual cue.

Now with legs, all I have to do is look for the consolidation areas in the left leg and determine the leg start from those consolidation. And I also know that it may be a little lower before we get a good pop. Can I still use the trend lines? Sure I can! But why clutter the space? When I draw those trend lines, not the horizontals, my focus can sometimes just keep me in that boxed in area and forget the levels. Now if you can keep track of both great! If not, then you would lose relationships like I would. Many people I know who draw these trend lines, never reference the previous actions as we would call the left leg. The ideal way is for people to understand the levels to the left and relate them to the wedge.

Yes I don't draw the horizontal lines. I keep a mental note of the price where the line would sit, and if I have to, I'll use the cross hairs of the mouse pointer. Why clutter the screen? I'm always evaluating where I am with regards to the price action relative to the current leg I'm retracing up on. Then how that leg relates to the larger move or primary leg. So I'll always know where these lines ought to be once it becomes clear we are going there.

Am I saying trend lines are useless? Hell no! I just like to understand the moves as parabolic. Accumulation will go to the start of the leg where it lost support. And distribution goes to the support that allowed it to pop to the high. The whole process is parabolic.



You can still draw trend lines if that is what you are comfortable with. Don't draw trend lines if you are not using a consistent correlation. Meaning the price action of the left leg will template the price action of the right leg. Keep it simple!!

Issue 075 - A Lesson In Accumulation

Early this morning a lot of funny people were short to China. One maroon attributed the pop to some news about Greece. Another maroon talked about POMO. We all know news is late. And if POMO is going to "manipulate" as those who were expecting a drop declared, those of us who are technical, understand that if POMO is working on the market, we really don't care. The reason is, if they buy or sell, it will propagate in our charts. There was this one guy who wished that someone would erect a large sign to tell people that today we will be manipulating the market, to let the tax payers know how their hard earned taxes they paid to the government is being wisely used. That last guy was being funny.

The problem with many traders is that they are trying to "predict" the market. What they fail to do, is follow the market. They will vigorously defend that they are not trying to predict the market. But in the end, because they did not follow the market, they often blame external sources. It couldn't possibly be that they actually have no clue what technical trading is. But for the technical trader, the market does not do anything that it did not technically support to do. You don't even care what is in the news and don't care about economic events calendars. You just read the charts. So if you were wrong, then you didn't really follow the market but used your bias help form your prediction.

How do you follow the market? It isn't merely knowing what levels are. Not just knowing what support and resistance are. Not only being able to draw trend lines. It is understanding in context what the price action is doing based on larger and longer term progression. In many cases, once people draw their trend lines and wedges and patterns they no longer understand the whole move, just see what is compartmentalized by their drawing. So in this issue, we will discuss today's pop.

First lets discuss that reaction to the news first thing this morning. Don't ask me what it was. I have no clue because I don't care to keep track of economic calendars. Just read the charts.

Some people think that that play was not possible to play. But as we know, in order for the market to sell, it must distribute. And when it distributes, it will go to the support that allowed it to pop. Or in legs terms, the leg start. By the time it went back there, guess what, it must pop at 7.5 because? First touch. Can it be more difficult than that?

So what was the pop today all about? Was it really pomo? Sure, if pomo help set this up over the last few days they deserve the credit. All I know is that it takes a lot of resources to be able to set things up. Market Makers and POMO sounds credible enough.

Suggestion: right click on the image above and open in a new browser or tab so you can reference the image while reading the description

As you can see, the accumulation has started 7:20 PM EST, back in 5/22/11. And then we progressed to a new low at 1302.25. From there, it worked to regain the last support it lost at about 12.25. The first thing on the agenda just before the open, was to reclaim the support at C. When it did that drop at the announcement of the news this morning, you set up a 1st and 2nd touch situation. By the time it made it back to C, it had to go straight to D. D is the the support lost that led to the selling to 11.25. The big red candle 5/24/11 at 4:00 PM EST. D at this point becomes a 1st touch situation and so must fail.

The Legs

The leg that we are working on is the off the primary leg that starts off at G. Now G, can be broken down to parts, consisting of F, A, B. From the 1302 lows, before you can get to A, you must reclaim B. The support at B is about 17.25-5. Now, reclaiming B high, will be 2nd touch. Why second touch, because, during the accumulation progression back to 5/22, we've already tested that level of resistance even though we were still progressing downward. Because we tested that, it cleared the way for us to reclaim the previous support we lost at A. After you reclaim A, you go to F then G. What you must understand is this 1st test 2nd test relationship. On first test, you should notice in the ticks especially that on 1st test situations, the momentum is changing long before it gets there. The draw down is to help build up momentum to the up side. Which many people don't understand. Consider the news release this morning. People qualify that drop as negative reaction to the news. But how short lived was that bad news that was received? Over all at the end of the day, we rallied. This is where people's understanding of news fails them. Their bias wants lower but the market's progression goes against them. Because their chart reading is lacking, they can't see, how momentum was set up against them.

Now, back to the action. After failing at D, when we go back up to D, we will continue higher on 2nd touch. And progress to the support at B. As soon as we get to that support, we should fail at 1st attempt. Shown in the 10:30/40 candles. Then we bounced back and cleared B. Taking us to the support of A producing E. Why? Because we've already tested B due to the progression based on when accumulation started. **So any failure at previous support from when accumulation starts (5/22), becomes a failed test 1**. Now why did we fail at E? Because it is the first time we tested A based on when that leg formed. We never revisited this previous support, when we lost it at A till now. Eventually we pass A and get to 24.5. Why did we fail there? Same reason as we failed at A, B, D ect. This time, our leg of reference is at F. Why? Because we passed A. Until you close above A, much like you did with B and C, you cannot pass to the next level leg part. But by the time we got up to 24.5, the selling has been setup with the negative divergence seen in the macd's shows we have exhausted the buyers. So the failure at 24.5, produced a new leg down. Reclaiming 24.5 will take us up to F provided we have enough momentum.

This action is similar to why we failed at 1373.5. The market does the same thing over and over in the same manner. It doesn't matter what time frame you are looking at. The best way I've figured how to read the action is to understand what the price action is doing based on the immediate left leg, and then relate that leg to the progression it represents to the primary leg to its left. This will help me understand if I am over all progressing upward or downward. And what my significant support and resistance is. This will give me an understanding where I will go if I break the limits of the leg..

I would like to add this chart. Because when I say accumulation, people always relate it to double bottom type play which I highlight as 2 stage accumulation.

The 4hr Chart

Does this look more familiar to you? You see the accumulation being in described in the 10min seems extended and not the normal accumulation. The extended view of what you see in this 10min chart is the progression that takes place to form this double bottom like formation in the 4hr.

The 10min Chart

The 10min is the description of how it got there. How the 4hr chart got there. This is why if you understand this, the charts provided could be tick charts or whatever time frame, you could easily extrapolate, why it is also the reason, if you understand these concepts, that makes scalping a lucrative venture. I love run-on sentences. Yes I failed grammar every year. It is how the market moves, and we just follow.

This is distribution but I just had to weeeeeeeeeeeeeeeee about it. :)

LOL some maroon just asked if this is a flash crash. Obviously doesn't understand how to read charts and recognized progression. In this progression, the distribution started 12:45 pm est, 5/25/11. After you confirm the distribution on the new high on lower macd, each valley on the way up becomes, 1st test. So as we tanked today, and we revisit them, whooosh!! Flash crash setup would be the same. But no, this is not a flash crash. It is sad that people think that way.

And the Weiner is!? OWUDSHED!! It was a blessing indeed. Hmm...is Cramer and OWUDSHED, related? "A worldwide four-way rally is a difficult move to stop, as you can see from the market's inability to be rocked too much by what now amounts to nothing more than local data," . Ouch!! I hope he has a lot of preparationH.

Issue 076 - Sweet Oily Legs

Just want to walk through some things about legs. It seems that a lot of what I consider obvious, isn't so obvious to many people. Must be my ADD. But hopefully this will help clarify some things. Really there is a lot to be known about technical analysis. But the more you know, the more elementary the whole thing is. And I know a lot of you hate me for saying that. Your alternative is to learn a more complex technical analysis system, which will introduce you to a whole set of vocabulary. Or you go back to being a maroon who would say that the sell off the other day was "unusual" and would like to know what the news was that caused it.

Now, it would suck to do a re-run of the other day's events, so today we will talk about CL. I'm severely ADD, so I want to talk about something new. Or I could make fun of all the maroon statements made by people. Because it is fun. I must admit, I was once a maroon. Like this maroon. "... But that was not a "normal". IT was trending higher and then tanked like 40 points in 2 minutes". Now that is funny! He wanted to know what the news was that was responsible for the sell. Maroon! But I digress.

Lets talk about legs. Legs are hawt! So lets look at one right now.

This is the leg down that CL produced in May. This becomes your primary leg as the price action basically goes sideways at its foot. Momentum to the upside is trying to build as we see signs of accumulation. There was a lot of volume that was displaced to bring this price down. But very little has come back since. And so a large base is forming. Some maroons were projecting more selling of CL today below 97. Obviously these people have no clue and probably full of botox. We will discuss this accumulation process more. But for now, lets dissect this leg. A and B are the limits of the leg. The very top and the very bottom respectively. If you break out of A, you will go straight to the next level of resistance. If you break out of B, you will go straight to the next level of support. Very simple so far? Good!

Lets go to the next step shall we. This leg can be further subdivided. As you can see, you can see clear segmentation of this leg (i, ii, iii, iv). Generally segmentation occurs because a level was encountered, where it was not tested in the process of accumulation or distribution. Since we produced a leg down, the process that was needed to help the selling process would obviously be distribution. So what happens is that we bounce off of those untested levels (1st touch) and then re-test to plow through them on (2nd touch) down toward the next level of support. If by chance that level was already tested, it will be a 2nd touch scenario which will allow you to continue down to the next level of support. Now, I brought up that maroon story up there not because I am so shallow. There is a purpose! To illustrate the said process just described. Click here. Then Click here. Why did it stop there at 11.25 then made the price go sideways? Because that level was not tested before during the distribution process from 5/25/11. The technicals were setup to allow the market to respond accordingly when the news was "publicly" announced. What you actually think you get the news first? Because you're special how? O wait...you watch CNBC? You must be a pro or someone who is really starved for entertainment.

Now you will notice that I have dash lines. Those lines represent support lines that were lost at each segmentation of the leg. When you arrive at those lines you should see some resistance. It is only natural right? I will spell it out. If price action falls below support. That support becomes...resistance. If price action goes above resistance. That resistance becomes...support. Simple? Of course it is!

To the left of the leg, we see, 1,2,3 and 4. These peaks reveal to you levels that were not tested or not tested enough to segment the leg. Most of the time, you already did a 1st touch scenario before the sell to produce the leg down. Remember also, that this is an hourly chart, and you may have tested the levels in the lower time frames. If a level was significant enough when the price got to it the first time, it will be significant again, when you come back to it. So the peaks of 1-2-3 and 4 represents the current resistance or previous support lost. Now, there is also an order that you will gather. Not so much the numbering, that was just a convenience. But on 1st touch at 1, you fail, then on return allows you to go to 2. 1st touch at 2 you fail, then on return, you will get to 3. And then 1st touch at 3 you fail and then on return you go to 4. So difficult. So for your home work go find them on your own.

No you don't want to wait to identify these "hidden" level after the fact! You identify them before you get to them so you can actually take advantage of them. You know make profit. If you don't know how because you have never been to this blog before. Check the archives. I'll even give you a hint. The hidden levels are left of the primary leg. Shh...don't tell anyone. So far we've discussed quantum physics right? Or do you think it was pretty common sense? Well that is it for this primer. Tune in next time.

Issue 077 - Sweet Oily Legs 2 [redacted]

Well hopefully that first primer helped you out and you are ready to embark on a mentally arduous journey of learning technical analysis. I could barely get through Stephen Hawkings, The Universe. I was up all night working on the mathematical models that he was proposing. Yes 1 single night! I really wished I could have finished the first chapter of that book without falling asleep in a pool of drool. And I went to Cambridge, so I should be mentally capable. Cambridge, Ontario Canada. It was a quaint town. So if I am far from smarter than a 5th grader, the concepts herein should be child's play for you.

Lets Review

Legs have ranges. You know like a normal leg, you got the foot of the leg that ends at the butt. If you pass, the foot of the leg, you will go to the next significant support. If you pass the top of the leg, you will go to the next significant resistance. Legs contain significant levels in between. These levels must be respected as you go up and down the leg. Like when you were a teenager and hot and excited at the prospect. You decide to kiss from the foot and because you're a teen, hurriedly thought you could kiss all the way to the upper parts. But what happens? You nearly bleed to death, because you busted your nose on her knee. Ouch! Epic Fail!! In the market action, the levels within the legs will repel the price action on the first try. If you don't respect that, you bleed your account. The segmentation of the legs is important to understand. You will be repelled most by the support of each of those segments. There are hidden segments that may be old significant levels. These levels may not appear as segment in the leg because it was by passed due to the setup that created the leg. During the formation, hidden levels on the leg, was respected earlier. So when the leg formed, it was on 2nd touch situations. Okay take 3 seconds to alleviate your feelings of nausea. This is daunting stuff.

Lets move on
So when you finally get to a more significant level of support as CL did here, The accumulations of the lower time frame slowed the momentum of the bears and allowed the bulls to take control of the price action. One method, it employs, is the formation of the John Carter, h. I say John Carter, because he observed and noted in one of his videos, that after selling the market pops and drops back down and forms this h pattern. Essentially, what this h pattern is, is the result of 1st touch / 2nd touch.

There are 3 things to note on this "h" move. The first thing is that price action pops to the most significant resistance. This resistance is going to be the previous support lost. Always. The second thing you will note is how high the macd elevates. The 3rd thing to note is how high the macd is when it creates a new low or failed new low. Hmm...is this des ja vu? Okay, I'm not going to be cute about it, I'm talking about accumulation. Just because I talk about new stuff, doesn't mean I've abandoned the old.

What is really happening in an "h" move.
As you recall 1 in the chart is a 1st touch scenario as it attempts to retrace back up the leg. The resulting accumulation confirmed by the new low on higher macd, qualifies it. But, in this hourly chart is actually late in confirming the action. The accumulation occurs in the lower time frames first. Buckets. Changes in momentum happens in the lower time frames first.

The accumulation at the new low also represents a few things. First the new low is also a 1st touch scenario. You bounce again on more bullish sentiments via momentum. This momentum was enough to carry the price back up to 1, and so on 2nd touch scenario, you approach the next level of resistance.

The previous support you lost at 2. And at 2, it will become a 1st touch scenario. On these pops, the price sells back down. It will go back down to previous support. You will start to distribute long before you get to that target on the upside. Because the price just doesn't drop unless it is setup to do so. So where would you see it? In the lower time frames again. Buckets of fun.

The next thing to note, is the pop back up. On the pop back up, to 1, the leg of interest for you to reference is the primary leg. That is where you will reference the levels that are significant. On the drop back down, you will not reference the primary leg, but the leg that brought you up. So from the bottom of the primary let to the top of 1. You will also be wary about the level below the bottom of the primary leg, because it is a 2nd touch situation. And if the bottom of the primary leg is not a longer term level, making it more significant, you will go to the next level of support down. This is what I mean about referencing the current price action to the leg immediate to the left and reference that leg to the leg immediate to its leg so you never lose site of the progression. Okay, I wouldn't want you to get brain damage on all these mind blowing stuff here. But we are all rocket scientist, and brain surgeons, so this stuff is all trivial.

I'm gonna quote my buddy lakai.

BIG thing..Lakai said it perfectly..#1. learn how to read a chart #2. learn your techs #3...TRUST yourself

So far, we've tried to touch on all the concepts we've discussed in this blog to wrap up all the simple techs we play with. This is how you should think and work.

Why?!!!

Market just tanked on the "news". So how does this look technically?

So simple my 4yr old can do it.   Watch how its done Lakai style.

Issue 078 - Sweet Oily Legs 3 [redacted]

Well so far, we've looked at past cl moves. For the maroon, they don't think anything of importance is being said because its after the fact. That is why they are maroons. So don't be a maroon. There are a lot of info that is being packed in these short issues. What some people do is take pieces of info and try them out. Now what is really important for you to get is the progression. Buckets of progression occurs to do the setups that you see. Volume progression and price action progression. What historical data is good for is understanding the progression that occurred to produce the resulting price action. The price actions of the lower time frames follow the trend of the higher time frames. If it doesn't, there is no trend.

Lower time frames have to work their way through all the levels of support or resistance that may not be evident in the higher time frames. Therefore, you will see the price action go up and down as a result of it. And due to those up and downs, momentum is being built up and lost to the upside or down depending on the direction. And depending on the type of level price encounters, will also determine the strength of the repulsion experienced at those levels of support or resistance. These lower time frame moves is what many traders and aspiring scalpers miss. They feel the pain when they enter, following the higher trend, the lower time frame stops them out going the opposite way to generate momentum toward the higher time frame trend. So after stopping them out, it goes their way. Those who fail to understand this claim the market is after them. Scream foul play. The problem would be easily avoided by understanding the lower time frame setups.

What else can we take from the previous issues? There are setups that occur as a result of accumulation and distribution.   Price action can setup 1st touch situations once you can confirm the process of accumulation or distribution has started. This is a form of progression that you can track, very easily. This is why I tell you to track the leg's relationship to the leg immediate to its left. It will help keep you in context to the larger time frame progression. It will also help you cash in on bigger moves. The support of the previous high, top of leg, is often a strong resistance. And the support just above the previous low, bottom of the leg, is often a strong support. Why? The explanation is easy. Generally is the spots that has not been tested by the accumulation or distribution process because its distance from the high/low. Ergo...first touch!

When contained within a leg, prices tested on other legs, does not count as first touch. Price is contained within the leg. The more significant thing to note, is how the leg you are working on relates to the leg immediate to its left to help you gauge your position in the larger progression.

In this example there are 2 legs. J and K. Both have tested the same price at 1 and 2.
1 and 2 are not related to each other. They are contained within 2 different legs and are mutually exclusive.

Now J and K are not mutually exclusive to the primary leg. K is the resulting progression from J. Because J is the first touch up the primary leg and K is the result of that first touch.

By request, I'll delve on this a little bit more.

Here is a 512tk chart of cl.

From the low at 97.74, the leg we want to retrace up to is T1. We can break this up but we wont for now. The setup setup a W from here, where 97.74 is the new low on the right side of the W. Eventually leads to FT1-1, which is the Failed Test up to 1. We need to clear this segment of the T1 leg to move higher. Because there is a significant level here. We also did the same, but I didn't mark it with 98.96, because that was a previous support. Then we come up to FT1-2. Eventually by 2:29pm est, we blow through T1.

Why did we blow through T1?

Because we've been accumulating through the down leg since 4:20pm est Monday. So T1 qualifies as a first touch. Simple as pie.

And that is all for this recap.

"Education consists mainly of what we have unlearned."

Mark Twain

Issue 079 - Liquidity Games

Liquidity isn't what high rollers have for lunch. It is how they have you for lunch.

Liquidity Investopedia.com Definition

The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold, are known as liquid assets.

People who don't know how volume works ignore liquidity. Some read volume charts but have no clue the reason why there are times of low volume and times of high volume. Some people love to watch the uvol/dvol and get excited with +/- 1000 ticks. But for me, the macds were clear why you would expect them. And it was as simple as trend.

But what does volume and liquidity have to do with each other?

Accumulation StockCharts.com Definition

The act of **buying more shares of a security without causing the price to increase** significantly. After a decline, a stock may start to base and trade sideways for an extended period. While this base builds, well-informed traders and investors may seek to establish or increase existing long positions. In that case, the stock is said to have come under accumulation.

Distribution StockCharts.com Definition

The systematic **selling of a security without significantly affecting the price**. After an advance, a stock may start forming a top and trade sideways for an extended period. While this top forms, a security's shares may experience distribution as well-informed traders or investors seek to unload positions. A quiet distribution period is usually subtle and not enough to put downward pressure on the price. More aggressive distribution will likely put downward pressure on prices.

Liquidity Investopedia.com Definition

The **degree to which an asset or security can be bought or sold in the market without affecting the asset's price**. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold, are known as liquid assets.

Volume Investopedia.com Definition

The number of shares or contracts traded in a security or an entire market during a given period of time. It is simply the amount of shares that trade hands from sellers to buyers as a measure of activity.
Volume is what is being produced by these accumulation and distribution by providing liquidity.

There are people who try to follow the macd's like I do but fail to recognize the correct opportunity. They read the accumulation and think that the market will pop here, no here no here... These are the times when the market is selling and because they don't really pay attention to what is happening in the longer term time frame and identifying the proper levels, they become lunch.

Liquidity is how accumulation and distribution is actually done. When the market boys want to sell, they start selling their long positions to provide the LIQUIDITY for the small fry to buy up the price. If they want to pop it, they get out of their shorts and provide the LIQUIDITY for the small fry to drop the price.

There is this talk about supply and demand. The game played with liquidity is a game of supply and demand. It has nothing to do with the external news and what not. There is only so much buys and sells being offered by market makers. So the big boys control many of those positions at the appropriate time.

So when you notice accumulation or distribution in your lower time frames. Look at the higher time frame to see the goal and the significant levels. If the price is dropping, the accu is the liquidity being offered to set up the next move to pop up the price but also, till it hits the higher time frame target, more than likely a leg start. The accu is the big boys providing the liquidity for you to help them get the price to the proper level to pop and for them to unload all of their short positions and load up on their longs.

If price is going up and you notice distribution, the big boys are selling their long positions to provide the liquidity for the small fry to drive up the price and for them to unload all of their long positions and load up on the shorts. And how we note how the volume is working, by noting the accumulation and distribution, you see how the momentum is being turned systematically and technically. Change in momentum happens in the lower time frames. The lower time frames are subject to the trend of the higher time frames. A thing we know as trend.

This is what you have to understand about liquidity games. Is this something new? It is funny how you can read those definitions up there, some of you may have done so in books or what not, but have you really connected the dots. These concepts are old. And yes I've talked about them before.

Issue 080 - Mountains and Valleys

Valleys and Mountains are prevalent in charts. There is an old adage in the trading world where people are told not to pick tops and bottoms. Most people pick tops and bottoms out of shear speculation. What is speculation to begin with. Lets do a little dawgma.

Speculate Merriam-Webster.com Definition
a : to meditate on or ponder a subject : reflect
b : to review something idly or casually and **often inconclusively**

Speculation is often inconclusive. Just like Cramer can speculate that the market is very resilient and would be hard for it to sell off. You can say by the results he got the following day that his thoughts were inconclusive. The market has so far dropped 92 pts since he declared what he declared. Now in Cramer's defense, he isn't a technician.

To think that speculative analysis is factual is like buying the Brooklyn bridge from me. The other day, there was this maroon in chat, scolding all of us who shorted the market. Saying that we are contributing to the death of the economy. And even said that the locals and paper traders were doing a disservice to America. He thinks the trend is a lie and he trades the news. Obviously, he can't read a chart. And his way of thinking is not far from most speculators in the market. It is also the false thinking that the politicians will lead you to believe that the small retail traders are causing the market to tank. Retail is not the majority in the market. Retail does not have the influence as the large banks and institutions that make up the group we know as market makers do. What is more american than survival of the fittest and free enterprise?

Why have we gone off in this tangent? Because when people pick tops and bottoms, it is not based on facts. The use of technical analysis by evaluating the support and resistance with momentum can get you from conjecture to substantiated answers.

Now back to picking tops and bottoms. It is harder to pick tops and bottoms where there has been no retracements but not impossible. You can determine levels of interest through the use of fib extensions and you can determine how it will hit those lines by noting the fading momentum. This method is great when you make pristine new highs or pristine new lows. But when we are talking about retracements it is easier to pick tops and bottoms. Why? Because you can look left.

Where do peaks and valleys form in retracements?
All failures on the way up always fails at previous support lost of a previous peak.
All valleys generally form from the support just above a previous valley or a significant support from the leg up.

What you have to understand is that failure is always stronger at the leg start (up/down). Generally, in order for you to move up toward previous peaks, much of the bottom and sometime the middle is already set up for for 1st touch in the process of accumulation.

And for moving down you get stronger areas of support at the bottom of the leg, because distribution is wipes out a lot of the top and middle levels of support 1st touches.

Why then is the support or resistance stronger at the start of the leg? Because of their proximity to the actual leg start. It will always be the first touch.

Why is this little bit of information valuable?
1st touch scenarios always produces a strong repulsion of the price action. This is especially true if the level is an old level. Meaning it has a long history. Many people see the peaks or valleys as price moves closer, the scalper forgets these relationships and lose out on many significant pull backs.

Many times these pull backs are so significant they see their profits dwindle to negative. Part of the reason they allowed such a thing happen is because they failed to see the distribution setup in the lower time frames. They only want to play the 2nd touch goal of passing the level. The bias makes them forget.

Now in the first chart 1600tk, you want to look at A. "A" is this mornings attempt to climb up to 66. What is in the way of this move up to 66, was 3 and 4. The peaks at 3 and 4 was posing a strong resistance to the move up. Now when we look at the 133tk chart, you will see how the distribution (red in macd) line as the price moved sideways and toppy.

Effectively, the distribution started at 8:30am. As we get higher highs on lower macd, we can qualify the distribution. And we can also qualify all of the valleys till A as 1st touch scenarios. Where do we finally fail? At the first level of support lost from the high at 3 which is also denoted by high at 4. We peaked. Then we get the flush. Where does the price action bottom end? The support we failed to lose, first level of support reclaimed on the move up, from the low at 8:15 am est which is denoted by the low at 8:42 am est. Now from this perspective, can you say the move, which was setting up a long time, was random? Can you also conclude that the level where support was found was random as well? We form the valley. Now take some time to note in whatever chart you choose, where most of the peaks and valleys formed in whatever equity or indice you want. When you find those tops and bottoms, examine the momentum. Did they setup for the fade/pop?

You should note that peaks and valleys do form at support or lost support from the leg or from previous peaks and valleys. Yeah its a generalization. But, when you are scalping, it becomes invaluable when you are breaking out from consolidation, you can then determine where it will stop.

Here is a different looking chart. This chart is a 1000 carr volume chart. Volume charts are much cleaner than timed charts and some people prefer them over tick charts.

Some would be shocked by what I'm implying. That markets do not move randomly but they actually adhere to some technical rules. Some people think that even price levels are random. Some people even say that "false breakouts" are random. Is it possible their chart reading skills are lacking? No clue how to read momentum? No clue how markets really move? That is why they make such wild speculation.

Another reason why people fail to see these "false" breakouts? They don't know how to use time frames. They only use 1 or 2 time frames. They don't really understand that change happens in the lower time frames. If they did, they will not be caught on the wrong side of these "false" breakouts. Prior to the drop described above, there was a guy who tweeted the following. "The momentum is bullish!" Price then drops 7pts. He had a Cramer moment. Why did he call the bullish momentum? Because he was looking at a 30min chart ONLY! Quel maroon!

Peaks and Valleys or Tops and Bottoms are technically consistent. They adhere to the rules of support and resistance. By that 1600 tk break down, it is unclear how the market popped back up so quickly. But when you look at the 133tk, you will see how the levels were tested on the way down and recognize the accumulation started **long** before it dropped. Thereby qualifying the peaks on the way down as first touches. And knocking out the significant levels in the process. Random moves?

So to simplify, you will peak or valley at levels during first touch. You will see many peaks and valleys form during the process of accumulation and distribution. Do peaks and valleys serve a purpose? Yes! They not only highlight significant levels, but during process of distribution or accumulation, they set up larger moves to bring you further down or up a leg. How will you see how momentum will help form at these first stops? You look at the momentum and price action of the lower time frame.

Thanks FMM for helping me write goodly English.

Issue 081 - Legs Untangled [redacted]

Legs can get all tangled up and can be fun. But people can muddle up legs on their charts and get all discombobulated. Lots of people say they have levels all over the place. Some would probably draw all the lines and make their charts so busy, you can't see the candles. I don't see why you would go overboard with them lines. People want to scalp but then they look to play off the hourly, 2 hour or worse off the 4hr. I mean sure you can see a nice setup off of those time frames but to scalp? Them time frames ain't for scalping. Them time frames are for you to get levels of importance that is relative to current action. Wouldn't it be better if you just pay attention and mark up the lines that are significant for now? What is currently possible?

Then comes the comment about indicators not lining up with each other. Or I'm accumulating here but distributing here. How can you accu and dist at the same time or dist and accu. Muddled thinking sets in and people can't relate the action of one time frame over another. Generally the problem is they see what is going on in a higher time frame, then become befuddled because the lower time frame wants to go in the opposite direction. Seriously, this excuse about indicators not lining up, really strengthens the fact that you have no understanding of time frames and how markets move all together. Yes you do get larger moves when they line up. But there are other ways in which indicators line up other than how they are pointing. Ever consider progression?

People make everything too hard. And because they lack understanding they rely on the news as a crutch to support their views or bias or as a source to find blame their miscalculations. The other reason is they really lack understanding of basic TA. You must have a solid idea of basic TA to apply them to what we discuss in this blog. But instead, they implement the basic fundamentals inconsistently and improperly. They don't even understand what support or resistance are, how they work, why they are significant and how to identify them.

Common sense tells you that if you have lofty goals from the 4hr time frame, you shouldn't expect it to come to you in 1min. You would think that that would be a no brainer but people have those expectations. People think that things in the charts just happen. But the charts tell you they must set up everything that happens. Legs also setup. In order to play legs, you must understand the progression. You must know what has been tested before. You must know how the market has moved to setup a pop or a drop in the time frame you are looking to play in. So in order to position your-self properly if you are playing the 4hr chart, wouldn't it be helpful to understand how the shorter time frames have setup?

Common sense? Probably too common for some. The correlation that you should be aware of is how your charts of long and short time frames work together. People put so much effort correlating other market entities when what matters most is already before them. Charts develop over time. And you must work to understand how progression of price action setup the moves that come. How do you know things setup over time? How do chart patterns develop? People love to deny the obvious because they are so brain washed about the news and correlations. And brain washed about other things they think they know that have no real bearing or fail to bear consistent fruits. In order to untangle them legs, you got to clear out the myths and focus your mind on the single entity being described on your charts.

Market correlations are many. People accept that they work till it doesn't. And yet, this inconsistency is held by many as a tool to be used daily. People say when the dollar goes up, the market should go down. But in recent weeks, there have been examples when it did the opposite. You want to know why people become overwhelmed while trading? They need extra monitors to check their correlations.

Legs as a concept is quite easy. When going down the leg, you will bounce at the support that started the leg up. When going up the leg you find resistance at the support lost that started the leg down. It is not difficult to understand that the leg you are currently retracing up on can describe how you are progressing in the longer term setups. If you are distributing or accumulating in the longer term progression, you will notice that the market is going side ways. Legs will test the significant levels to allow for the bigger move up/down during the accumulation and distribution phase.

There are 2 key points where you will find strong support or resistance on a leg that is produced as a result of a pop. Near the top of the leg where you find the support of the legs high, you will find strong resistance. Because that spot will always be 1st touch or 1st test situation when you retrace back up to it. If you do not have strong momentum when you get there, you will always fail. How do you determine the momentum leading up to that spot? Look at the lower time frame. Where will you experience the resistance and see magnitude of its influence? Lower time frame. How do you gauge the magnitude? Do you have significant momentum erosion signalling distribution? Do you have a chart pattern to show how it is topping on approach? A chart pattern? Yes, the price action will tell you what it will do and should coincide with weakening momentum. Don't ignore price action. Don't ignore simple chart patterns. Do we not use chart patterns to help us see progression? Logical? Common sense?

The other spot is near the bottom of the leg where the move up started from. When you retrace back down a leg whose origin is from a pop, this level of support where the leg up started from. It will result in a pop when you test down to it because it will be a first touch scenario of that level of support. How strong? How significant? Same line of reasoning as above.

I'll leave it to you to figure out how things work when the leg you are working on is a leg resulting from a down move. Seriously if the thinking behind it is not consistent with the thinking with a leg that resulted from a pop, then don't bother coming here for technical analysis.

The extreme ends of the leg help you understand progression. You must relate the tips with the leg immediate to its left. You will understand if you are progressing up or down. A signal that you may be accumulating or distributing. Are you in a series of peaks forming a consolidation? Are the peaks in this progression working in an upward progression or downward? In relation to the price run that started the consolidation, did the price drop, and are we consolidation to accumulate or did the price run up and we are consolidating to distribute? Are we basing/topping enough to effect a momentum change in the longer term or is this a temporary pause? Is this pause in response to a first touch situation? What is going on with the momentum? How is all this looking in the higher time frame? Am I at a significant level of support or resistance in the higher time frame? If so, do I have a significant price action to suggest some kind of accumulation or distribution pattern? Am I at a 1st touch scenario? Am I on a second touch scenario? If I am, do i have enough momentum to break through, because I'm on a tick chart and I may be accumulating? If you are not going to bother to try to understand what is going on, how can you trade? Well this is all getting to complex. There is so much to think about? If you were accustomed to thinking in this matter, the answers should come to you at a glance. I must also state, that some of these questions can be lopped off from consideration depending on the situation. And no I wont elaborate how to determine what to lop off. You have a brain, use it!! If you want to be effective at chart reading and trading? Why would you not bother to develop the skill?

Have fun! Dawg is out on vaca. See ya in 2months.

Issue 082 - Do The Hoffman

Well I was told the Robert Hoffman of Power Charting blew up during a live trade to a tune of over $300k. The following charts will show you why he blew up. Apparently he was long just before the high on Thursday. Don't really care to know where. Evidence in the charts show, he failed to read charts.

Bearish momentum pop back to previous high lost support then sell hard! Distribution from previous day sent you down to Thursday's low. Did you get an accumulation setup here? NO! In fact, same kind of pop to Thursday's high, 1st touch on more bearish momentum. The pop from Thursday's low is on 1st touch scenario on succeeding bearish cycles on the macd. Therefore you can expect a continuation of the move down. So where can it go from there?

Death by progression. TF has been distributing since 6/21. The Tuesday before was a 1st test scenario. If you look at 7/7 + 7/8 on the daily chart, isn't that a Hoffman 2bar?

Martingale averaging down strategy help kill the account, to avoid a losing trade. And add a case of no clue what the charts are saying. Gives you Peggy! A prime example of how Hoffman ended up at the receiving end of a defecating elephant.

Issue 083 - Market Down! Market Up!

When you listen to the "analysts" on the tele, you get a feeling that these people are as clueless as everyone else. You also get the feeling that when the mic gets in front of them, they start to speak their political mind. The interesting point is to note the duplicity that these media people portray. This duplicity is mirrored by traders. Just sit in a chat room and you will see how traders all reflect the exact duplicity in their way of thinking. What is this duplicity? Ask them why the market went down.

Trend is an interesting phenomena that traders strive to be in right side of. But yet, these traders, economist, floor traders cannot tell you that the market is down because of trend. they will tell you that the market went down due to the uncertainty in Europe, and the US. They will tell you how Pres. Obama failed to provide jobs and his socialist policies have hurt the economy. Ask these same people how their profitable trade worked, they pull up a chart.

If you understand technicals, why rely on funnymentals? People caught or surprised the market situation most assuredly cannot read charts. If they claim to know how to read a chart how is it possible that they missed their weekly charts? How did they fail to understand the distribution that has been in play. Where are those people calling for the moon with market prices above 1400? Is 1400 still at the top of the trend line?

This guy asked me the other day. How do I know that the short time frame is not gonna break the higher time frame trend? The answer is simple. Trend. There is no such thing as trend if the short time frame can break the long time trend. The real question he was asking pertains to market manipulation. The notion of market manipulation is for people who dont know how to read charts. The reason for this is because anything that goes into the system cannot be hidden in the charts. The other crutch that people use the news and events. If you truly want to be a technical trader, turn off the tv and don't listen or read or entertain the news from chats. You will feel liberated.

What are people not getting about trend? The short term trend follows the will of the long term trend. What are the politicians missing? The market has set this trend a long time ago. In order for them to change it, they must offset the volume that was put in place since 1990s. You've read me rant and rave about funnymentals. Today, EU wants to limit high frequency traders. Can you say idiot? If there is anyone that should be restrained, arrested and put to jail, go to them bankers. But I digress.

Well that is it for now. I've been away for bit and it has been nice. I have to warm up to blogging again. Grats to BJ and a few others who have had marked improvements.

Issue 084 - Indicator Trader

There are only 2 indicator, lower study indicators, that I use. And those of you that know me, know exactly what they are. Obviously, you can see my charts and you will notice what they are. The thing that I would like to emphasize is that these indicators are volume sensitive. And reactions to volume can be gauged through comparative analysis. In my geek speak, you will compare to adjacent time frames to see the effects of a lower time frame progression. The higher time frame, is the trend. I'm not going to go over the whole concept, you can read about them in earlier issues. Indicator based trading is really fun when volatility is high. Indicator based trading is really effective when you can gauge the flow of volume properly.

Volume Flow Is NOT Consistent!!

When people read the indicators, they think the thing that is moving it, is in constant and equal flow. That is far from the truth. This is why I tell you to understand comparative analysis. I learned about volume flow at the time that the market was very volatile. Do you recall the wild fun swings of the crash from 2007-2008? Those were the fun days. It was a great time to learn about how the indicator moves. If you were really paying attention, you could see exactly how volume drops and pops correlated with price action. You would also realize how price action could follow your channels and price action patterns.

In today's market action, if you are trying to learn how all this works, it would be more difficult. Volume has yet to compare to those good old days. If you were to try to learn it today, you would really need to pay attention to progression to understand how momentum builds up or dries up. Progression on one time frame may be bullish, but if it doesn't affect the adjacent time frame in the same manner, it may mean that the higher time frame next to your adjacent higher time frame is actually bearish and its trend will be followed. Huh?? Again, practice, and observation. That is how you learn to be a technical trader.

Trend is real. People think everything moves at the whim of the news. Like I was trying to say in the last post, you really have to be careful about listening to the news. Case in point. The market dropped due to concerns about Greece and European economies. The next day, Intel had great news and wiped away the previous day's loss. Where is the logic in that? European economy could blow away American imports and exports. American economy could be affected in so many levels and yet, lowly Intel, though international in nature can have an equal or greater effect to wipe away such global economic concerns?

In the technical perspective, each of the moves were technically supported by a distribution to sell to the leg start, then first touch pop with the momentum setting up the prior to reaching that leg start, an accumulation to help the pop. Technical moves are easier to understand than to try to decipher all the news and fundamentals. Why have a charting package if you don't get how to use them?

Price action always follows trend. Volume that comes in is also subject to trend. The two are related. So if you are indicator trading or reading them for momentum. Study how its flow works before basing your trading strategy on generalizations. Understand how progression of lower time frame, affects the higher and vice versa. Don't go in blind. Been there, done that. The next thing you have to do after figuring out how those indicators work, see how they relate to price action and then levels.

Issue 085 - How To Weee'd A Chart -- Part 1 [redacted]

If you're wondering what the hell "Weeee'd" is, its a play with words. I really meant read. Even in our little group, the skill of reading the chart properly is lacking. It is a confounding issue. What is actually happening is that people don't incorporate a lot of what they learn to the basics. It just seems people would progress faster if they actually understood the basics. But what are these basics?

Basics include the vocabulary. Not just being able to talk the talk. You can go into any chat room and you will find people who can talk a good talk. But if you ask them to explain the exact detail, over 90% will fail. Where they will defer to is to talk about the news, politics and whatever else that is not in the chart. I know people who still don't know how to identify support and resistance. Some don't even know the significance of congestion. People still think that congestion is where the "market" is deciding where to go.

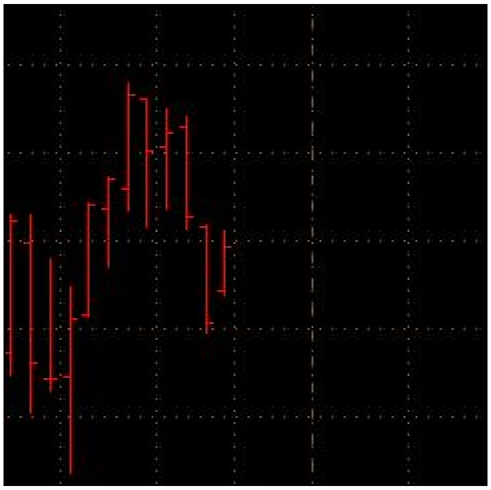
There are really 3 things that make a chart useful. Price action is what people note. They form patterns and the price moves up and down as candles form. The second thing that people should notice that these things appear on your chart over time. See, this is an important point. As candles propagate the chart, time elapses. Price movements show how momentum changes over time. And on that note, what is momentum? People identify chart patterns as momentum changers. They talk about wedges, and how at the top or bottom of a wedge, there are more sellers or buyers and so price drops or pops. What is it exactly? To be really accurate, it is volume. Did you really think it was actually buyers and sellers sitting on some line? No! The description is figurative. Do you know how many people couldn't really explain what that means?

You see, only volume can really be the underlying thing that makes momentum make sense. With that as the underlying thing, it explains what is being distributed in distribution patterns. What is being accumulated in accumulation patterns. If you have to ask what those patterns are...it just shows you how much you know. But what is it that make up the volume? Buy and Sell. Those are the only inputs to the market. You buy to go long and you buy to get out of your short. You sell to go short and you sell to get out of your long. No!! Its the news!! If you believe me so far about volume, then it isn't very far from logic to conclude that in order to make the price go up or down, momentum must be set up to do so. It wont be difficult to conclude also that if you could note what is going on, you can possibly follow trend.

There I said it, trend. Trend is the result of the offsetting of these volumes. Trend is the product of accumulation or distribution. Trend can be short or long. Trend is stronger the higher the time frame. Take a look at your weekly trend. Based on the weekly trend, how long has the momentum been bearish? If you conclude that the currently trend is due to the global economic issues on the news today?

You are dead wrong. Fundamentally, the economic issues have been building up for years and decades. Technically, if you can read the momentum, it has been that as well. When has the momentum been weak? Since before 1999.

But why did we pop up so high? Because the monthly outlook of the market was bullish. And the progression of the weekly must occur first before it can affect the monthly. What does that mean? Change happens in the short time frame first. Buckets of volume over time. The larger the time frame, the larger the volume it represents. For example: 133tick vs 1600tk Some may argue that tick charts does not represent volume. But they do. Its just a different unit of volume. While you can have carr based volume charts, tick charts is just like saying dozen or packs of something as oppose to the actual unit.



The difficulty with some people is to understand that in situations like the one above is actually playable. The problem is, they live in a world of impossibility. I could tell you that this is an hourly. I could tell you that this is a 5min chart...but regardless of what it is, the shorter time frame will show you how this becomes a playable chart. O this happens too fast! Some may complain. Again, depending on your perspective.

Now when you look at it this way, how playable is that weekly chart? This also illustrates why things don't just happen. They must be setup to do so.

Some people don't get where this distribution came from. They just don't understand that the work of volume offsetting that has been occurring since 10/10 in this 4hr chart at 1180 to the 1180 on 11/18, that there is a giant negative divergence. There are clearly less buying happening and more selling since 10/10.

I've peppered this blog with definitions and illustration of those definitions and examples of whatever it is. It is just to help build a common dialogue and also build what is necessary for you to gain basic knowledge. What is distribution? How does it look like? What do the price action do? Some people even refuse to learn how to spot certain chart patterns. Those patterns are commonly discussed because the market does the same thing over and over again. You would think a basic chart pattern is something you would want to learn if it occurs over and over again so you can capitalize on it. You would think that you would study how it developed over time and try to recognize the momentum as it formed. And how would it look like in a low time frame. And what does it look like in a higher time frame. Where did it occur with respect to the leg? Easy questions but takes work.

That is it for lesson 1. There is a plethora of information that you must digest off of this one issue. The problem is some will try, and some wont. Some will brush it off as common knowledge, because they already truly know. Some will brush it off because they think they know but when it is time to recognize it, they fail miserably. Well good luck!

Issue 086 - How To Weeee'd A Chart - Part 2 [redacted]

Well, someone just forced my hand. Someone from Grapevine, Texas. We will talk about Volume next.

I think you have missed the difference between accumulation and distribution based on volume. The lack of volume from the dates posted above does not denote distribution or accumulation. The area of the *chart that is missing is 7/25 to 8/8 is a good example of distribution. From 9/12 to 10/15 is accumulation. Any certified T/A person would easily see this in the volume you are discussing and would consider this a mild pull back before a continuation. Mild pull backs are healthy but not an indication of direction until accumulation or distribution comes in to start the next move or leg.*

Anonymous

Grapevine Texas

To answer the comment. I believe I know what accumulation is and clearly what distribution is. However, since the anonymous person eludes that they are a certified T/A person. "*Any certified T/A person would easily* ".

Volume

Everyday people note what the volume that traded in the market is or was. Volume is basically all the trades for the day. It can be further subdivided to 2 components. Advancers vs Decliners. Buyers vs Sellers. When you talk about advancer's, these are buy orders. When you talk about decliner's, these are generally sell orders. Lets keep it that simple. I think many people can go on about it with tons or rhetoric. In simple terms, overall volume consist of buy and sell.

Volume when it comes to momentum, is about the cumulative effect of the buying and selling that goes on in the market. Cumulative means that all the buying that occurred will contribute to the out look of what is already in the history of the stock or market as well as all the selling. If for instance, the stock has experienced primarily mainly buying in its history, then the overall volume of the said stock consist primarily buy volume.

Why is volume so interesting? Why do we even talk about it? Because it is what makes up the overall momentum. It also helps define the trend. It is what is being offset to produce periods of accumulation or distribution. How so?

If the stock or market experiences primarily, buying, it doesn't really mean that there were no selling. It just means that the overall volume were buy orders. And of course you will have sell orders. Why? Because there will be people who will sell to take profits. Some people are also trying to short it. Over time, if the amount of buying tapers off, the cumulative volume that already has taken place in the stock/market that happens to be selling, will offset the cumulative buying volume to make the stock go down. It is a mathematical process.

So let us talk about this Accumulation and Distribution.

Accumulation StockCharts.com Definition

The act of buying more shares of a security without causing the price to increase significantly. After a decline, a stock may start to base and trade sideways for an extended period. While this base builds, well-informed traders and investors may seek to establish or increase existing long positions. In that case, the stock is said to have come under accumulation.
Ah, this is one of the first blog entries I wrote.   And so our reader said thus: "*From 9/12 to 10/15 is accumulation.*"

Well let us see the chart for what our reader was referring to.

The first chart is the weekly. And the 2nd chart is the 4hr.
First lets look at his weekly. The leg going down at 9/12 to the pop is his (just to help me out, i'm gonna give our person a male gender, I'm sorry if you are actually female, no offence.) accumulation. Does it fit the definition?

"The act of buying more shares of a security without causing the price to increase significantly. After a decline..."

Nope. Because it went down first then popped. The price did change significantly from the said period. There is accumulation that occurred there at the 10/3 area, but the strength to push the price up all the way to 10/24 high actually the result of the accumulation from the tail end of week 8/1 to about 10/10.

Is this not what accumulation should look like based on the definition above? So what you have from 8/1 to 10/10 is the sideways movement that is by definition of what accumulation is. And then the resulting pop. Now this pop in the weekly is not a strong bullish accumulation. This is where some people will say there is a "hidden" divergence. Go read my blog entry for that. I'm not going over that again.

Now let us discuss what happened in 10/3 for the pop. As I've said, the pop that perhaps our reader suggested, is not the pop responsible for the larger move that occurred overall. The momentum is the product of the accumulation as discussed above. What is responsible then 10/3 pop?

Well there are 2 factors here. 2 time frames.

1. The weekly trend built up by the accumulation we noted above wanted to pop this up.
2. The shorter time frame (which we will see next) shows you the pop that occurred on 10/3. Is also in response to the larger time frame trend. Higher the time frame the bigger the move. 8/10-10/10 is the wide base, that my chart expert teacher, Asbucky, taught me, will be followed by wide space. The big pop up the the start of the leg down of the previous high at 7/4. 1st test pop, ergo, we pull back.

Now this is a 2 stage accumulation with a new low produced. The accumulation was built up by the buying that occurred from 9/22 to 10/4, produced a positive divergence in the macd. Boom!

Honestly, I don't recall saying lack of volume. But I do recall saying lack of buying. Does that not seem more accurate? If you were to draw a wedge, to that said spot where we sold, isn't that the proverbial bear wedge? That as you go up the wedge, you will increase in sellers and decrease in buyers? How do we see the said distribution?

Interestingly, I made this chart a few weeks ago to show that volume dropping to one of my buddies, who is trying to learn to see how, instead of volume charts, I use the macd. And you can see the weakness here already. So lets look at the reader's point about distribution.

"*The area of the chart that is missing is 7/25 to 8/8 is a good example of distribution.*"

Now, according to this chart, he is actually saying that the move down is distribution. Hey, this person is potentially a certified T/A. I can't argue but to use the facts as defined by other experts hired by StockCharts.

Distribution StockCharts.com Definition

The systematic selling of a security without significantly affecting the price. After an advance, a stock may start forming a top and trade sideways for an extended period. While this top forms, a security's shares may experience distribution as well-informed traders or investors seek to unload positions. A quiet distribution period is usually subtle and not enough to put downward pressure on the price. More aggressive distribution will likely put downward pressure on prices.

Do you see the similarities in the definition of Distribution and Accumulation. It isn't the resulting pop that is accumulation. And neither is the resulting drop that is distribution. It is the sideways movement of price and offsetting of bullish/bearish volumes to bearish/bullish volume respectively. So our reader is against the definition provided. How well is the definition given?

A picture is worth a 1000 words.

So what was I referring to in the previous blog entry?

Is it not the same?

Now, a little more about volume and dropping of volume. Volume can drop and it does so regularly during the day. If you believe that there is such a thing as trend, you will also understand that when volume drops, the trickling in will always follow the greater time frame trend.

As you can see in the charts, when it comes to the divergences, the process of accumulation and distribution takes time to take affect. Dropping of volume does not necessarily mean that you can expect an immediate turn around in the price action. That depends also on the time frame. But if it does drop, the greater trend will be followed. That is just what you should expect because it is the trend.

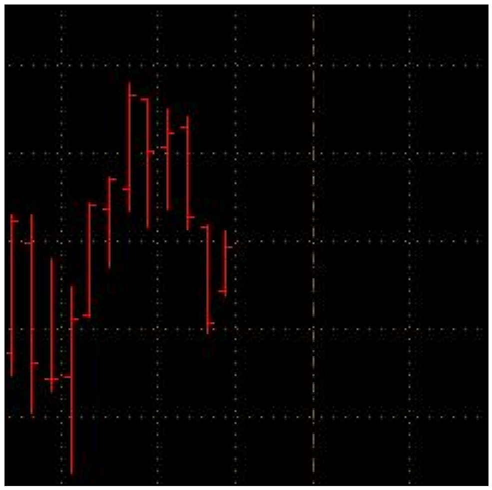
Thank you for a very excellent blog comment.

Issue 087 - How To Weeee'd A Chart - Part 3 [redacted]

Okay, so we sorted out what momentum is and how it is generated. Those are part of the basics of momentum. And the key thing about volume is the type of volume coming in. And then, how it will change the outlook overtime as it progresses. Again, what we are going over are basic tenets that you should understand when looking at a chart. So far what we have covered is a lot of rocket science. Mind blowing stuff.

The next thing to understand is the price action. And how you can relate what is going on in the momentum, to the price action. Again, the point here is that if the market will pop or drop, in whatever time frame, it will setup a change in momentum to facilitate that move. Change will always start in the shorter time frame first.

When it comes to price action, you can gain a lot of insight on how the price and momentum has moved and should move. You can also discern the process of accumulation and distribution. These are generally manifested in those many chart patterns. It is well worth your time to become familiar with chart patterns as they can give you some confirmation of what you are seeing. And it is also well worth your time to understand how momentum looks like when such patterns work and fail. Since the market does the same thing over and over, you should find commonalities in the momentum with the price action. A type of finger print if you will.



Now, remember this chart? I purposely removed the price and the time frame because people make quick judgement about what they are seeing. This is the weekly chart of the ES, and the peak that we see here, with the big candles and such, many would say that there is no way to understand how to play that. The candles of 10/24 - 11/14. To tell you the truth that is how I thought before. Now as I've said, that change happens in the lower time frame first.

When did the distribution start for this same chart but this time in the 4hr time frame? It started at about 10/11. That is how the lower time frames can show you how change is happening. How the weekly candles from 10/24 - 11/14 was produced. People have to learn how to use their charts and time frames to their advantage.

Now why did this structure in the 4hr seems so huge comparatively to the weekly? Could it be that it is because the weekly is a huge time frame? Of course! You also have to get the proper timing of setups and must understand that the higher the time frame the more significant the setup is on the lower time frames. Quick question. If you are looking at a huge time frame like the weekly, does it represent more volume per candle and therefore more volume over time done that of a 4hr chart? If you can answer that, then maybe it will make sense, as to why it took so long.

Here is our leg down from 7/4. When we popped up to where you see #4. That is the fist test of that previous support that we lost the week of 8/1. And the rule is. First test you will fail. So what did the 4hr tell you? That since 10/11, it was already distributing to prepare for the move down. Was it the news? Do you need a phD to understand this simple concept? But then you will say. "Dood. This is on a weekly and 4hr basis." And I will respond back with. "Dood! I'm not gonna hold your hand. Do your own research in the lower time frames and see if it does it too!" If you do find that it does, there you can probably say, there is consistency in the technicals. And you will then scoff at the person who said. "T/A doesn't work because the fundamentals are too volatile."

Well that is first thing you should understand about price action.

Issue 088 - How To Weeee'd A Chart - Part 4

Happy New Year!! Alright, the last few issues, we saw how momentum works through its 2 engines - Accumulation and Distribution. We also saw how the price action looks during these times when momentum is shifted from selling to buying and vice versa. We touched on a little bit on how legs help you determine how levels are gained and or lost. This last bit of info that you need to start understanding what you are reading is one of the most significant things you must learn to spot significant levels. The only way to spot them is by reading and understanding the price action. These things are called "levels", "support", "resistance". Some other people call them "poc" and all its variations (vpoc, mr. spoc). People don't get these levels and they don't really understand why the market did what it did because they don't know that the price will always target the previous support it lost that eventually allowed the price to cascade down to where the price found support to start the rally or move up. People come up with stupid calls like "false pops" and "false drops". Logically they can't say it was false because it happened. But if these were logical folks to begin with, they would understand that the market consistently move in the same manner over and over again and there is no such thing as false pops and drops. Its just idiocy to think that way. It also gives them an escape should they fail to read the move correctly. "Oh yeah, it did this false pop/drop just to shake me out of my stop and you know those big guys are taking my money."

The progression is clear. What are false pops and false drops? If you read a little bit about legs, you would understand that those "false" whatever always seem to hit, the leg start. Through that simple mechanics, it is far from false, but a constant function. And we know that the momentum is setup through progression to support the resulting move after the "false" move occurs. False whatever will always happen near a leg start.

What is a leg start? Leg starts are significant levels of support or resistance. It is generally near the tops or bottoms of a move up or down. They are the level where you will find your consolidations forming their base whether it be a peak or valley. It is the initial level of support and always the last level of support to be tested on the leg. Understanding how to identify levels of support/resistance and differentiating them as leg starts and understanding why they are key levels is a skill that a trader has to gain.

I wont go over the entire blog entry on peaks and valleys, but what is key is what the key level of supports are from those peaks and valleys. Peaks and valleys are the start of legs. Their tips are the result of testing of previous support or current support. And they are key in the progression of accumulation and distribution as a collection they are the top part of head and shoulders and double top or their inverse chart pattern counterparts for accumulation patterns. And they are also produced as juts up/down on any move up or down which are more prevalent in lower time frames. So far, all I've told you is obvious stuff.

So lets talk about something not as obvious.

When retracing back up/down a leg, one way to find a key level at the peaks or valleys is to find the candle that closed above(for the move up) or below(for the move down) the key level of support. In order to do this, for the retrace up the leg down, you must understand the move up from the leg before your move down. Generally both these levels for the move up or down is the same level.

Off this weekly chart, in order to understand why this level here is significant, you can first get your first clue from the immediate leg to the left. From here, you are interested in the 12/20 candle. This candle closed above a significant level of resistance in order to gain a level of support. And the 12/13 candle demarcates the level of interest as the level that it could not close above of, by wicking there.

Now sometimes the candles are not so straight forward. That is why I suggest that you look to the leg to the left of the current leg.

When you zoom out, you get a better sense of how important a level is. The logic of understanding the mechanics is simply: what is the level that a candle such as the 12/20 candle had to close above in order to gain a level of support. The qualification is gained by looking at the price action where the level acted as resistance: first by wicking there as resistance or support and second by doji's. How do you localize these areas? Look for peaks and valleys. Look at the level where they congest. Look at the base of their congestion. And then look for the relationship as described above.

As you can see from this example, the support found in 3/14/11, was a support they tried to hold from 7-9/08 and 5-7/06, was a level of resistance in 7-9/05, support in 5/01, 10/99 and then finally the level of support gained in 12/28/98 that was the level of resistance in 12/21/98.

So how does it look in a daily perspective or a lower time frame? Much like the weekly as you can see the expected relationship or mechanics is observed. An area of consolidation before the move up is also, a leg start. It is all just rocket science.

Issue 089 - How Weee'd A Chart - Part 5

Yeah it's been a while since I've written something or even write about my angst about some maroon. What should I write about anyways when everything about chart reading has been said. But I should state the more obvious and less trivial and most logical of all. Enter big angst.

Lower Time Frame Follows The Trend Of Higher Time Frame!

It's completely technical. It's completely logical. But why do people think that the lower time frame can do the unthinkable is beyond my comprehension. Perhaps all the pre-conditioning of hearing about false pops and drops but people who read this blog still do the same thing. The problem when I listen intently to what the issue is, is they completely lack the understanding of the basic concepts of what technical trading is. Seems pretty harsh but that is what it boils down to.

Sure they have bits and pieces. Sure they can identify what certain things are. But when you press them to explain it from one time frame to another...the simplicity that they know. The simplicity that allows them to do what they already can turns into mental diarrhea. It becomes completely obvious that the thinking employed to read the chart is really gimmick based not by clear concise thought. If your thinking is not in the infantile gimmick phase, you would be able to see the momentum, see where you are in the price action phase as momentum shifts and know based on the leg where you are and how is progression building up or down momentum. Sure they can regurgitate the content from blog to help them along but the full meaning fails to register when they go from one time frame to another. The thinking process goes from simple to insane complexity in 3 seconds.

Momentum, Price Action And The Leg ... And Brain Damage

Where they fail is at points of consolidation. Ironically these are the points where accumulation and distribution occurs. The place where a leg start is. The place where they know momentum shifts as liquidity changes the price action from moving singularly in one direction up or down to sideways. So you ask them, here is the leg start in the 15 min chart, what should price do when we reach this previous area of support or resistance? Should it bounce back or run through on the first attempt? They will answer correctly that the price should repel. Then you ask them, where should you see this change in momentum happen? They will then correctly say in the lower time frame. Ask them why. They will say .. Change happens first in the lower time frame. So they go to the lower time frame and that is where the "brain damage" (say it the Bill Cosby way) occurs.

It's been accumulating but the price continues to go lower. Did it reach the leg start yet you ask them. No answer. Then they say well its been sideways and been choppy. It just keeps going up and down. I think it will go lower. Then the price pops up and kills them.

It's been distributing forever but the price keeps going up? Did it reach the leg start yet? I just told you its been distributing but the price keeps going up. It isn't doing what it should to go to the leg start. So they go long and the price drops and kills them.

Then they say...
How the hell did it just pop or drop that hard when all it was doing were these little pops and drops?

Major Freaking Brain Damage!

What is going on? Why so brain damaged? It really is quite an annoying problem. From my perspective, the lesson has been taught in many ways. Biggest clue is how a 2bar reversal can look like a head and shoulders in a lower time frame. It was a huge paradigm shift for me when i realize the significance of that notion. This is a huge hang up if you really don't put two and two together. While price action is producing this huge distribution or accumulation pattern as the price action goes sideways in the lower time frame, and probably 1or 2 candles in the higher time frame,
3 things happen:

1. They forget the higher time frame 1st touch
2. And in forgetting, they think the move will bust through that higher time frame level.
3. This happens because they forgot that they are moving sideways from the original leg.

The brain damage goes on further.

They ignore the decline in the momo. They have no clue that the sideways movement with the decline in momo were breaking down levels of support or resistance for the first touch --- ergo even fail to recognize the progression. They fail to see, to recognize basic chart patterns and how they work. That as you progress further to the left...you break down the momo of the bigger leg where the sideways action started from. What does that mean?

When price moves sideways...what was it doing before it went sideways? Since I really do have to spell it out. If you look a little further left...you should see a big leg up/down. You would think that if you see a first touch coming from the higher time frame, that people who claim to read this blog would come to the clear and logical conclusion that the lower time frame would start to dist or accu by losing momo as the pa moves left, as the pa gets new lows or new high on lower macd, as the pa goes toward that higher time frame level of support or resistance. Why? Is it not by definition that accu happens after a move down and dist after a move up? To prepare for the expected response for the 1st test of that higher time frame level of s/r. And while all this stuff is happening...why do people still ask where will it go even if they recognize the set up? Do they not understand the progression and legs? Obviously your target should be the leg start that hasn't been tested. But it is the obvious they want to disbelieve. It becomes so obvious that people are oblivious that even the basic chart patterns, definitions and constant repetitive way that price and momo moves or behaves is not readily available to them. They only know the setup they like to play but even in full detail. Oh hey this is a double top this will move all the way down to the leg start..and then pops hard at the leg start of the first valley.

Goes back to level of understanding. What they don't get, they make up. Sometimes the rational provided is incredible. Almost like listening to the news. The effort to understand is limited to the gimmick trade setup that becomes their favorite arsenal to trade. It works till it don't. There is no real understanding even if they get it right. They couldn't describe it to specific details and conditions. And so if they are not savvy enough, they play those gimmick moves they adopted in the wrong situation. They go long to the moon when they should have shorted or short to china when they should have gone long.

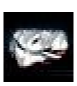
Don't be brain damaged. Learn to put it all together!

THIS MARKS THE END OF ALL ACHIEVED BLOG POSTS AVAILABLE. The last blog post had these two comments, last one is by the author of these **2 comments:**

AnonymousMarch 10, 2013 at 11:34 PM

Hey mr.kewl, this is my second round reading the entire blog. Notice that a few episodes are missing like 6, 16, 36. Some glitch perhaps?

Reply



KEWLTECHMarch 12, 2013 at 4:02 PM

Nah left them out on purpose. Something's people have to think thru on their own

Reply