

**THE  
AUSTRALIAN  
TECHNICAL  
ANALYSTS  
ASSOCIATION  
NEWSLETTER**

**January 1995**

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Contributing to the ATAA Newsletter is encouraged and will repay your effort by expanding and sharpening your analytical ability. The emphasis of the Newsletter is on original articles, although consideration may be given to material of interest previously published in other publications. Newsletters are published each January, March, May, July, September and November. The deadline for copy is the last day of the previous month: ie December, February, April, June, August and October.

If you would like to discuss how you could contribute, telephone Roger Lawes on 02 375 6536. Contributions should be addressed to Roger and sent to him at GPO Box N255 Grosvenor Place Sydney NSW 2000. Our preference is that you submit articles in both hard copy and on IBM disk. Software packages preferred are Microsoft compatible, Word and WordPerfect 5.1. However, most packages will generate an ASCII file, which will be fine.

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Our National membership is now 326

## Learn To Adapt

by Joe Ross

Recently I came across the following quote: "Try to find something that works and stay with it." Robb Sagendorph.

The question is, "Is this sound advice for trading in the futures, options, and stock markets?"

I contend the answer is no. Although on the surface this statement may seem correct and wise, a deeper look will show that it is inappropriate advice for a trader.

Let me give you an example based on a true situation, in which I have intentionally changed the names and numbers.

Once upon a time there was a young man who came to the markets with only \$500. Through patient endurance, persistence, and intelligent observation, this young man traded his \$500 into a fortune amounting to hundreds of millions of dollars. So great was his success that he was admired for his accomplishment around the world. Indeed, he had become a very famous and much sought after trader.

Then one year, on a single trade, he suffered a loss in his account amounting to 10% of all the money he had ever made in the markets. In his case, such an amount represented a sum in the tens of thousands of dollars. This major loss was quite sobering to the man, and he thought to himself, "I need a rest from the markets." With that thought mulling about in his head, he decided to end his trading career and enter into a totally unrelated field of endeavor.

Not knowing much about any other way to make a living, he failed miserably in his attempt to undertake a new career, and after several frustrating and unproductive years of trying, he decided to go back to trading the markets. His ego and his confidence level were quite low from his failed attempt at another occupation, but he had kept all his notes covering his many years of trading, and he decided that he would begin trading shortly after he had reviewed his notes, and then paper trade for awhile. He followed through on his plan. He carefully and deliberately brought himself up to speed in trading. He read and reviewed all his notes. He went over and over countless charts that were the back up for the trades he had done – the very trades that had made him rich.

He then bought data covering the years in which his trading had reached glorious heights. Very carefully and thoroughly he backtested that data, until he was sure he would have taken the same trades in the same way. On paper, with only minor variances, he re-created his original fortune. At that point he felt he was up to his former level of trading. There remained only to test himself in the live markets with real trading.

He began to enter trades. He followed all the things he knew how to do. His discipline was magnificent. He was glowing with confidence that he would create yet another fortune from his trading. He began to lose! As was his habit and discipline from years of trading, he began to examine himself. He checked and double checked to see if he had traded the way he was supposed to trade. He checked every market decision. He checked the way he had called in his orders. He checked his reactions to crises that had arisen. He could find no error in his trading, so he pushed on.

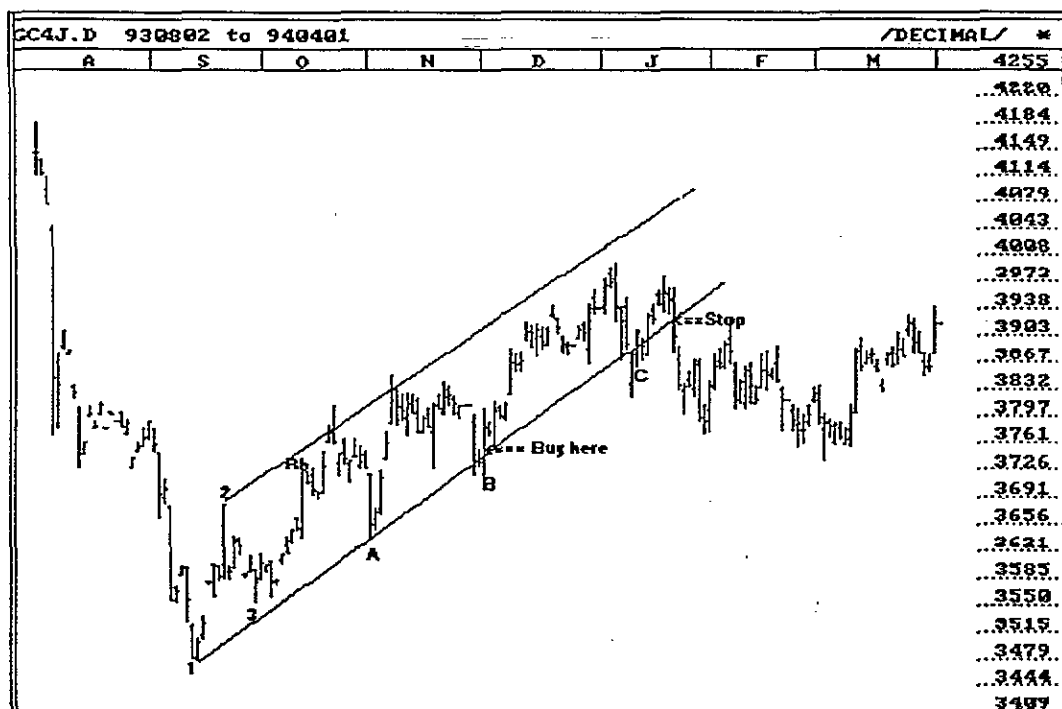
By mid year, his losses amounted to almost twice what they had been in the year he had suffered his great single loss.

What in the world was wrong? Everything seemed to be in place. Had he lost the skill that previously lifted him to lofty heights?

The answer was that he was trying to do something that had worked splendidly at one time, but now no longer worked. The one area he hadn't thought to check was that of the markets themselves. You see, my dear friends, this great trader hadn't changed. He still had discipline. He still could trade the way he always did. He still had his systematic method of trading. What was wrong was that he failed to perceive that the markets had changed. It was not he who had changed, it was the markets themselves. It was not that his system or method was no good. It was not that he lacked discipline in following what had usually worked before. No! What used to work was no longer working, and he had failed to realize the situation and adapt. His mistake cost him tens of millions of dollars.

I'm going to show you a technique that, if you will diligently follow it, will practically guarantee that you will be a winner in the markets. It follows the U.S. Army KISS (keep it simple, stupid) principle. This technique works well in trending but choppy markets. This year's Gold market is a good example.

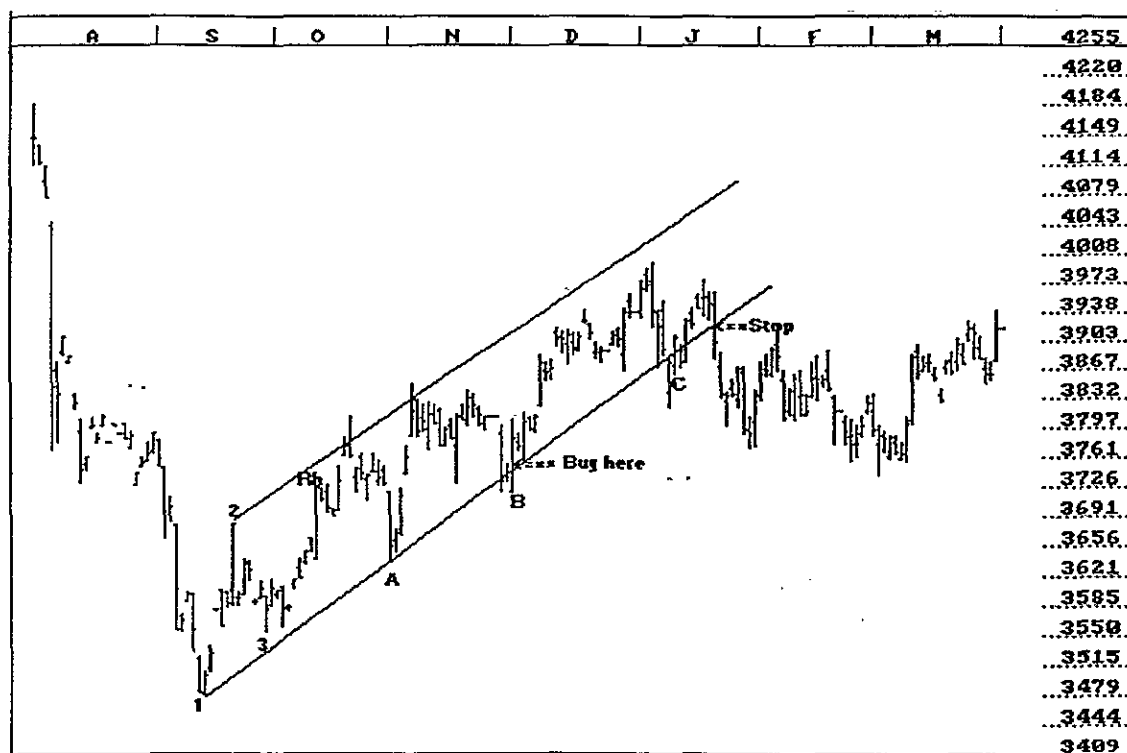
When a market is in a chopping trend, it is difficult to see an overall trendline. However, it is possible to depict the trend by drawing a channel around it. Let's look at Gold.



The first step is to identify the trend as being established. This I have done, and marked a 1-2-3 low which defines the trend. A breakout of the Ross Hook following the defined trend establishes the trend. The retracement to "A" gives me a break in any trendline I would have drawn between points 1 and 3 and then projected forward. The proper time to draw a channel is when an established trend is characterized by violations of an established trendline.

As has been mentioned in many places, the object of trading is to win. This is done by keeping losses small and maximizing gains. This in turn is done by keeping loss potential at a minimum while keeping the propensity for a win at a maximum.

A trending channel offers just such an opportunity when prices reach the channel line. In a trending channel, the momentum and direction of the trend are likely to continue once the channel boundaries are tested. To further enhance the probability that any loss will be small compared with what can be attained with a win, I want to see not only a touch of the channel line by price action, but also an intraday reversal which is evidenced in this case by the open being lower than the close while prices are at the channel line (B). The stop for this trade goes initially below the low of (B), and once the trend makes new highs on bars totally within the channel, the catastrophic stop is trailed at the channel line. That doesn't mean waiting until prices reach the channel line to be stopped out. Profit taking exit stops should be placed at support as in any trend, or below a moving average that is more immediate to the price action. Better yet is to take profits while they



are available.

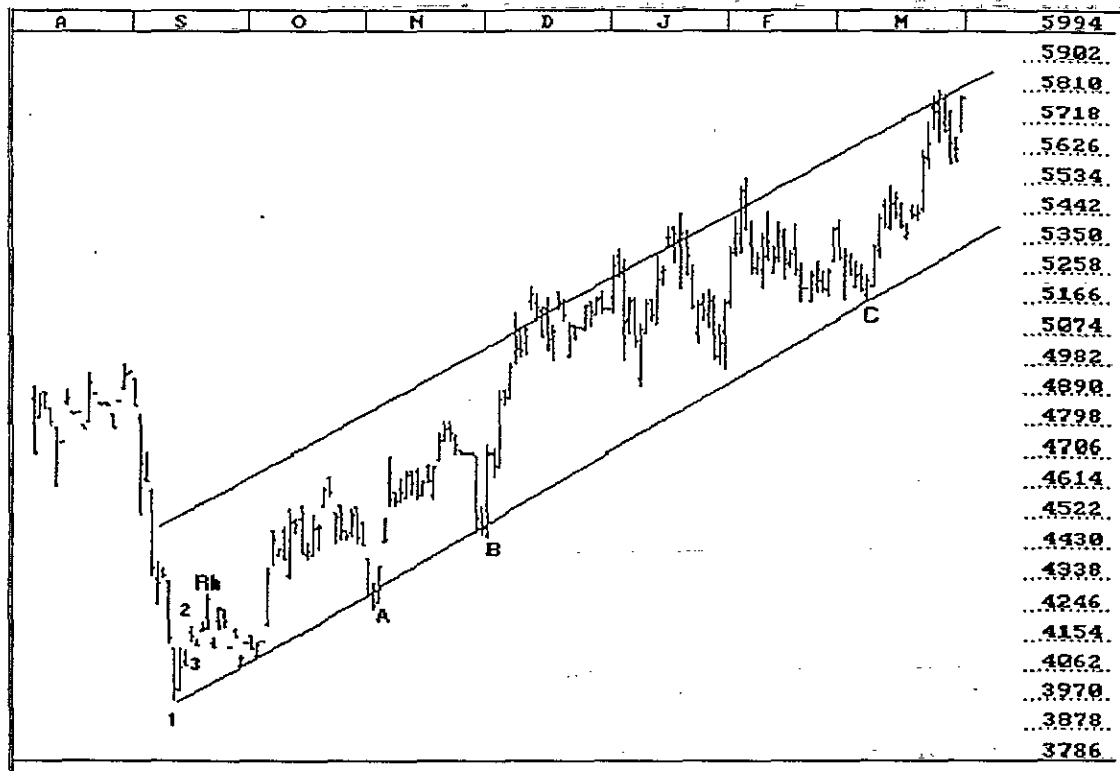
Another buying opportunity occurred at "C." If unable to enter then, entry could have been made two days later. Once there were new highs within the channel, the catastrophic stop moves to the channel line where, chances are, most would have been stopped out. Even at that point, the trade did no worse than breakeven.

Gold is not the only market that has been making a chopping upward trend. As might be expected, Silver, too, has been stair-stepping upward. Whenever a market stair-steps or chops upward, it is a good candidate for channel techniques.

Silver began its channel with a 1-2-3 low formation to define a somewhat abbreviated trend. The defined trend became established when the Ross Hook subsequent to the 1-2-3 low was taken out. The first major correction brought about the point at which I could connect a line to #1. "A" was a buy point and a buy order should have been in the market just above the channel line. This buy caught a nice move upward and resulted in a profitable trade. The catastrophic stop first went below the low of the reversal bar (A). Subsequently, the catastrophic stop moved to just outside the channel line. At least some profits should have been taken when prices made a small double top prior to falling back to (B).



"B" was also a buy point and caught a wonderful move up. A lot of money was made in just a few days. The catastrophic stop placement is below the low of "B." Once a new high is made and all price action is inside the channel, the stop is moved to just below the channel line.



There were ample opportunities to cash in all or part of a position subsequent to "B."

"C" was also an excellent buy entry point. "C" touched the channel line and closed entirely inside the channel. Buying a breakout of the high of "C" the following day gave an easy entry for a trade that never looked back. Again, the catastrophic stop initially goes below "C." Once there is a new high and prices are contained entirely within the channel, the catastrophic stop moves to just outside the channel line.

Profits were available all the way to the top of the channel.

I hope you can see the simplicity of this strategy and understand the tactics needed to carry it out. I also hope you won't try this in a normally trending market. In a normally trending market, one consistently making higher highs and higher lows, or lower highs and lower lows, a trendline or offset moving average is a better way to show containment of the move. The strategy and management for trading a normal trend is somewhat different as well.

Remember, you don't necessarily want to find something that works and then stick with it. Such a strategy will be good for awhile, but you will end up the fool. It has happened to the best of traders.

My goal as a trader has always been to have a toolbox from which I can draw the appropriate tool for each market condition I encounter. What works today in one market may not work today in another. What works today in one market may not work in the same market tomorrow.

Markets trend, and they move sideways. The congestions can be short term such as Ledges within a trend, or they can be long term such as Trading Ranges. Trends can be gradual, with progressively higher highs and lows in an uptrend and progressively lower highs and lows in a downtrend. But that description is an

over simplification of market price action.

There is an old saying that a market can trend up, trend down, or not trend at all (sideways market). Don't you believe that for a moment. A market can move up in a gradual trend, a stair stepping trend, a chopping trend, or an explosion. It can move down gradually, it can stair step down, it can chop its way down, or it can collapse (melt-down). Each situation requires a different set of tools. It is the folly of mechanical trading systems that they attempt to trade all the ways a market can move using a single tool. It's like the repairman who tries to fix everything with a hammer.

Sideways markets, too, have differences. There are tight Trading Ranges and there are large chopping Trading Ranges. There are Trading Ranges that continually narrow over time. People have termed these "coils." There are Trading Ranges that continually widen over time. People have termed these "megaphones." The underlying reasons for each of these different formations are themselves different. Different circumstances call for different sets of tools to properly enter and manage them. Would you want to trade all of the different formations with an 18 bar RSI? What if you changed the RSI to 15, or 14. Would you still get the same set of signals? If not, which would be right? Using different time spans for RSI, or any oscillator for that matter, is like using different hammer sizes. A hammer is still a hammer.

In the past I've said, "If it works, don't fix it." People have misunderstood the full meaning of what I have stated. It is true that when something works in the markets, you shouldn't fool with it trying to make it better. Doing that is the downfall of many traders. But you should be prepared at all times for what has been working to stop working. Then it's not a matter of fixing anything. It then becomes a matter of adaptation subsequent to the realization that what you have been doing is no longer working because the markets have changed.

#### MORE ON ADAPTING

The markets have certainly been wild lately much as I described they would be in past issues both earlier this year and last year. We're still seeing large choppy trading ranges, abbreviated trends that fail to continue beyond just a few week's duration. Lot's of explosions and collapses make these markets difficult to trade, even for the very best traders. This year the funds have gotten their toes mashed, with some of them incurring huge losses. These losses are so large that they may bring about congressional investigations and bureaucratic regulation. If President Clinton has his way, you will be paying a tax on every trade you make in the U.S. – win or lose.

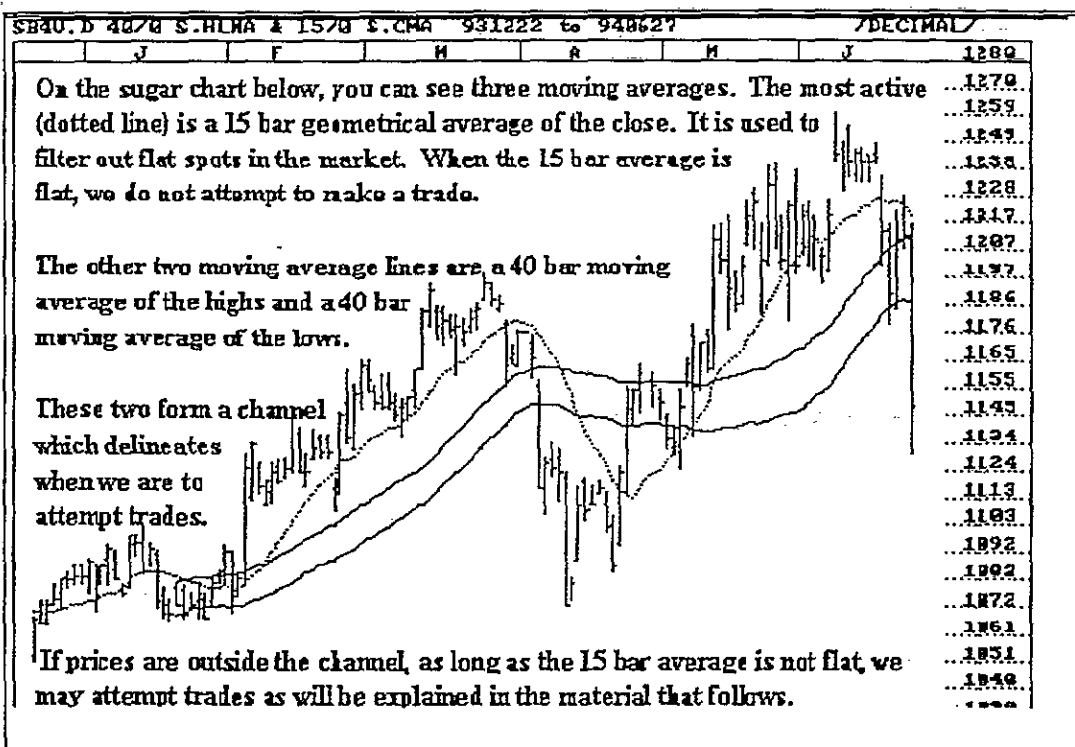
It seems only the innovative and adaptive traders will make it in the markets today.

Sometimes all that is needed is a simple set of tools. Let's look at just such a set of tools, that from a technical point of view are proving themselves successful in trading the kinds of markets we are seeing. In the illustrations that follow, I will be using a fifteen bar geometrical moving average of the close, along with a simple forty bar moving average of the highs and lows. With the forty bar simple moving average of the highs and lows I will attempt to create a channel. When prices move beyond the bounds of the channel, I will attempt to trade pointy places. I will never attempt a trade when prices are within the channel. The exponential (sometimes referred to as a geometrical moving average will be a filter used to keep me out of the market when the moving average is flat. So, even though prices are out of the channel, as long as the fifteen bar moving average is flat or relatively flat, I will not attempt to trade.

A trade will come when the geometrical moving average is trending and prices are out of the channel. If prices are above the channel, I will attempt trades only from the long side. If prices are below the



channel, I will attempt trades only from the short side.



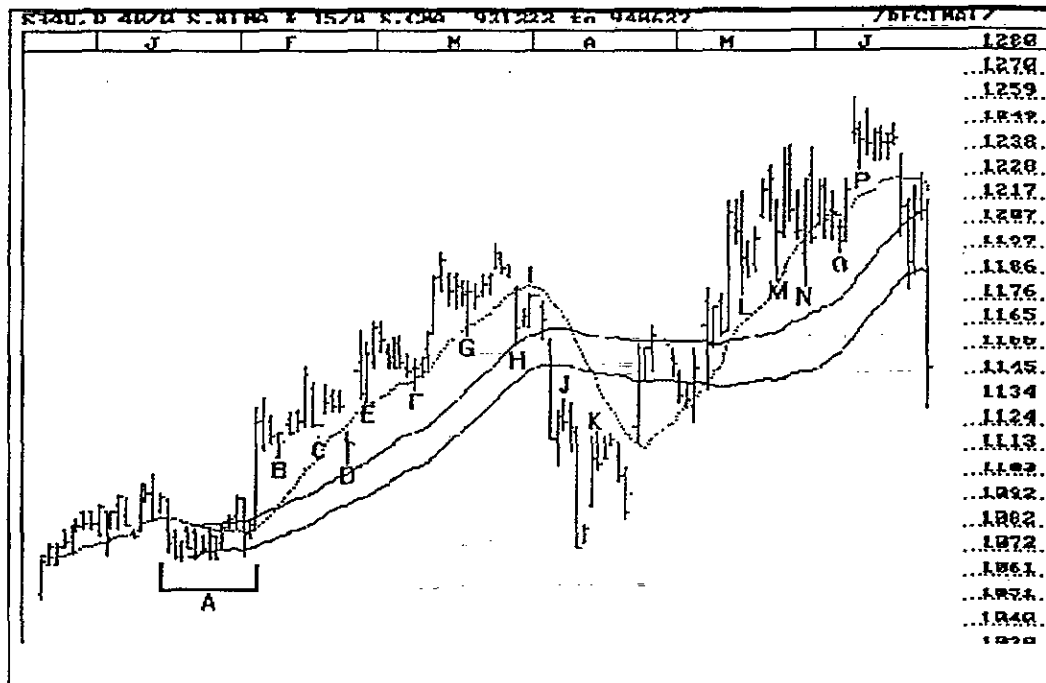
Let's look at a chart of October Sugar so that you can get the picture. More details will follow. If you want a name for this technique, one of our traders here calls it the "Camelback."

The idea behind the Camelback technique is to have you at all times on the right side of the market. This is accomplished via the channel created by the forty bar simple moving average of the high and low. Whenever prices are in the channel we do not trade. Whenever prices are above the channel, the appropriate position is to be long. Whenever prices are below the channel, the appropriate position is to be short.

The only thing that will prevent us from attempting to get short below the channel or long above the channel is if the fifteen bar exponential moving average is flat or near flat. We use a exponential moving average to tell us more quickly if prices are flattening out.

With the Camelback technique, we are attempting a three filter method for being on the correct side of the market. We are pursuing the age-old concept of trading with the longer term trend by entering an intraday high/low breakout signal when the intermediate term trend moves counter to the long term trend.

Let's look at a couple of charts to see how that works, and set some rules.



At 'A' prices are inside the channel. Price bars must be entirely out of the channel before we can use the Camelback. When prices are above the channel, we attempt to purchase a breakout of the high of the bar that makes the local low. 'B' is a local low. An entry 1 tick above 'B' would have enabled the covering of costs and possibly a small profit. A trailing stop beneath the low of each day would have seen profits maximized 4 bars after 'B'. 'C' was the next local low. An entry 1 tick above the high of 'C' would have done little more than allow cost covering and a breakeven exit some time in the next two days. The next local low was 'D'. Entry 1 tick above the high of 'D' would have been a profitable trade. Entry above the next local low, 'E', would have only covered costs and broken even. Entry above local low 'F' would have given some nice profits, as would entry above local low 'G'.

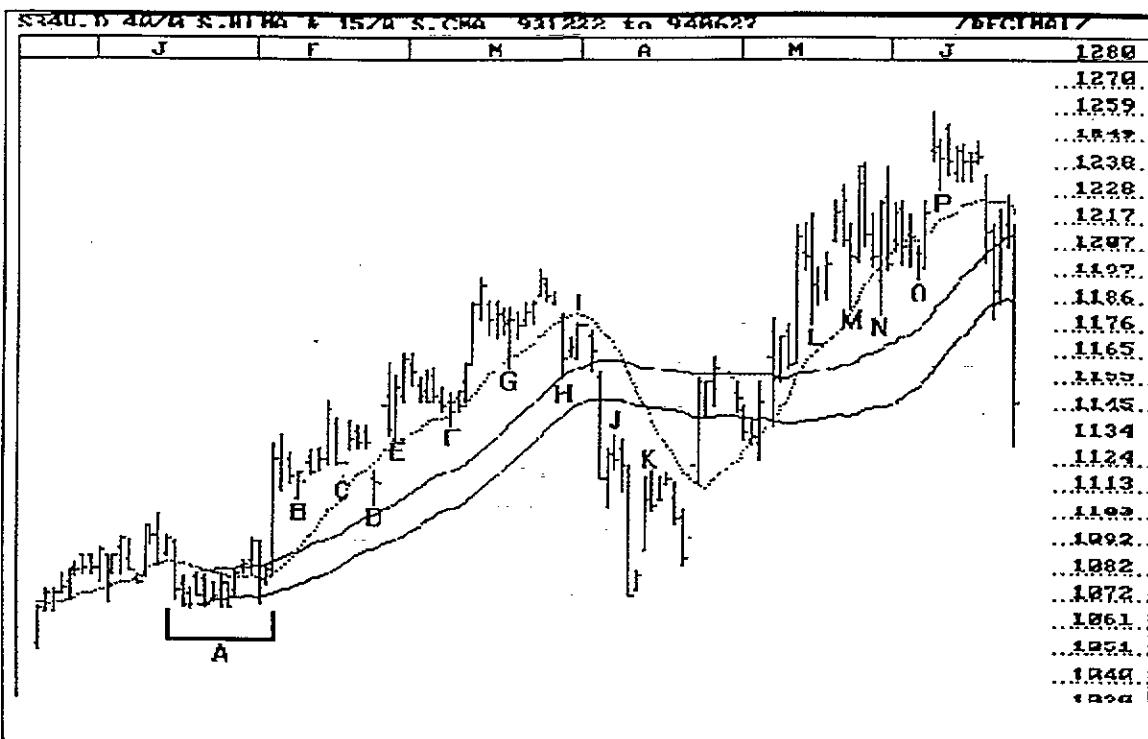
'H' was a local low whose high was never violated. At 'H', the exponential moving average is turning and is flat.

Subsequently prices move to the other side of the channel. We are now looking to be short. Once we are operating on price bars that are entirely out of the channel, we then try to sell a breakout of the low of the bar that makes the local high.

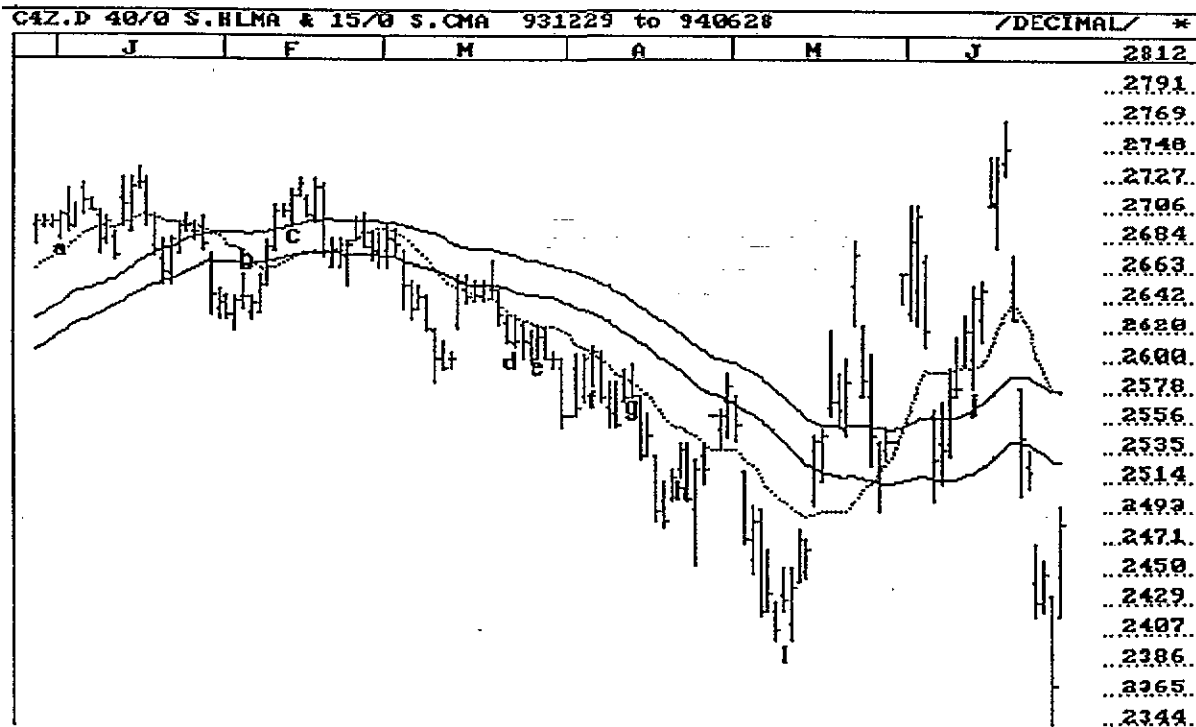
'J' is a local high. It is the top of a minor correction to the recent medium term downtrend. Shorting the breakout of the low of 'J' would have resulted in a profitable move. 'K' was a local high. Shorting a breakout of the low of 'K', when it happened 3 days later, also resulted in a profitable trade.

Prices subsequently moved back into and through the channel. 'L' is a local low. It took 3 bars to break its high. When it happened, costs and possibly a small profit were recoverable. Entry based on a breakout of 'M' easily made a profit.

A breakout of bar 'N' would not be taken, because of the gap opening. The same is true of a breakout of bar 'P'. A breakout of the high of 'O' would have resulted in a profit. What we are doing here is taking scalps off the daily chart. Scalping the daily chart using short term trading techniques is a great way to trade the kinds of market action we are seeing today. I believe we will see at least several more years of similar action.



Now let's look at another market to help you lock in the idea of what we are trying to do.



Please pay attention. As I write this, the grain markets are going wild. They are in a total state of hysteria. No one knows what to do. There is fear of drought and fear of too much rain. These fears are compounded on the fundamental fact that there is a shortage of grain based upon the 1993 floods. Almost any weather report and also the crop report will set these markets off. Corn would have been particularly difficult to trade. Let's notice how the Camelback method kept us out of trouble.

We'll begin at 'a', where we have a local low fully outside the channel from which to trade. 'a' would have resulted in no more than covering costs and then breaking even.

At 'b', we would have tried to go short below the low of a local high, but the trade was nullified due to a gap opening.

At 'c' the 15 bar average was rising, and so a fill above the high of 'c' would have resulted in covering costs and being stopped out at breakeven.

'd', 'e', 'f', 'g', and 'h', were all profitable trades based upon selling a breakout of the low of a bar making the local high. 'i' was unfulfilled because of the gap opening.

The best trade was made with a fill one tick above 'j'. 'j' was a local low.

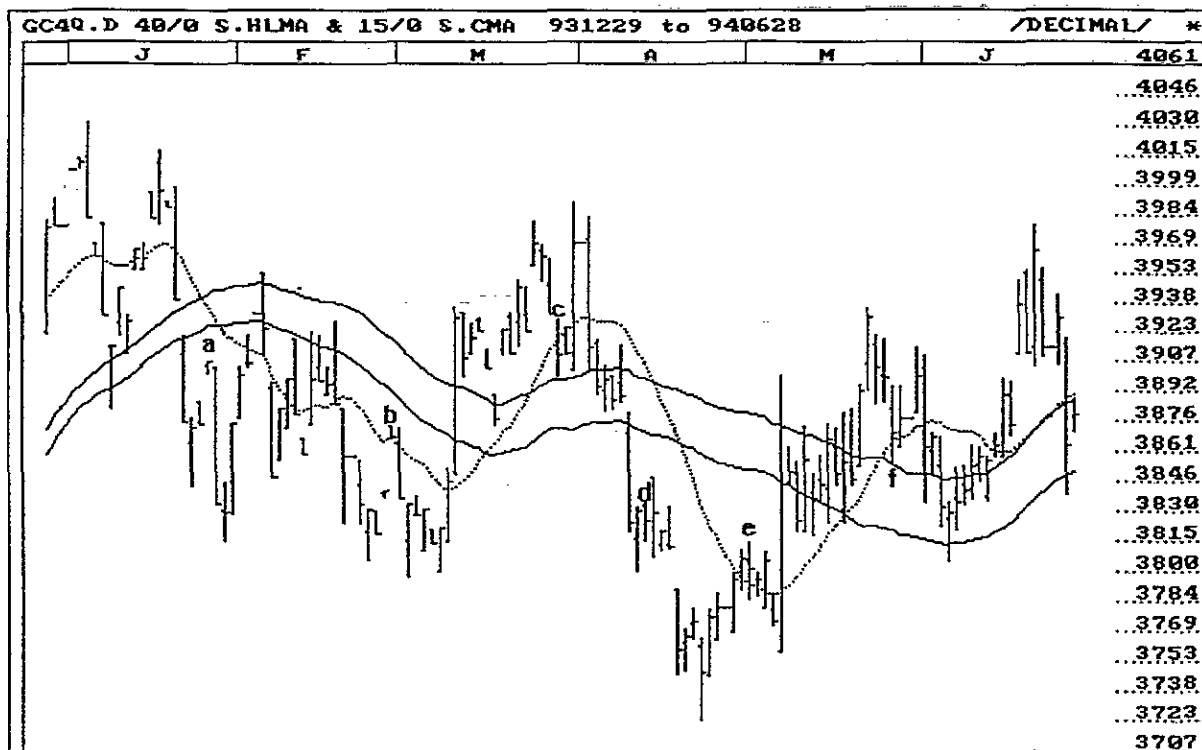
Now let's look a bit at the management of a Camelback trade. We always cover costs as soon as possible after entry, using 1/3 of our position. We set some sort of short term objective for a profit taking stop using 1/3 of our position. We then allow the final 1/3 to ride. At least fifteen minutes before the close, we hedge our position by taking an opposite side trade where possible in a back month. This can be done in almost any consumable commodity – Corn, Wheat, Beans, Cocoa, Coffee, Sugar, Silver, Gold. It can also be done in Eurodollars, T-Notes, and T-Bonds.

A hedge can be made in Currencies by taking an opposite side position using two contracts at the MidAm for every one at the CME. One exception is B-Pound. A hedge here has to be five to one and that makes it too expensive.

The S&P 500 can be hedged by using two opposite side contracts in the NYFE. By opposite side, we mean that if we are long one S&P contract 15 minutes before the close, we will go short two NYFE contracts to offset the one S&P contract. If we are short 10 July Soybean contracts, we will go long 10 November Soybean contracts in order to offset.

When we are using a back month to offset or hedge, we want to be sure that the hedge itself is not adverse. We check this out before we ever enter a trade. If July Wheat is strong, and widening the spread against December Wheat, then it is okay to begin the trade – long July. If the spread between December and July is narrowing, then we enter the trade long December, so we can offset by going short July if need be. If the spread is neutral between the two (going sideways), then it does not matter in which contract we begin the trade.

We do not drop the hedge until we are absolutely convinced that a strong move in either direction has occurred. Then we drop the losing side of the hedge and hope for additional profits. The purpose of the hedge is to make us flat in the market going into the close. We don't want any horribly adverse surprises. From time to time, by being flat we will miss out on large moves that would have been in our favor. These will be offset by avoiding large move that would have wiped us out. We will be content to make steady and regular profits.



Now let's look at another market using the Camelback technique.

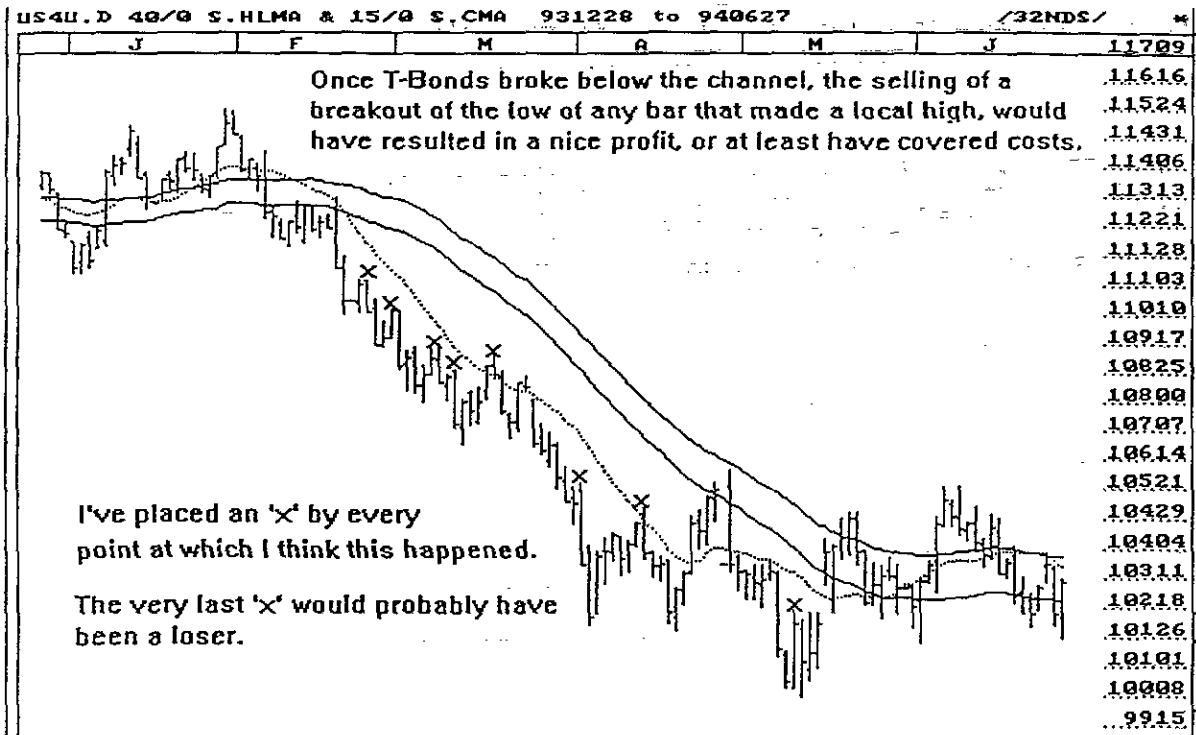
As far as I can see, there were only six trades in Gold. Gold would have been rather difficult to trade on its own merits without some sort of filtration. The camelback technique provided the filter. Obviously, the camelback technique is not going to give a whole lot of trades, but wherever tested, it results in relatively small losses compared with relatively large wins. It seems to fulfill the requirement of keeping your losses small while you let your profits run. Let's look at the six trades in Gold.

'a', 'b', 'd', and 'e' sold a breakout of the low of a local high. 'c' and 'f' bought a breakout of the high of a local low.

When you consider that there are at least 20 markets in which you can use the Camelback, you will see that there are plenty of trades available during the course of a year.

Here's one last market using the Camelback.





The markets are going pretty much the way I have predicted. By the time you get this, the Fed will probably have raised short term rates once again, tried to defend the dollar and failed, and dumped gold in a fruitless attempt to keep its price down.

Until next time,

All the best in your trading,

Joe Ross

Mr Joe Ross will present two 3 day seminars in Sydney the first entitled 'Trade the Truth' commencing 26th March 1995 followed by the 'Optures and Futions' seminar commencing 2nd April 1995.

These seminars will be the same as but will cost less than the seminars he presents in the US.

Enquiries can be made to David Hunt (02) 545 2605 phone or (02) 545 4705 fax, or directly to Trading Educators on 0011 (512) 259 0727 phone or 0011 1 (512) 259 0747 fax.

Mr Joe Ross will be the key note speaker at the ATAA 1st Annual Conference over the weekend of the 18th & 19th March 1995

## What is the SPI? by Bernhard Liedtke

SPI stands for 'Share Price Index'. The All Ordinaries Index SPI basis its value on the All Ordinaries Index (AOI). The AOI is the 'physical market' for the SPI, which is the futures market.

There are a few contracts to choose from. Currently there is a DEC 94 contract which expires on the last trading day of December 1994. There are also other contracts spaced every three months ie. March 95, June 95 etc. The current contract is the most actively traded. When a contract which you are holding expires, it is automatically closed out for cash. This means that the contract becomes void and cash is either taken out or placed into your account, depending on how the SPI contract closed. You are under no obligation to purchase or sell shares at all with the SPI.

### Time Value

Unlike options, SPI futures have very little time value, which means that if the AOI stays the same, a SPI contract will lose very little value due to time depreciation. There is a little time value in long dated contracts, but as most traders are short term, this time value is negligible.

### How Does the SPI Move?

The SPI fluctuates separately to the AOI, even though its value is based on the AOI. If SPI traders believe the AOI will fall, there are more sellers than buyers, so the SPI falls lower than the AOI. For example, the AOI may be at 2020 and the SPI may be at 2015. Supply and demand determine its price, just like the share market. Panic selling or buying can cause sudden sharp movements in the SPI. This market is therefore usually very volatile.

### What are the Risks/Rewards?

A one point movement in the SPI is worth \$25. With options, you cannot lose more than the initial amount you paid for a contract if you just buy them. However, your losses are potentially unlimited if you sell options. Similarly, gains/losses are unlimited when you trade the SPI, whether you buy or sell contracts. This fact is important to understand. When you place a trade, you pay nothing (except brokerage) until the SPI moves, whatever the SPI's value is at the time of the trade.

### An Example Trade

The SPI (as with most futures markets) is a net zero market. This means that for every dollar that one party makes, another party must lose. Add the total gains to the total losses for any particular trading day (not including commission and fees) and the result is zero dollars.

#### Example

October 19, 1987      SPI value 2006 (AOI = 2065)

Trader A buys 1 SPI contract to open (at exactly the same price as) trader B sells 1 SPI contract to open.

#### Summary of trading:

Trader A is Long 1 SPI contract (makes money if SPI rises).

Trader B is Short 1 SPI contract (makes money if SPI falls).

In our example, there are now 2 traders in our market, both holding opposite ends of one contract. Both have agreed on the trade price of 2006 for the SPI.

October 20, 1987      SPI value 1320 (AOI = 1550)

Trader A sells 1 SPI contract to close (at exactly the same price as) trader B buys 1 SPI contract to close.

A buy and a sell by one trader cancel each other out. Both traders have done that, so now both are out of

the market and no longer hold any contracts. Both traders agreed to trade at 1320.

SPI moved -686 points x \$25 x 1 contract = \$17150 changes hands.

Trader A must lose \$17150 to Trader B. (In 1987, one SPI point was worth \$100, so this sort of movement would have actually resulted in \$68,600!)

Money is transferred from accounts automatically, so you don't actually know who holds the other side of your contract. In reality it doesn't matter for the market, just as long as the net total of long and short traders in the market is zero. This example is extreme, as the SPI rarely moves by 686 points in one day. But it demonstrates what is possible. If Trader A didn't have \$17150 in their account, they would have received a request (margin call) from their broker to top up their account. The minimum amount which must be in a SPI traders account is \$2000. But it depends on the broker's requirements. Some brokers require much more before they will allow you to set up an account. You buy or sell to open a contract, you then have an open (active) position. You do exactly the opposite to close the contract, and you are then completely out of the market. All accounts are debited or credited at the end of each trading day.

### Trading the SPI

The SPI has two especially attractive features. One is the near negligible time value, and secondly it is a very liquid market, which means that you can usually trade almost immediately, which makes day trading very easy. There are also many types of orders available which can be automatically triggered, even when you are not watching the market. These can open and close contracts for you to take profits or cut losses. But they need to be used carefully or they may be triggered too easily or at the wrong time when you would have rather left the contract as it was. Because the SPI has a behaviour of its own, it can be bearish, even though the AOI is making new short-term highs. In this case, it may be more profitable shorting the SPI during downward corrections.

### How can the SPI be used in an investment strategy?

Most SPI trades are made by speculative traders trying to profit from its short term movements. But the SPI also has other applications. For example, it can be used to insure a share portfolio against a fall in the overall share market. One SPI contract will protect a share portfolio worth about \$50,000. If you own such a portfolio, and expect the share market to fall sharply, you can sell one SPI contract. It will gain in value by approximately the same amount as your share portfolio will fall if the overall market does fall as expected. You can also use SPI options to limit your SPI trading risks. The SPI Futures brochure also has other examples.

More information and a brochure on the SPI may be obtained from: Sydney Futures Exchange Limited  
30-32 Grosvenor Street, Sydney NSW 2000 Phone (02) 256 0555 Fax (02) 256 0666

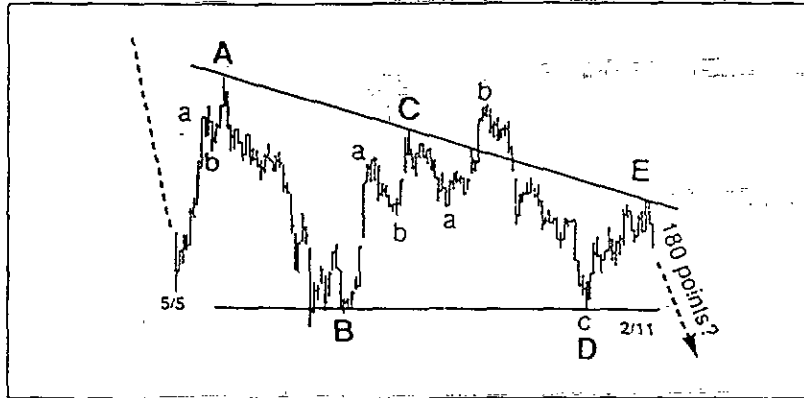
### Summary

The SPI is a high risk investment which requires close intraday following of the market for short term trading. It can be used as a long term investment, but enough money must be in your account to ride out the short term fluctuations without constant margin calls. Potential SPI traders should be fully aware of the potential risks/rewards, SPI behaviour and trading strategies before beginning to trade.

### Postscript to 'A Beginners Guide to the Elliott Wave Analysis System' November 1994

An apology to Bernard Liedtke in that the chart which indicated his market position was omitted from the text in the update as provided in the November issue.

To set matters straight the chart is now provided



An excellent call Bernhard - but where to from here ?

Roger Lawes

## THE FT-30 & THE NUMBER 56

By David McMinn & Robert Harle

**'(I can) calculate the motions of the planets, but not the madness of people'.**

Sir Isaac Newton commenting on the South Sea Bubble.

This paper directly follows on from 'US Financial Markets and the Number 56' (McMinn & Harle, 1994) and adopts the same approach used by these authors. The 100 biggest one day falls in the Financial Times - 30 (FT-30) index for the 1937-92 era are assessed for significance in relation to:

- \* the 36 year sub-cycles (see Table I, McMinn, 1993) and 54 year sub-cycles (see Appendix 1 McMinn & Harle, 1994).
- \* zodiacal position of the Sun/Moon/north node.
- \* angular degrees between the Sun/Moon/north node.
- \* the Monday effect

These factors have been appraised for the DJI (50 rises/falls: 1928-93 & 1937-92 eras) (McMinn & Harle, 1994). It was envisaged that the key findings made for the DJI would be repeatable for the FT-30.

This paper maintains the same format used by McMinn & Harle (1994) with:

- \* the years in the 36 & 54 year sub-cycles taken as commencing March 1.
- \* solunar calculations timed at sunrise on days of the greatest movements.
- \* the greatest one day falls being calculated as the percentage decline on the closing index value for the relevant day and the previous trading day.

The FT-30 was utilised as it was the most continuous indicator (since 1935) available for the UK stock market. The raw data for the 100 greatest one day falls in the FT-30 was kindly provided by Schwartz

(pers com).

**FACTORS ASSESSED**

**The 56 Year Cycle**

**Crisis Years.** • The FT-30's biggest one day declines cluster in crisis periods. By far the greatest number of worst days occurred during the 1973-75 crisis (49), with lesser showings during the 1937-40 crisis (6) and the 1987 panic (8). 1976 (9) was also important in the major declines, although the authors did not know if it could be regarded as a 'crisis' year in UK trends. Years in the 11 principle 56 year sequences of McMinn (1993) fall in most of these periods - 1937-40 (Seqs 09 & 12), 1976 (Seq 48) and 1987 (Seq 03). The notable exception was the 1973-75 crisis (no principle years), which was so prominent in the listing of the FT-30's biggest one day falls.

**36 & 54 Year Sub-Cycles.** • Of the 100 greatest one day falls, 20 were observed in patterns of the 36 year sub-cycles or about what could be expected by chance. This discrepancy arises as around one half of the biggest falls took place in 1973-75, which was not covered by any years in the 36 year sub-cycles. Nevertheless, the 54 year sub-cycles Series 2 (see Table 1), which contained the key year 1974, did correlate with the FT-30's biggest one day falls.

**TABLE 1      GREATEST ONE DAY FALLS & THE 54 YSC(a)**

	54 ysc Series 1		54 ysc Series 2	
	Obs	Prob	Obs	Prob
<b>Financial Times 30</b>				
<u>1937-92</u>				
100 greatest falls	10	NS	32	$p \lll 10^{-8}$
<b>Dow Jones Industrials</b>				
<u>1928-93</u>				
50 greatest rises	31	$p \lll 10^{-8}$	01	NS
50 greatest falls	28	$p \lll 10^{-8}$	00	NS
”				
<u>1937-92</u>				
50 greatest rises	14	$p < .001$	14	$p < .001$
50 greatest falls	27	$p \lll 10^{-8}$	06	NS

(a) Year commencing March 1.

**Zodiacal Circle**

**Nutation Cycle.** For 88 of the FT-30's 100 worst days, the north node is sited between 15 Libra and 0 Taurus, an arc of 195 degrees or 54 per cent of the zodiacal circle. This would be extremely unlikely to occur by chance. McMinn & Harle (1994) established that the north node in an approximate 15 Scorpio - 15 Aquarius - 15 Taurus half circle was crucial in US stock market activity and correlated with the:

- \* 50 biggest one day rises/falls in the DJI (1928-93)
- \* 50 biggest one day falls in the DJI (1937-92).
- \* 50 months of peak US stock market volatility (1866-1913).
- \* 100 months of peak US stock market volatility (1834-1988).

A nutation effect is firmly supported in US & UK stock market trends.



**Sun's Zodiacal Position.** Biggest one day falls for the FT-30 & the DJI were most likely to occur when the Sun was in Libra or Libra - Scorpio, as follows:

FT-30	100 falls	1937-92 (Libra: 16 - $p < .01$ )
DJI	50 falls	1928-93 (Libra - Scorpio: 22 - $p < 10^{-6}$ )
DJI	50 falls	1937-92 (Virgo - Libra - Scorpio: 25 - $p < 10^{-6}$ ).
DJI	50 rises	1928-93 (Libra - Scorpio: 15 - $p < .05$ ).
DJI	50 rises	1937-92 (Libra - Scorpio: 17 - $p < .01$ ).

No seasonal stock market factors are known that could account for this very repeatable correlation.

Moon's Zodiacal Position was not significant ( $p > .05$ ) for the FT-30's 100 biggest falls.

#### Aspectual Circle

Significance ( $p < .01$ ) was not recorded between the FT-30's biggest one day falls and lunar phase or north node angles to the Sun or Moon. For these factors, McMinn & Harle (1994) made similar findings based on the DJI, with either no significance being recorded or no consistent significance applying between the various sets of DJI data.

#### Mondayitis.

The worst days for the FT-30 were most likely to occur on Mondays, thereby confirming the findings for biggest falls in the DJI during the two periods studied as follows:

FT-30	100 falls (1937-92)	(Monday: 37 - $p < 10^{-4}$ ).
DJI	50 falls (1928-1993)	(Monday: 18 - $p < .01$ ).
DJI	50 falls (1937-92)	(Monday: 22 - $p < 10^{-4}$ ).

The Monday effect is an enduring feature in the timing of the biggest one day declines in the indexes (The Economist, 1994).

#### CONCLUSIONS

The biggest one day falls for the FT-30 did not correlate with the 36 year sub-cycles, but were extremely significant with the 54 year sub-cycles Series 2. This is partly explained by the numerous days falling in 1974, a year showing up in 54 year sub-cycles Series 2 but not in the 36 year sub-cycles. Correlations between the 36 & 54 year sub-cycles and the five sets of DJI/FT-30 data were largely dependent on the crises encompassed in the time frames assessed. This was discussed by McMinn & Harle (1994) in their appraisal for the DJI.

The north node in an approximate 15 Scorpio - 15 Aquarius - 15 Libra half zodiacal circle persistently correlated with the largest one day declines in the US & UK stock markets, as well the peak months of US stock market volatility. The importance of the north node would imply that the Moon sited above or below the ecliptic circle was also significant in business trends (in addition to its ecliptic longitude). (The Moon is always found within a band 5 degrees above and 5 degrees below the ecliptic circle.) The Sun in Libra or Libra - Scorpio correlated with the timing of the biggest one day rises/falls for the FT-30 & DJI and is feature of stock market movements. Finally, the Moon's zodiacal placement was not significant on the FT-30's worst days.

Significance ( $p < .01$ ) was not evident for solunar angles on the FT-30's worst days, which was contrary

to what was originally expected. However, several possibilities arise to accommodate the inconsistency: 1) solunar aspects are not relevant or, if they are, operate in an unknown manner.  
2) solunar cycles may be only imperfectly reflected in financial trends, especially given calendar effects and week day trading.  
3) each angle has been examined individually in assessing the biggest one day stock market movements.

A more realistic approach may need to consider three angles simultaneously (Sun - Moon, Sun - node & Moon - node angles). (If diurnal circles are also important, ascendant angles to Sun/Moon/north node would also be pertinent.)

The worst days for the FT-30 were most likely to happen on Mondays, a factor also established for the DJI's greatest falls. Such calendar effects would distort any impact of solunar cycles on financial trends.

In summary, the assessment for the FT-30 (100 greatest one day declines: 1937-92) repeat the findings for the DJI (50 greatest rises/falls: 1928-93 & 1937-92 eras). The following points were confirmed in US & UK stock market trends, with the biggest one day falls:

- \* tending to cluster in restricted crisis periods, notably 1929-33, 1937-40, 1973-76, 1980-82 & 1987-89.
- \* occurring preferentially in patterns of the 54 year sub-cycles. (Also applicable to DJI rises.)
- \* being recorded most frequently when the Sun was in Libra or Libra - Scorpio. (Also applicable to DJI rises).
- \* most likely to take place when the north node was sited in an approximate 15 Scorpio - 15 Aquarius - 15 Taurus half circle.
- \* occurring most commonly on Mondays.

Such findings offer possible clues on the interaction between solunar cycles and the greatest one day movements in key stock market indices. Much additional research is warranted to unravel the complexities of the 56 year cycle and associated solunar cycles.

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#### ACKNOWLEDGEMENT

The authors wish to thank David Schwartz editor of 1995 Investor's Diary (Burleigh Publishing Company, Burleigh, Stroud. UK) for providing the FT-30 raw data on which this article was based. Without this information the study could not have been undertaken.

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McMinn, David & Harle, Robert. 'US Financial Markets & The Number 56'. ATAA Newsletter. July 1994.  
The Economist. 'What A Difference A Day Makes'. p 86. September 24, 1994.

David McMinn studied at Melbourne University leaving in 1971 with a B.Sc Major in Geology. He then worked in the ANZ Bank Economics Dept. for 11 years as a minerals economist. David moved to the North NSW coast in 1983 and has undertaken private research on business cycles the end result being the papers on the 56 year cycle.

# Cycle Analysis - Comex Gold

By Bruce Davenport

21 December 1994

The recent lows of Comex Gold (\$377.7) are expected to hold targeting initially \$390. If this level is exceeded the next salient resistance levels are \$400, \$412 and \$420.

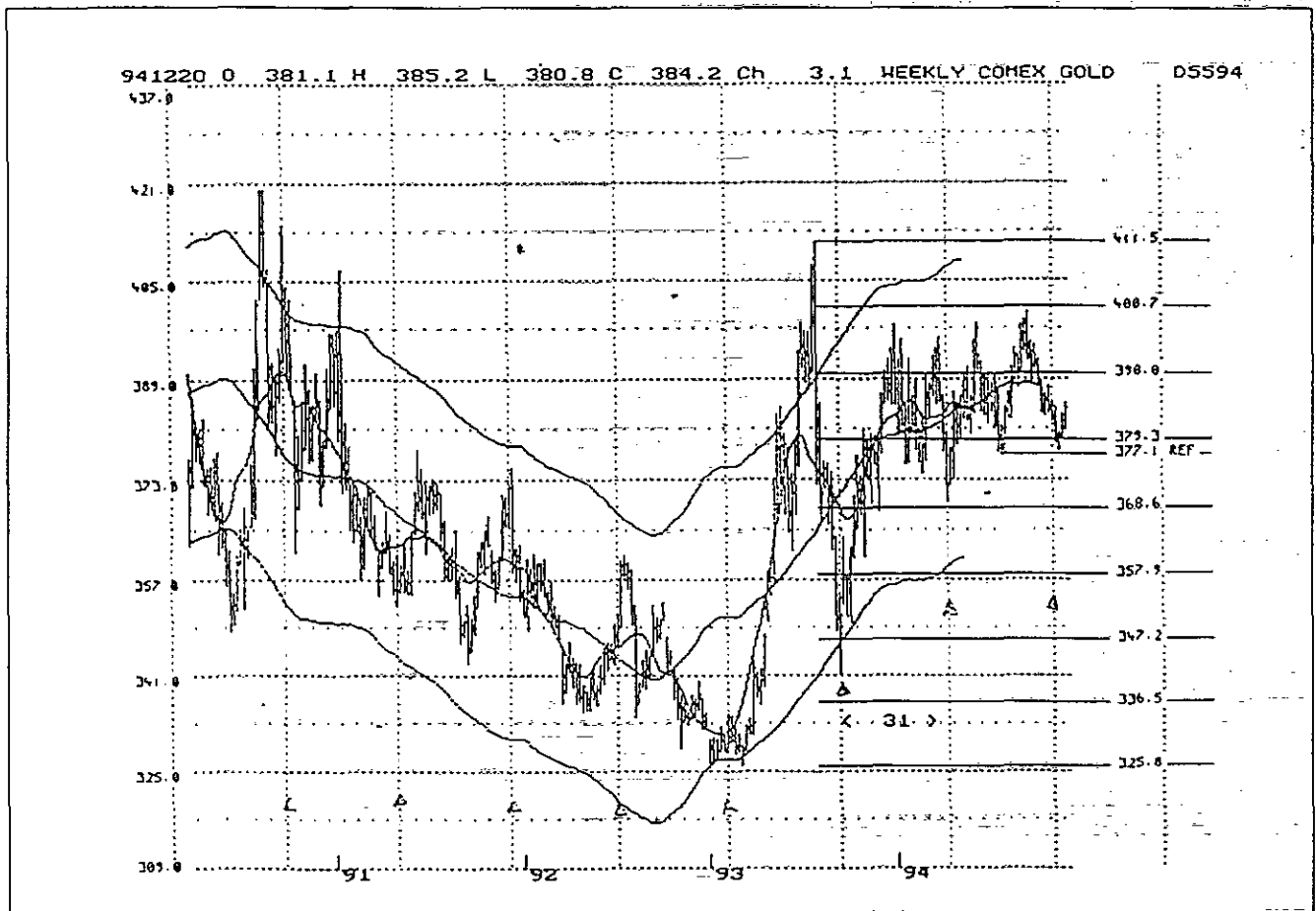
The weekly cycle of 31 weeks low is in place. The next five to six weeks should be in the advancing sector of the cycle.

The entry point is excellent, in that the stop-loss is close to the entry point, and therefore able to protect capital if prices weaken. On the positive side, the potential to make good profits is great.

The preferred stocks:

Central Norseman - has held well recently while many of the other golds stocks have fallen. Newcrest has potential of a good rally, and my cycle analysis indicates a low is in place.

Highland Gold, Delta Gold and Homestake have potential.



## New Year Forecast Copper and MIM

Several members were asked whether they would be prepared to provide a short term analysis of a market for inclusion in this issue of the newsletter. The following is an article kindly prepared by Will Slatyer. Will is a Sydney based member, author and financial strategist.

*'As many are aware, I am basically a trend follower who uses forecasting techniques to give targets and opportunities, but variants of moving averages for action signals.'*

*I have been intrigued at the recent divergence of the rise in the price of copper concurrent with the falling share price of Mount Isa Mines. While not fully aware of the troubles encountered by MIM management, I believe that the sharp 1994 rise in copper should have been more beneficial to the share price than it has.*

*I have constructed an Elliott count together with some simple Gann projections which indicates that the Wave 2 corrections of both copper and MIM should be complete by early June 1995, for a Wave 3 rise into 1996. In the next two months I expect an imminent rally of MIM from around 2.05, but this will be subdued by the imminent fall in copper from US136 to 117c/lb by January/February. If the Australian dollar does not also correct in this period, MIM could test 1.85 February/March.*

*I will be guided by my moving average entry signals, but will be looking to buy MIM in the March/June 1995 quarter looking for a strong rise into 1996. Any world crisis from derivatives could accelerate this timetable.*

*Remember, more consistent profits are made from buying high and selling higher, than trying to buy low and sell high.'*

*Will Slatyer*

### For Sale

**Unused Elliott Wave video tapes and book.**

**Tom Joseph presents trading techniques Inc's "The Cleveland Seminars". The developer of 'Advanced GET' showing you how to use Elliott Wave Theory as a trading system. It also shows you how to use the software's features. Covers very similar to Andy Bushak's recent A\$950 seminar.**

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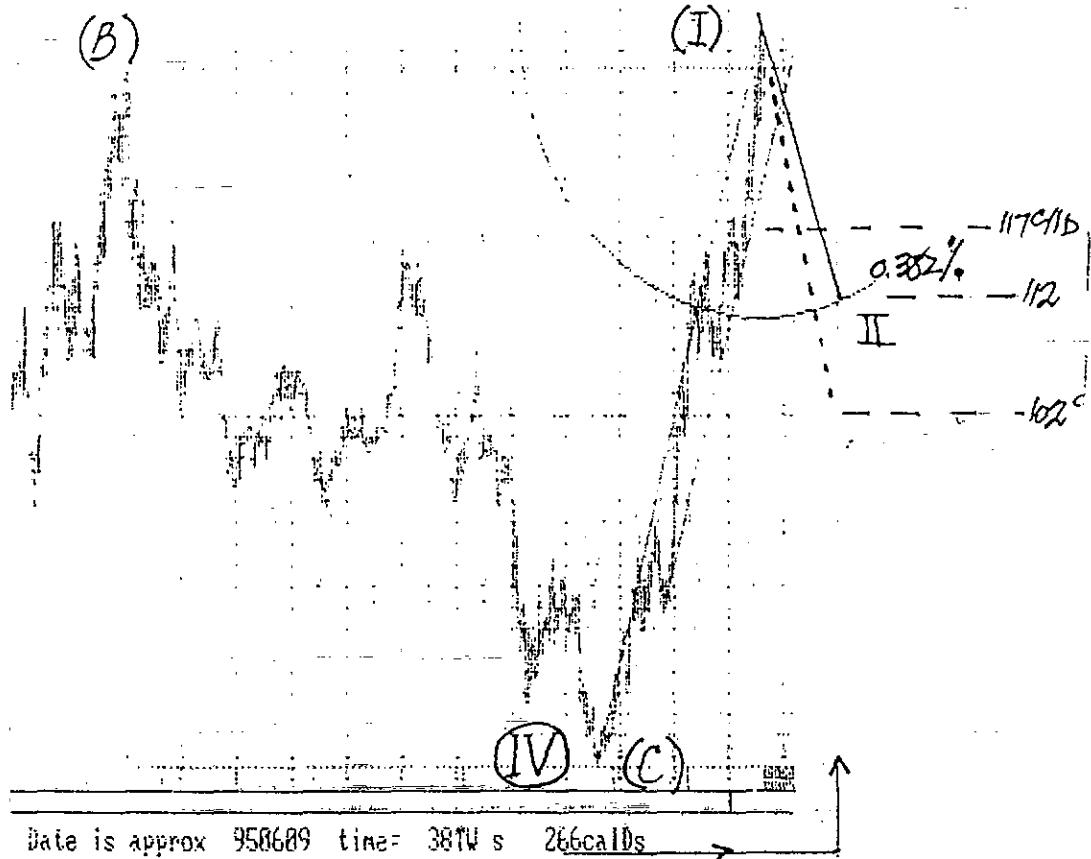
Wave Trader  
138.94

WEEKLY

HIGH GRADE COPPER  
Box value = 0.4641

Last Close 133.24  
Scale /bar 0.38888

132.68  
126.42  
120.16  
113.89  
107.63  
101.37  
95.11  
88.84  
82.58  
76.32  
70.06  
Lows



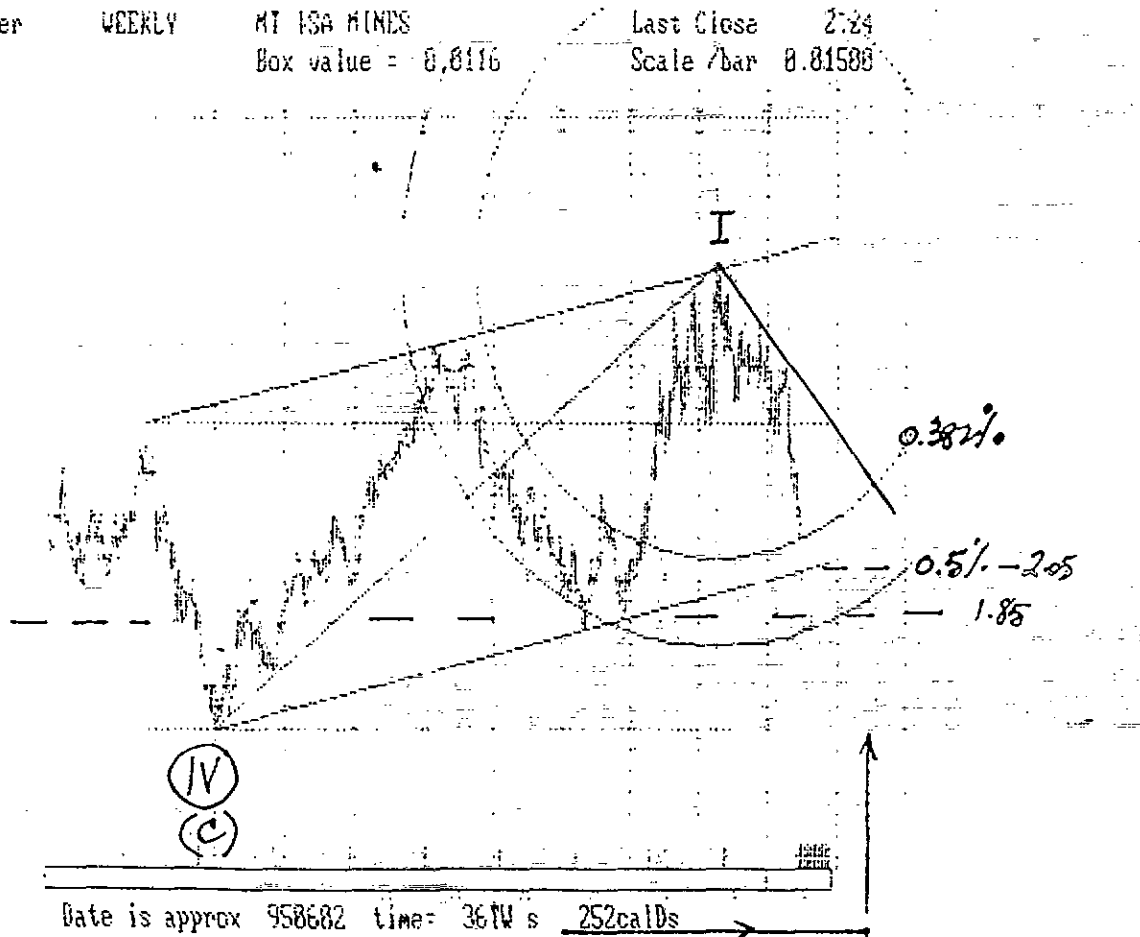
Wave Trader  
4.22

WEEKLY

MT ISA MINDS  
Box value = 0.8116

Last Close 2.24  
Scale /bar 0.81588

3.91  
3.68  
3.28  
2.97  
2.66  
2.34  
2.03  
1.72  
1.46  
1.09  
0.78  
Lows





## The Linear Crystal Ball

By Peter Webster

What will be the direction of the ASX All Ords in 1995? In trying to see into the future all we have to help us is the past. Our forecasts are often based on trends spanning any time period from hundreds of years to a few minutes and a tool widely used to analyse these trends is linear regression.

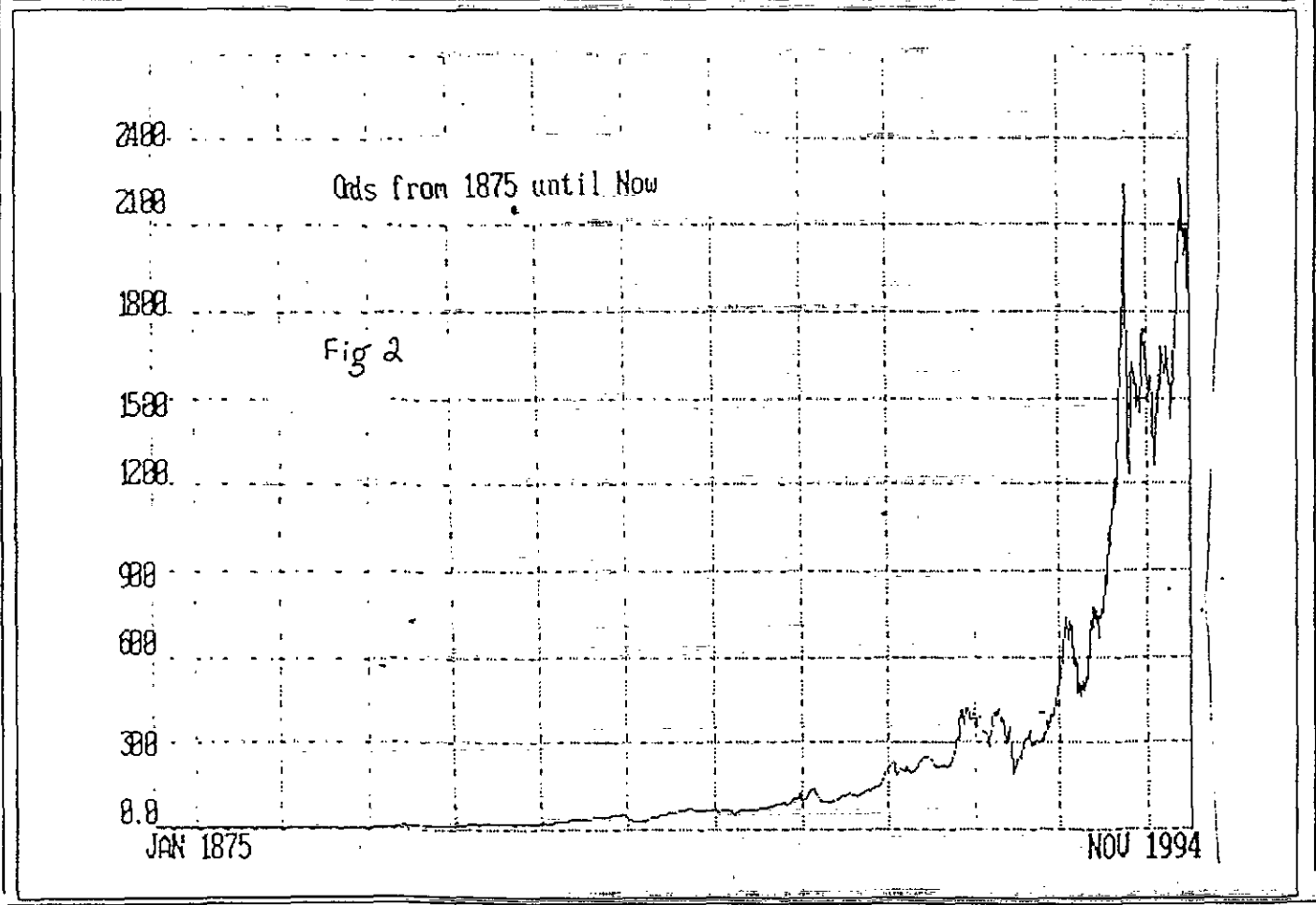
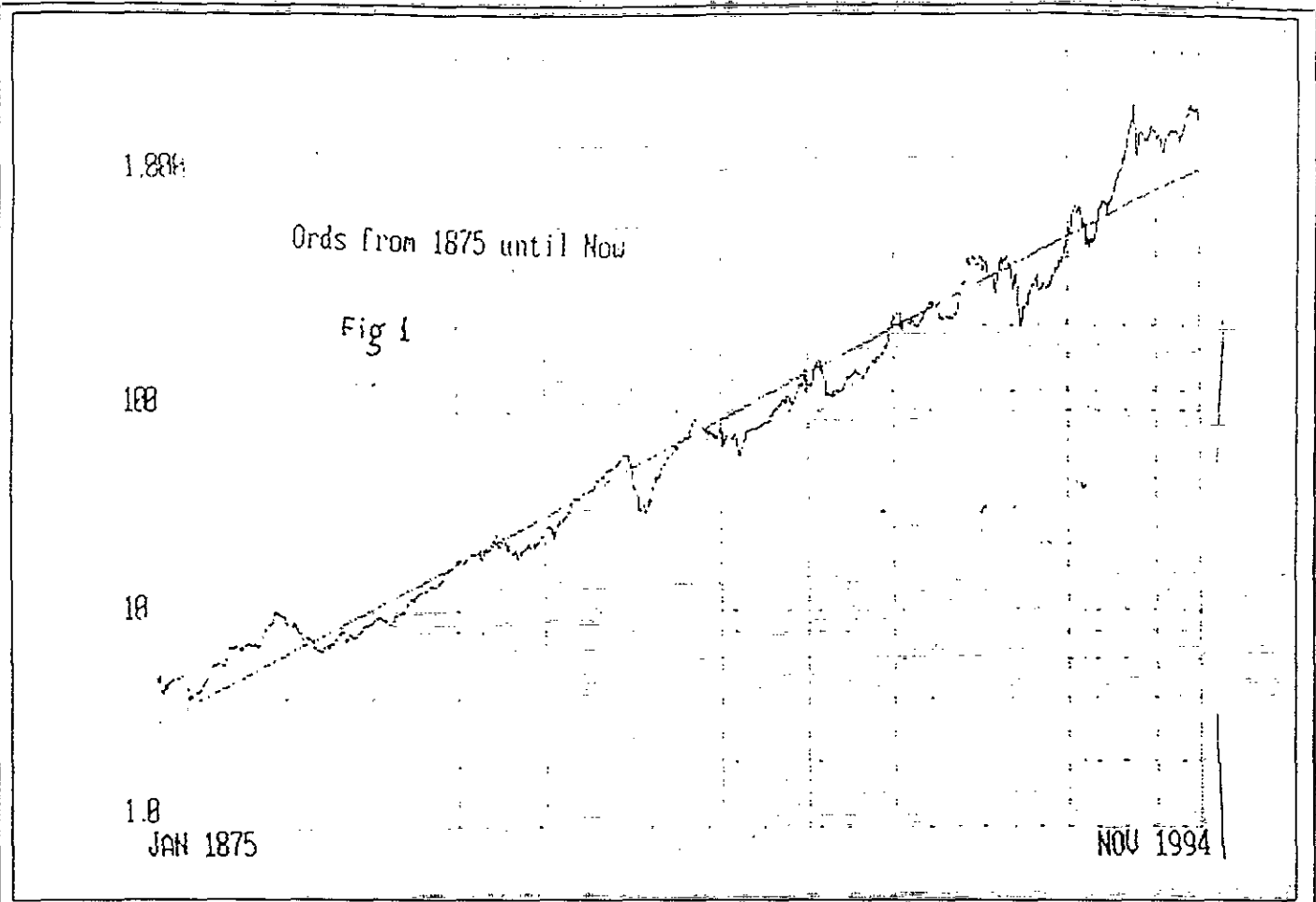
Linear regression is a method by which a straight line is drawn through a chart so that its slope best represents the trend of the plotted data. The calculations are simple but would have been very, very time consuming in the days before computers came to our rescue. Now that thousands of repetitive operations can be done in less than a second, regression analysis is quick and easy to perform.

On the accompanying chart, Fig 1, I have used linear regression to identify the trend of the ASX All Ordinaries Index from January 1875 until the end of November 1994. You can see that the Index, which I have plotted for each month, has remained well above the trend line since about 1984. (The vertical lines on the chart are drawn at the end of each decade). For around 110 years the trend has remained remarkably constant so the big question is: "Has the Index changed direction or are we in for a nasty shock in the not too distant future when the All Ords reverts to its long term trend?" My guess is that the Index will gradually rejoin the trend by going sideways between now and the beginning of the Twenty First Century and that the sharemarket in the first months of 1995 will reflect this sideways movement.

Incidentally, I should point out that the chart I have drawn is not really the All Ords Index but rather the log of the All Ords. For interest sake I have included Fig .2 which shows what the chart would look like if you just use the numbers straight out of the database. I keep the data in an Ashton Tate (now Borland) DBase IV database which I read and graph with a set of programs written in Microsoft QuickC 2.5.

For anyone interested in learning more about regression analysis I would recommend "The Application of Regression Analysis" by Dick Wittink published by Allyn and Bacon, Inc. I bought my copy at Dymocks.

**Peter Weston is a Sydney member of the ATAA and can be contacted on (02) 955 6857 . Peter will be our main speaker at the February 1995 meeting in Sydney on the 20th February.**



## A New Bull Market or Major Correction ?

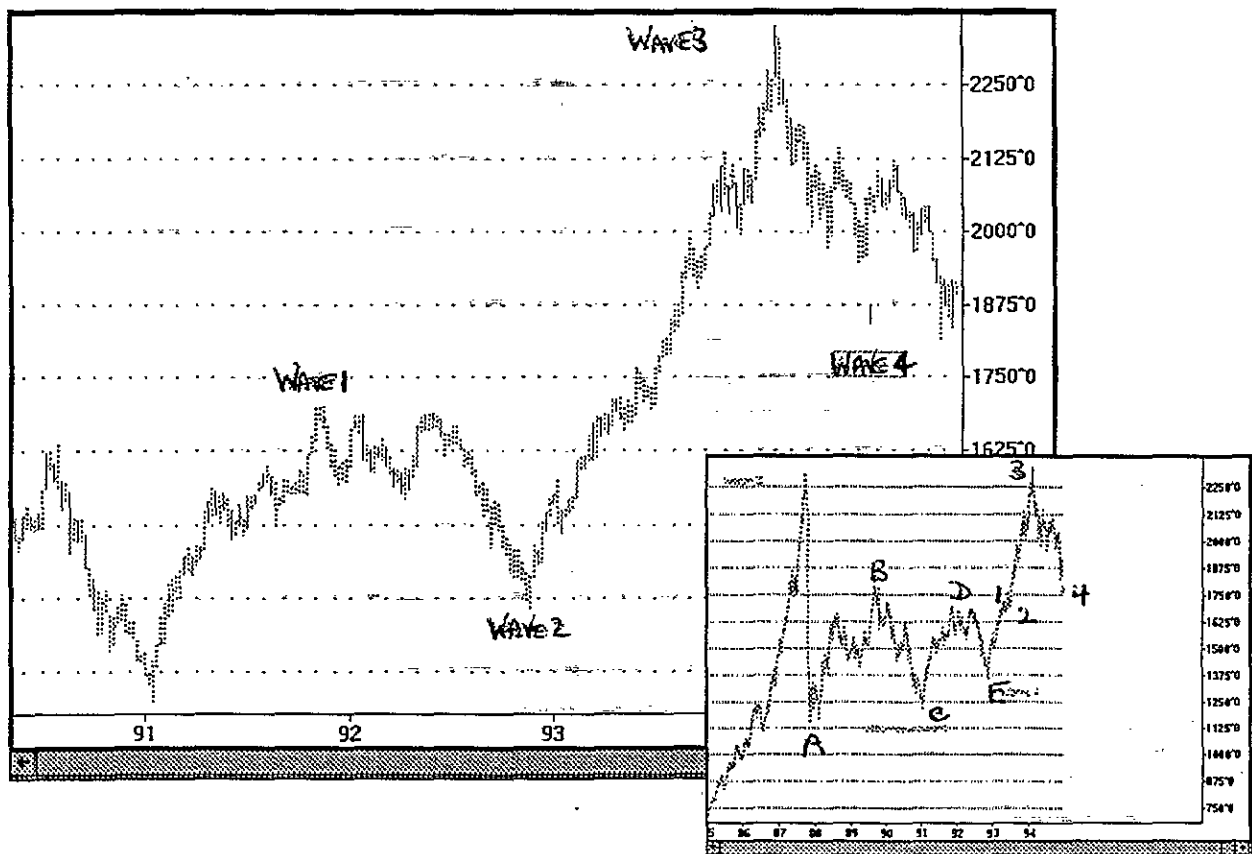
By Roger Lawes

As I write this article the local sharemarkets are approaching a point of test which will likely determine the market trend into the first few months of 1995.

The question that confronts us is whether the move up from the lows seen on the 23 November 1994, being 1814 for the All Ordinaries and 1793 for the Share Price Index represent the terminal point of a larger correction off the January 1994 highs from which a fresh 'bull market phase' has begun, or alternatively; the lows mark merely a stopping point in a larger corrective pattern from which only a shallow bounce can be expected.

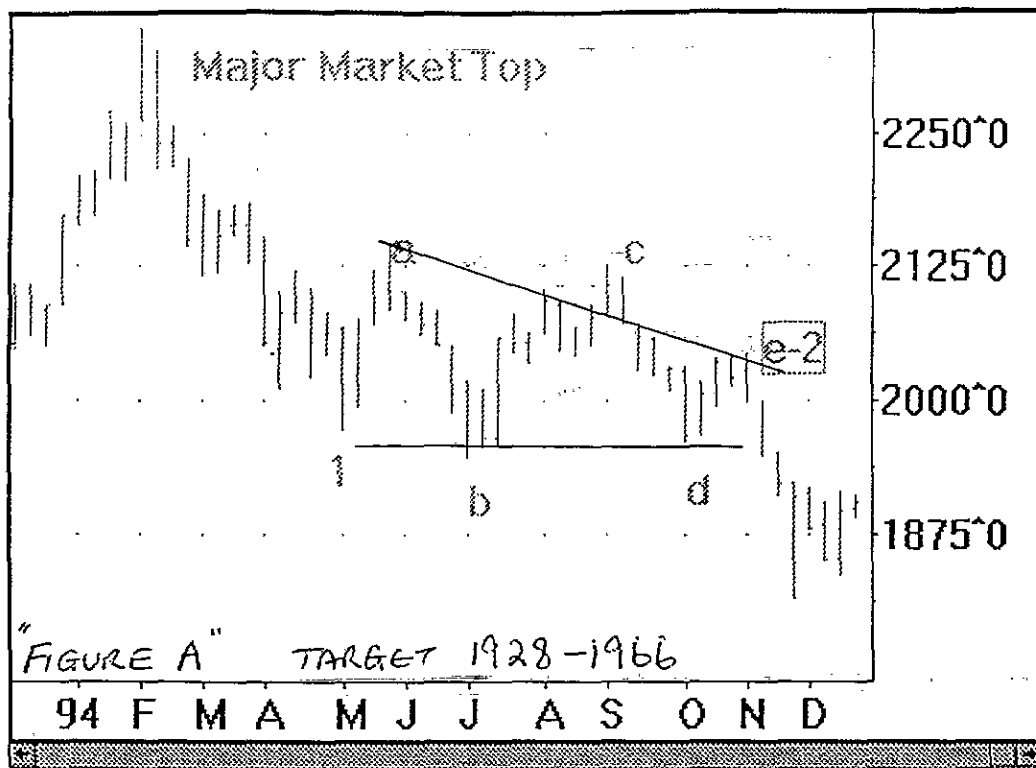
Lets look at a variety of options as to what the position of the market might be at that low. I have used Elliott terminologies as far as marking the possible scenarios, though do so very much with tongue in cheek, as I have probably broken a few rules for the more avid followers of that school of analysis.

### Position at 23 November 1994 - possible scenarios



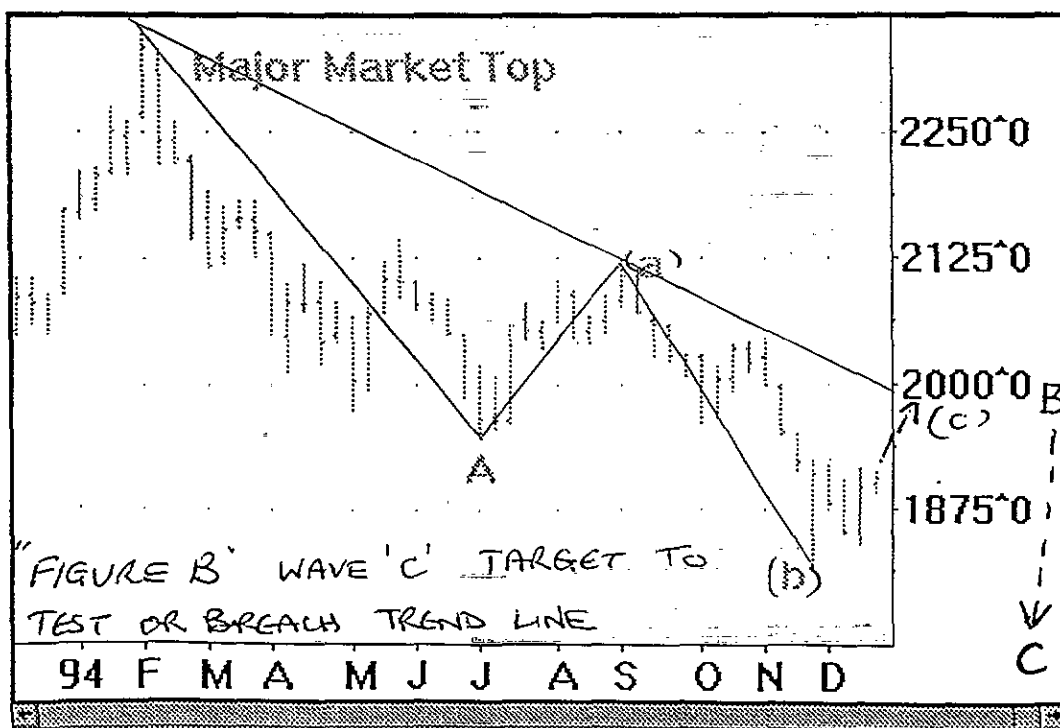
These counts would have to be for the bulls. I have read of various counts in terms of the market position from the 1991 lows. Shown is a simple 4 wave count to current lows. Another likely count is that the low of 1355 is infact the starting point of a bull phase after an extended abcde correction from the 2312 high in 1987.

The wave count is probably irrelevant if either is correct as we must expect that a Wave 5 has already commenced which itself will comprise of 5 waves and likely test or may exceed the 2300 area highs.



The above chart shows the possibility as I understand it as outlined by Bernhard Liedtke in the last newsletter. This would suggest that a bear market is already in force and that only a corrective wave might be expected out of the lows prior to further substantial fall. Possible retracement from low to levels of 1928-1966 being 50-66% retracements.

The chart below indicates a further though alternate bear picture which likewise calls for a recovery to fulfil wave 'c' of a larger B wave prior to a substantial wave C to the downside. The wave 'c' might reasonably equal the 'a' wave for a count of about 180 points targetting 1990-2020 for the All Ords or 2030-2060 for the SPI.

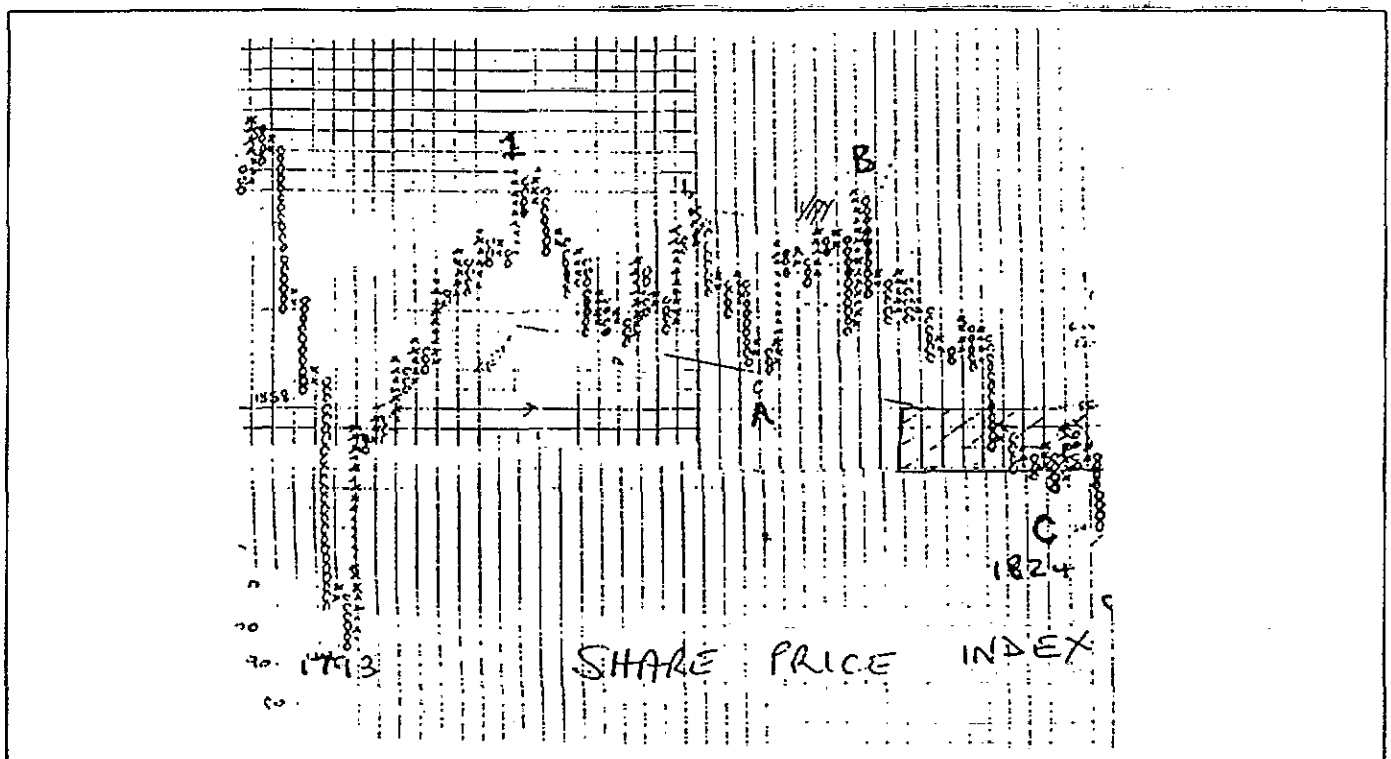


Obviously there exist a number of alternate and varying alternative scenarios, but with generally a common theme for price movement out of the November low. What we must examine is what type of price action will eventuate from the low to confirm one or other of these scenarios.

I suggest that the bulls will be looking for a clear 5 wave structure heading north with the 1st wave of larger degree already in progress. Of this wave we may currently be in wave 1 of which we have seen 1 and 2 with 3 now in progress. ( See point and figure chart below)

However lets not forget our friends the bears. They would be looking for a corrective wave most likely of three structures, they would be suggesting that the 'a' and 'b' wave is complete and that a 'c' wave is now in progress. This 'c' wave may be either of small (ending soon) or larger degree.

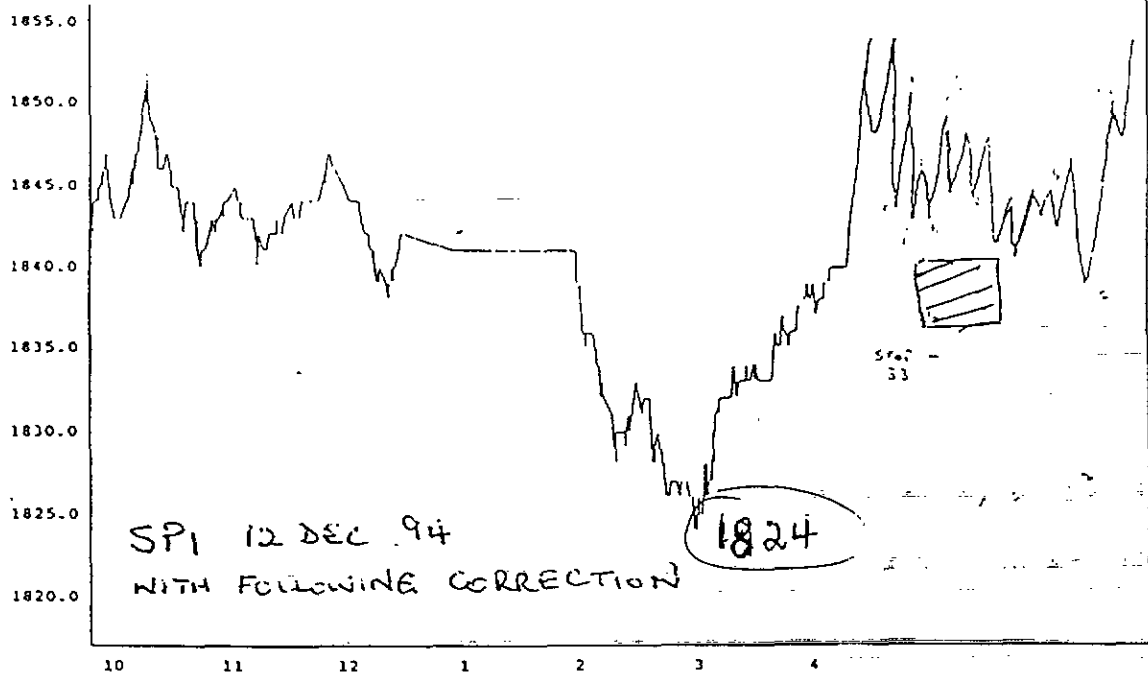
At this point however the situation for both counts is similar and neither side would have any problem holding their respective views.



I have added my own interpretation of a possible wave structure out of the low into termination wave 1 and the correction to 1824 on the SPI. If we are correct then from the low at 1824 we might expect to see a 5 wave movement to either complete Wave 1 of 3 from the November low, or possibly a corrective wave to complete one of the bear options.(figure A) Clearly the wave structure from this low must be examined in detail.

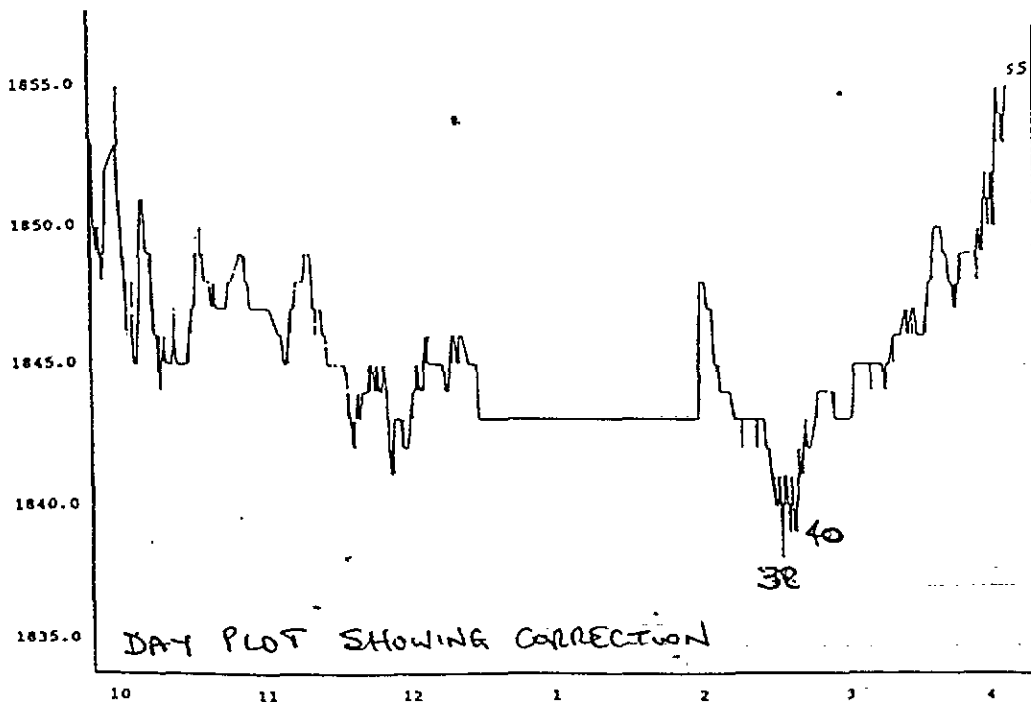
To aid with this examination I began a simple line chart commencing from this low to try to determine the wave structure. Fortunately I have access to a daily plot of prices from the Futures market, and was able to update the chart as the scene unfolded.

I should caution that the continuation chart I prepared has no time scale. The intention of the chart was simply to determine the interday trading patterns and thus help to have a stab at targetting retracement and projections from whatever unfolded.



The above chart highlights the problems that might arise in trying to determine a valid count under Elliott Wave. The correction from the highs might reasonably have had traders on the wrong foot a couple of times as it chopped backwards and forwards.

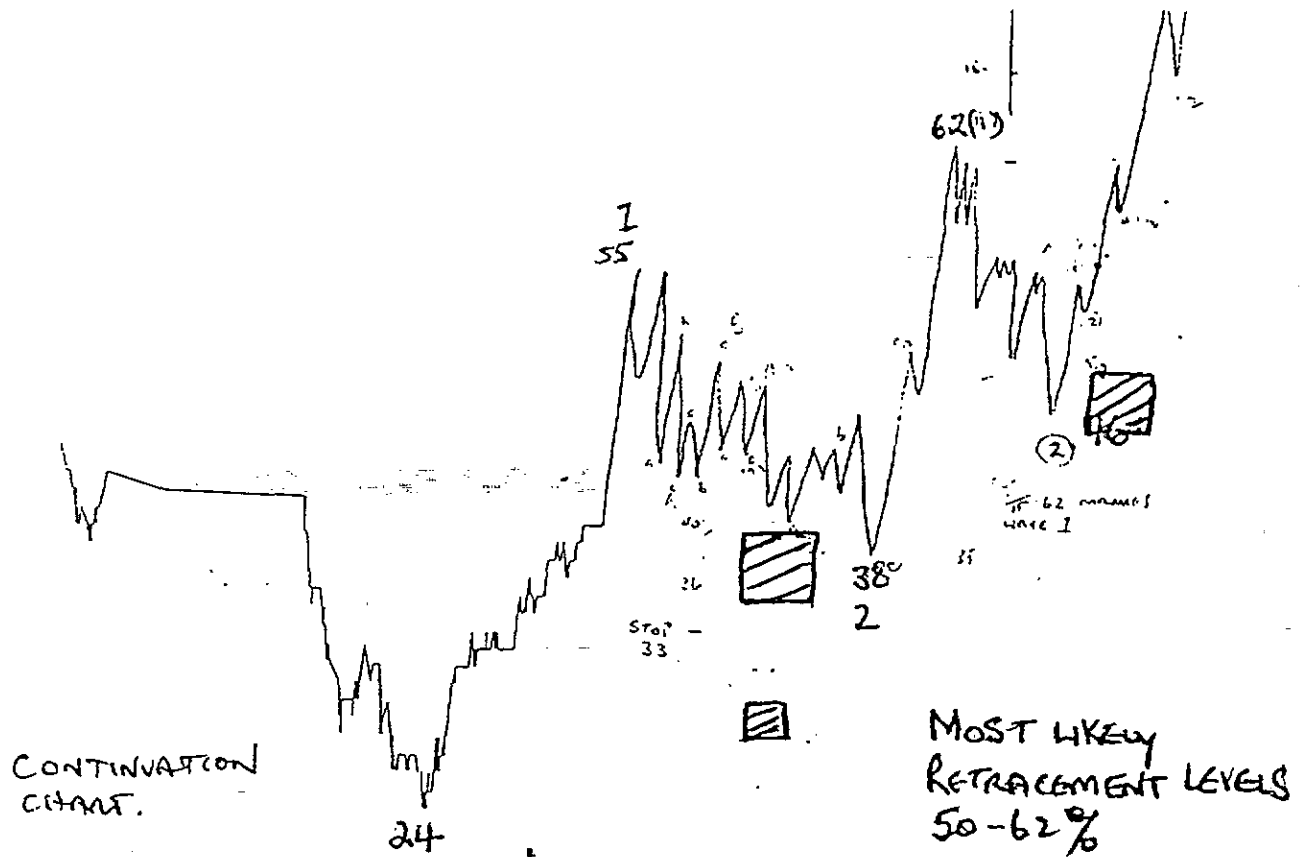
I marked the chart with the preferred target area in the 50-62% retracement which fell in the 1836-1840 range. Fortunately I was able to take long positions at 40 for the rise out of this zone. This represented a very low risk position for traders as one could not allow the correction to go much deeper, and the next wave should be a third wave and very impulsive.



The next chart shows the corrective pattern into the low, and the explosive move out as detailed on the daily plot from Knight Ridder's Equinet. The market closed that day on the previous highs at 1855/56. Although some possible correction might be anticipated the next day odds would favour holding overnight.



The next day saw the market open steady at 1856, rise to 1862 before commencing a correction. I assumed at this point that the move 1838 to 1862 might represent the first wave up of wave 3 out of the 1824 low. We must expect a possible retracement of this wave (like the earlier wave 1824/55) in the area of 50-62% giving a target range of 1850 down to 1846. This target was achieved interday and the market closed at 1869 after making an interday high to 70.



**Now things are getting interesting.** What conclusions can we draw from the market action so far ?

The market appears to be impulsive and also is retracing in an acceptable and logical manner. The next wave should be a third of a third and the wave in which we might see an explosive move.

Having an eye to a negative interpretation I would become concerned if the market retraced beyond 61.8% of the wave out of 1846. A stop for positions might reasonably be established below this level. On any retracement the 1838 low area might reasonably be a stopping point in any case for us to reassess if that should become necessary.

**We should be targetting some likely upside stopping points.**

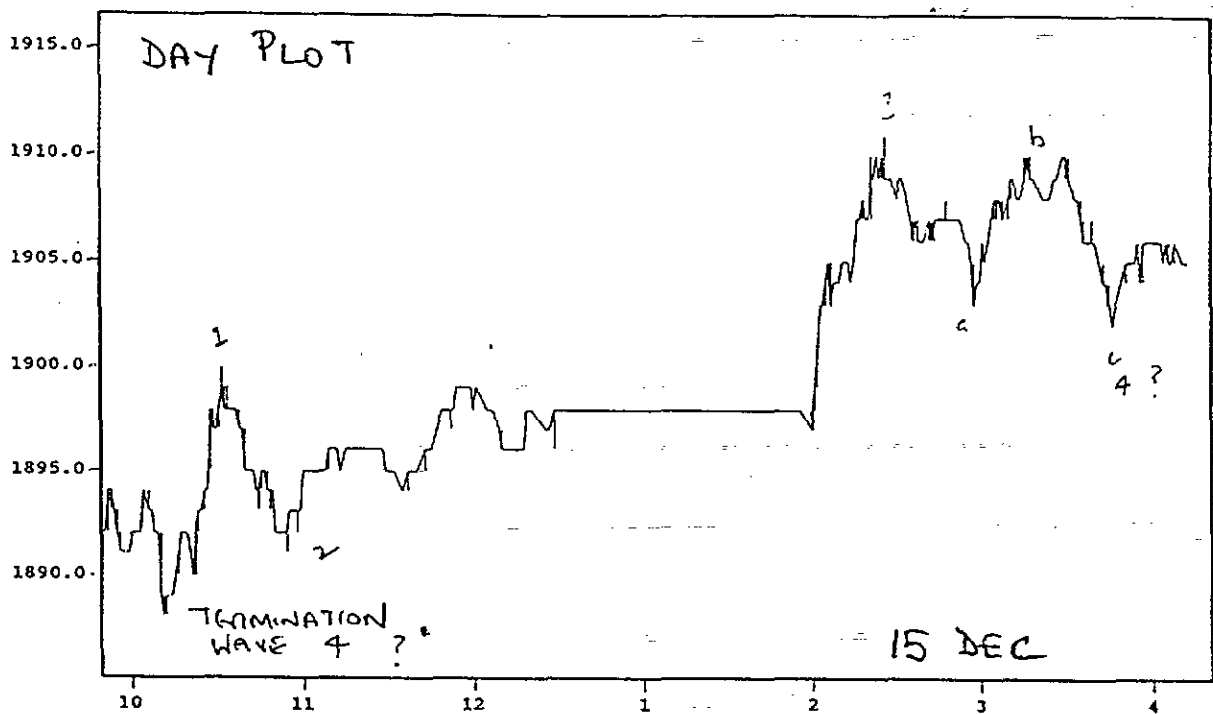
From the 1824-1855 wave, a move of 31 point projections calculated as:

projections range from Wave 1 (1855) high	1874 (0.618)
	1886 (1.000)
	1905 (1.618)
projections from wave 2 (1838) low	1869 (1 000)
	1888 (1.618)
	2019 (2.618)

We open the next day gapping up to 1895, correcting down to 1886 shortly after opening before rallying to 1900 and correcting again. Then began an upward move which terminated at 1910 before commencing what looks like a corrective pattern. The market closed at 1909. I sold my positions acquired at 1840 during the days trading. (market has met projection targets and it's good to put some money in the bank. - day trading can be volatile so I have learnt to take profits.)

I was beginning to have trouble effectively labelling the movements now after the price appreciation. Were the early day trades a correction (perhaps 4) of the Wave 3? What was the correction at the days close a wave 4 of the next wave up?

Perhaps we should expect another wave up but would this be terminal before a more serious correction to form Wave 4 of this wave series which began at 1824.



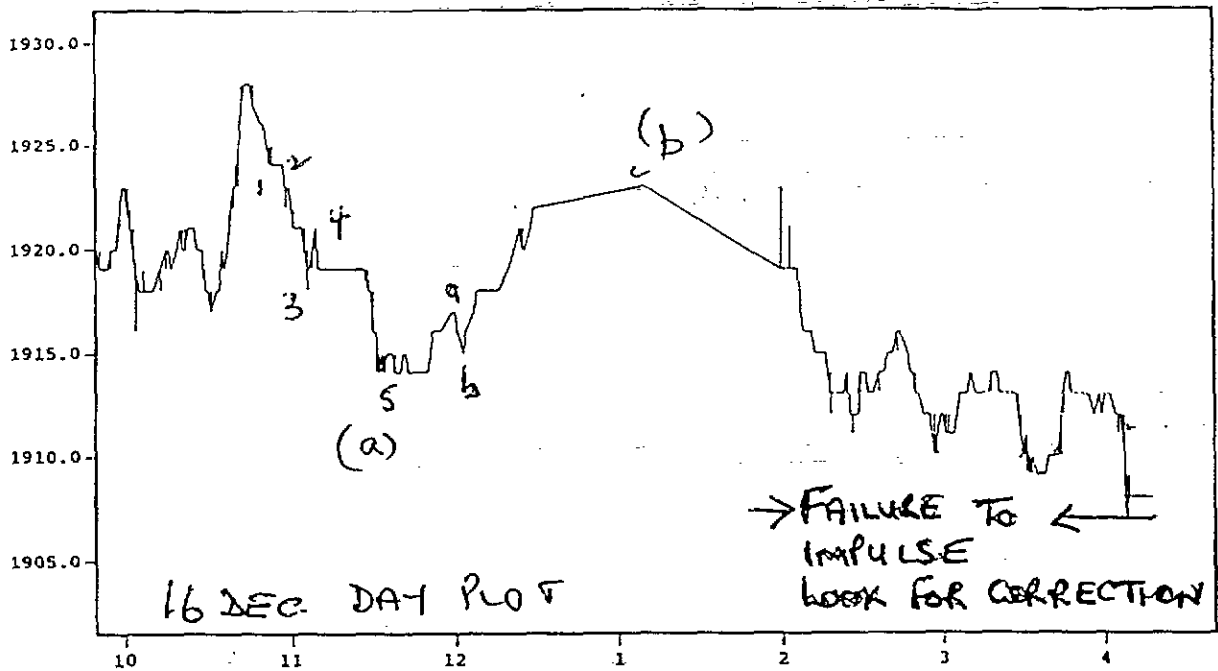
The next day opened at 1919 before rising to 1929 and then correcting to 1914. Has the correction begun?

After a rally which fails the market was down for the balance of the day closing near the lows at 1907.

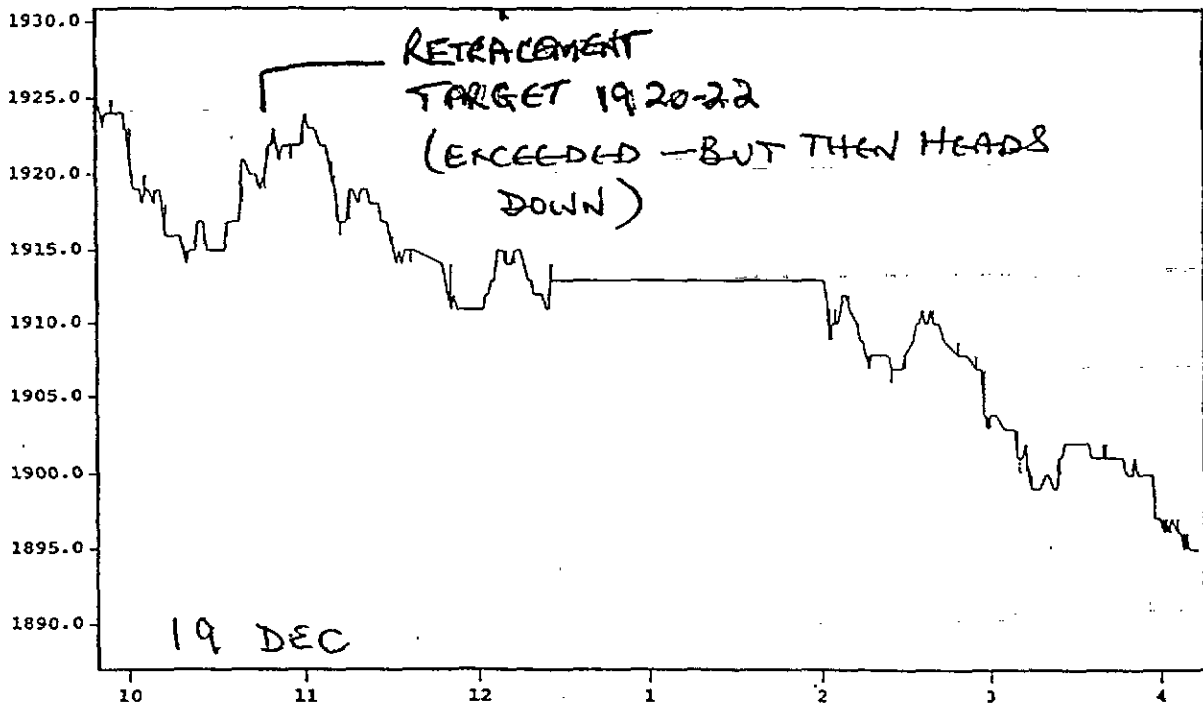
My initial interpretation of this days action was that the correction might be labelled as an a into the 1914 low, then b for the correction high and then I was looking for a 5 wave movement down to complete c and the termination point. The wave structure down however made me change my view by the close of trading to the likelihood that this was merely part of a larger corrective pattern. A further rally was to be expected. An opportunity might present itself to sell on a retracement of this days falls.

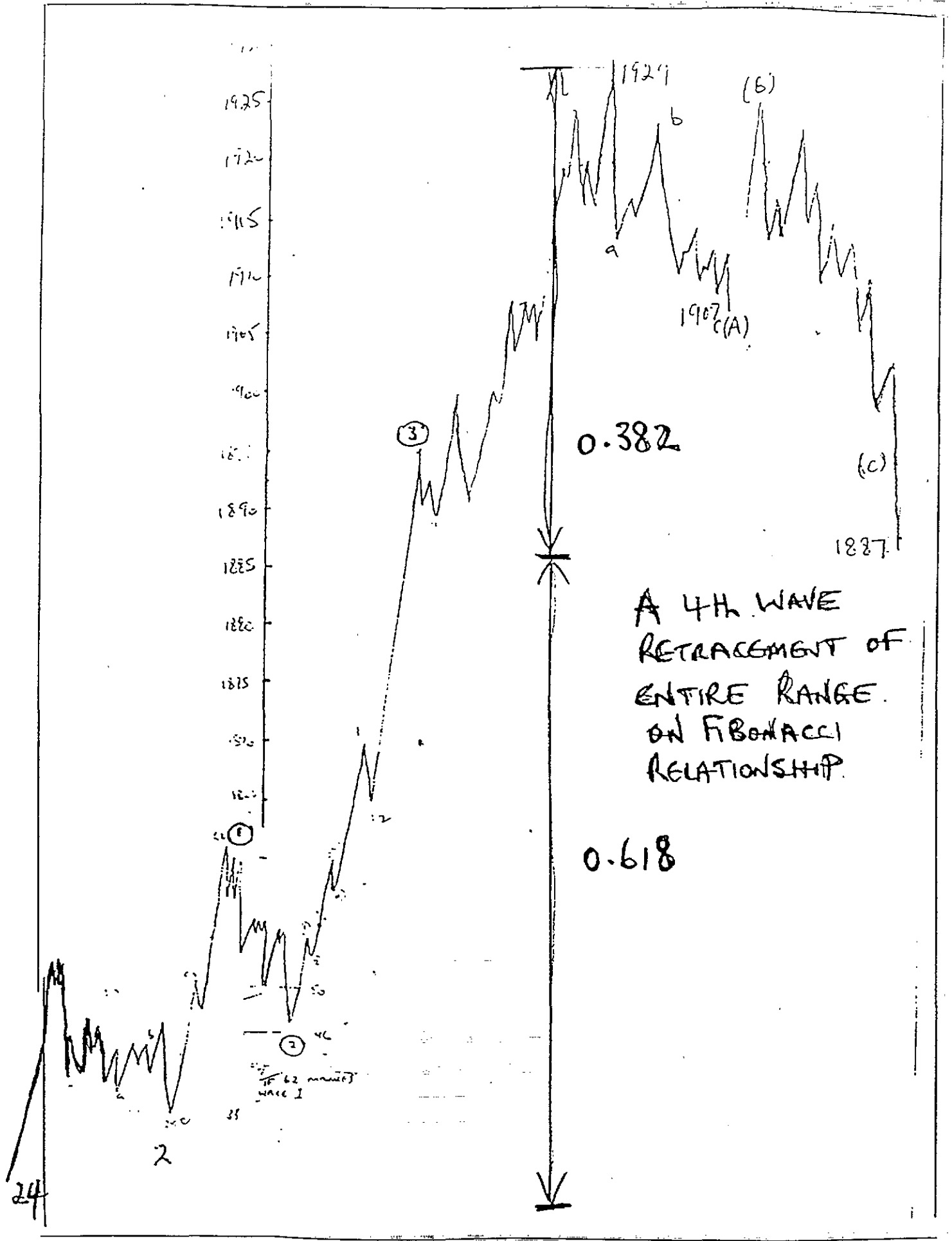
Targets for retracement:

Range 1824 - 1929	1888 (0.382)
Range 1838 - 1929	1902 (0.300)
	1884 (0.500)



The market opened up next day at 1927 retraced to 1914 then started to move upwards. A low risk position might now be established. If this wave is a wave 1 then we might expect a retracement of 50-62% giving a target range of 1920-22. I sold at 1920 with a stop at 1924. — Woops stopped out on the high and now its moving down. — The market closed on its lows at 1896. Next day the market bottoms at 1887 on the best projection for a Wave 4 being 38.2% of the range 1824-1929



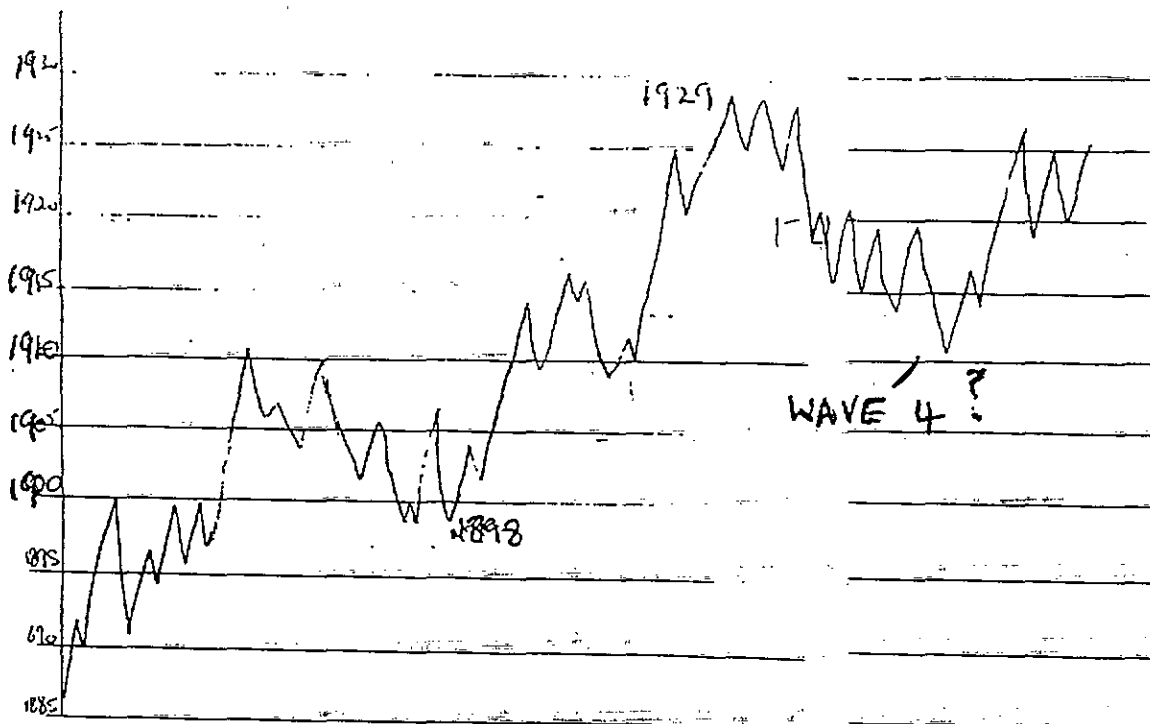


The next wave will obviously be very important as it will be the termination wave in this series. With the last impulse wave having extended the likely targets for this termination wave is often a fibonacci relationship to wave 1. I would prefer to be led though by the wave structure and try to target based upon what evolves from this point.

As we hope the low holds and an advance begins

The wave count becomes a little difficult now. The market advances to 1911 retreats to 1898 perhaps for a wave 1 and 2. It then advances to 1917 corrects again before going on to 1929. Double topping with the earlier highs. My initial interpretation is that perhaps we have seen the end of wave 3 at 1929. Under this scenario wave 1 and 3 are equidistant and we might expect wave 5 to extend.

As I finish this article the market position is very unclear. The trading for the 22nd and 23rd December has been disappointing and I am unsure of the position. I suspect that wave 5 from the 1887 low has not been completed but the choppiness today may be a failed 5th. The question arises - does this wave ending mark the first wave larger degree wave up from 1824 only?



As I leave for the Christmas break the SPI has closed at 1926 with the question as to the position in the final wave up in the sequence from 1824 still unresolved.

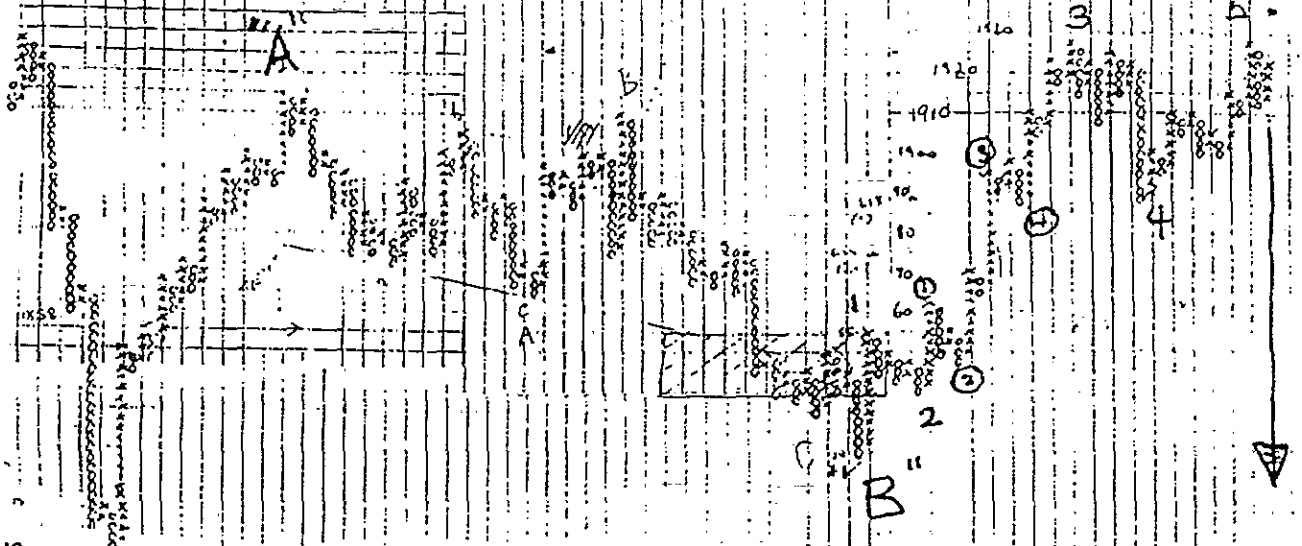
No doubt it will become clearer when the markets open again next week, but I shall be away from the markets for a short while and will need to catch up with it later.

What I think is important is that we might reasonably assume from the lows of November last the market has or is close to a termination phase. Whether this phase has merely completed the first wave of 5 of a larger degree or it marks a termination wave of an abc from the November lows is not clear. The bear case would gain some validation now on any retracement below 1864.

I have tried to detail the likely scenarios on page 34.

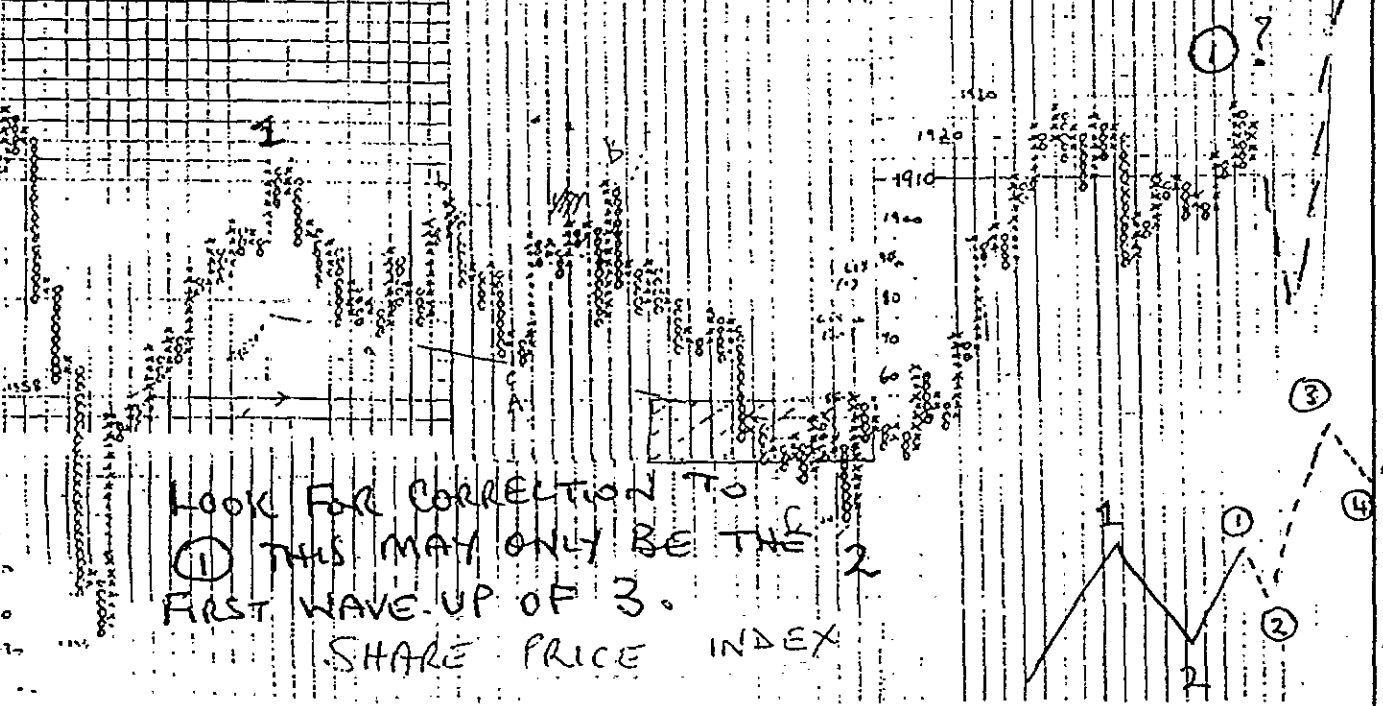
**The next correction should be watched very very carefully**

### THE BEAR CASE



\* ITS POSSIBLE THAT <sup>CM</sup> MIGHT COMPRISE OF 5 WAVES OF LARGER DEGREE THAN SHOWN WAVE 1 HAVING BEEN DEMONSTRATED ONLY. TARGET TO AS HIGH AS 2000-2040.

### THE BULL CASE



LOOK FOR CORRECTION TO ① THIS MAY ONLY BE THE FIRST WAVE UP OF 3.

Roger Lawes, editor of this newsletter is a private client adviser with Potter Warburg operating from Sydney. Contact on (02) 375 6536





[02] 375 6852

Prepared by Bruce Davonport 10/11/04

# Market Retracements

All Ordinaries Index

DATE	Low or High	Price Move	Drop as % of Rally	% Drop of High
Low	Aug-31	27.8		
High	Mar-37	74.5	46.7	
Low	Mar-42	60.8	23.9	61%
High	May-51	130.3	88.7	32%
Low	Dec-52	92.8	46.7	53%
High	Sep-60	235.4	142.8	34%
Low	Nov-60	186.8	54.8	38%
High	Feb-64	258.1	75.3	23%
Low	Jun-65	203.9	52.2	68%
High	Jan-70	448.2	244.3	20%
Low	Nov-71	273.8	174.8	71%
High	Jun-72	431.9	158.3	39%
Low	Sep-74	173.5	258.4	183%
High	Nov-80	746.2	572.7	80%
Low	Jul-82	443.1	303.1	63%
High	Sep-87	2312.4	1889.3	41%
Low	Nov-87	1149.3	1183.1	50%
High	Sep-89	1788.8	837.3	82%
Low	Jan-91	1199.8	588.8	92%
High	Nov-91	1897.7	497.9	33%
Low	Nov-92	1355.6	342.1	69%
High	Feb-94	2350.1	994.5	20%
Low?	Nov-94	1911.8	438.5	44%
Overall - last correction excluded				66%
Adjusted Corrections: (The last correction excluded)				64%

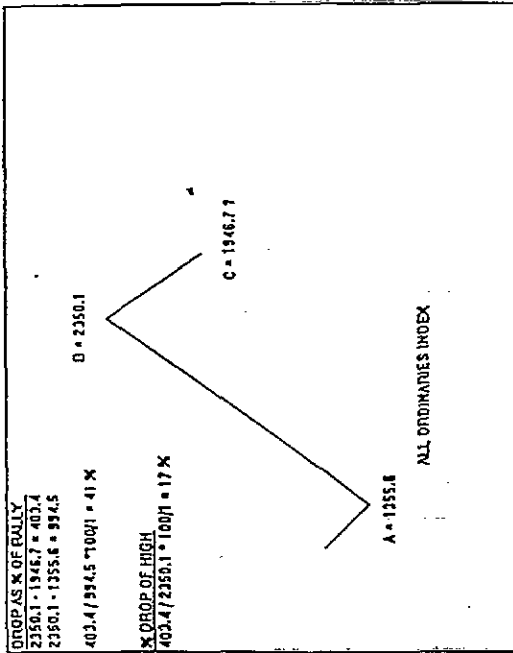
The Adjusted Corrections do not include the 1974 washout.

All Resources Index

DATE	Low or High	Price Move	Drop as % of Rally	% Drop of High
Low	Jul-82	308.5		
High	Sep-85	619.1	310.6	
Low	Dec-84	438.4	182.7	59%
High	Sep-87	1464.9	1028.5	30%
Low	Feb-88	616.0	849.9	83%
High	Sep-89	1001.8	386.8	58%
Low	Jan-91	730.0	271.8	70%
High	Nov-91	987.1	257.1	27%
Low	Nov-92	733.3	253.8	99%
High	Feb-94	1450.7	717.4	26%
Low?	May-94	1133.8	316.9	44%
Overall - last correction excluded				22%

DROP AS % OF RALLY  
 2350.1 - 1946.7 = 403.4  
 2350.1 - 1355.6 = 994.5  
 403.4 / 994.5 \* 100 = 41 %

% DROP OF HIGH  
 403.4 / 2350.1 \* 100 = 17 %



All Industrial Index

DATE	Low or High	Price Move	Drop as % of Rally	% Drop of High
Low	Nov-66	258.8		
High	Apr-69	428.0	167.2	
Low	Oct-71	310.8	115.4	69%
High	Jan-73	615.2	204.6	27%
Low	Sep-74	206.3	308.9	151%
High	Jul-81	758.0	549.7	80%
Low	Dec-82	598.9	157.1	29%
High	Sep-87	3413.1	2814.2	21%
Low	Nov-87	1805.3	1607.8	57%
High	Oct-89	2837.6	1032.3	47%
Low	Jan-91	1811.1	1026.5	99%
High	Jan-92	2856.0	844.9	36%
Low	Nov-92	2167.9	488.1	58%
High	Feb-94	3538.3	1370.4	18%
Low?	Nov-94	2743.7	794.6	58%
Overall - last correction exclus				22%
Adjusted Corrections: (last correction excluded)				66%
Adjusted Corrections:				49%
Adjusted Corrections:				24%

Overall - last correction exclus

Adjusted Corrections: (last correction excluded)

Adjusted Corrections:

Highlighting Major Swings in the Market and Noting the Percentage Retracements.

The All Resources Index is around 1300 currently which is 170 points or so above its lows. The All Industrial and All Resources Index are at their lows.

Conclusions:  
 The All Industrial Index historically has dropped an average of 24% from its highs, and currently it has dropped 22%. This would suggest that the Industrial Index is in a bottoming zone.

The All Resources Index has had a percentage drop on average of 28%. The drop so far has been 22% which raises the question "Will there be a further drop?"  
 The All Ordinaries Index has dropped 28% on average from its highs - If you exclude the 1974 washout. At present the All Ordinaries Index has fallen only 19%.

POTTER WARBURG RESEARCH

## Videotape Library

The ATAA has established a collection of videotapes that members may borrow. The videotapes are in VHS format and are available for loan to ATAA members free of charge. Members are only asked to pay the postage to return them promptly when they have finished watching them.

In order that the maximum number of members may take advantage of the library, they are asked to view each tape and return it within one week. Members consistently taking too long to return video tapes may be dropped from the waiting list for further borrowings.

We lend these videos on a type of first-come-first-served basis and maintain a waiting list. While we will place you on the waiting list for more than one video tape, you will only ever be sent one at a time.

Members who have not received a videotape before are placed at the top of the list and will receive the next video that is returned to the library and was ordered by them. That member's name then drops to the bottom of the list and he/she will not be sent another video until his/her name works its way to the top of the list again.

This system ensures that all members experience a similar waiting period (currently 6 to 8 weeks) between videos, depending upon the demand. However, it also means that the order in which members receive their selections will be random, depending upon which video next comes back when their name is at the top of the list. However, members ordering Elder: "Technical Analysis in 52 Minutes" or Pring: "Principles of Technical Analysis" will be sent those tapes first, if they so request. This may delay receipt of the first tape, however.

The tapes currently available for loan are:

Schwager: What it Takes to be a Great Trader  
Elder: Technical Analysis in 52 Minutes  
Elder: MACD and MACD-Histogram  
Elder: Relative Strength Index (RSI)  
Appel: Day Trading with Gerald Appel  
Elder: Directional System  
Elder: Triple Screen Trading System  
Elder: Elder Ray  
Elder: Stochastic  
Elder: Williams %R  
Elder: Psychology of Trading  
Plummer: Forecasting Financial Markets  
Pring: Basic Principles of Technical Analysis  
Pring: Price Patterns  
Pring: Support, Resistance, Trendlines & Moving Averages  
Pring: Momentum, Relative Strength and Volume  
Pring: Mechanical Trading Systems & Correct Investment Attitudes  
Pring: Momentum 1 - Basic Principles of Momentum Interpretation  
Pring: Momentum 2 - Selected Indicators 1  
Pring: Momentum 3 - Selected Indicators 2  
Bierovic: How to Increase your Trading Profits with Synergy  
Bierovic: How to Synergise Oscillators with Trend Indicators  
Bierovic: How to Manage your Account, Your Trades and Yourself

If you would like to borrow any of the videotapes, contact Chris Harris to be placed on the waiting list on phone: (02) 634 7247, Fax: (02) 634 7772 or write to 40 Gooraway Drive CASTLE HILL NSW 2154.

## Australian Technical Analysts Association Inc Application for Membership

First Name:..... Family Name:.....

Company ( If membership paid by a company) : .....

Address:.....

.....State:.....Postcode:.....

Telephone:  
(Business hours):.....(Evening):.....

Facsimile:.....

Do you use Technical Analysis for your trading/investing decisions ? : Yes / No

If Yes, please describe your use of Technical Analysis:.....

For our records, how did you first hear of the ATAA ? .....

Membership is by payment of annual subscription of \$100.00.

For membership purposes, our year runs from July 1 to June 30.

We do not pro rata the annual subscription for memberships beginning part way through the year. Instead, we offer two concessions:

- (1) Members joining between July 1 and December 31 receive a copy of all Newsletters published in that period.
- (2) Members joining between January 1 and June 30 are credited with the remainder of the current year free, such that their initial subscription covers membership up to June 30 of the year following the year in which they join.

For information call the Honorary Secretary, Colin Nicholson (02) 436 1610; or in other States, any of the local Committee listed inside the front cover of this Newsletter. Please mail the Application Form with a cheque for \$100 payable to Australian Technical Analysts Association Inc. to:

The Honorary Secretary  
Australian Technical Analysts Association Inc  
GPO Box 2774  
Sydney NSW 2001

## Australian Technical Analysts Association Inc

The aims of the Australian Technical Analysts Association Inc (ATAA) are:

- \* To establish personnel contacts between analysts both inside and outside of Australia with a view to promoting the theory and practice of technical analysis,
- \* To help raise the level of community awareness and respect for technical analysis,
- \* To provide meetings and encourage the interchange of materials, ideas and information in order to add to the knowledge of its members and
- \* To encourage the highest standards of professional ethics and competence among technical analysts

The ATAA is affiliated with the International Federation of Technical Analysts helping us to keep abreast of international markets and techniques.

Founded by a small group of technical analysts that met on a regular basis, the association was officially launched on 26 April 1990.

Membership is varied in employment, geography, market interest and approaches to the markets. Current members include corporate treasurers, fund managers, bank analysts and traders, stockbrokers, financial planners, private and local traders and investors. The members will be professional Technical Analysts, or people using Technical Analysis for private investing or trading.

Benefits include monthly meetings and a bi monthly newsletter, both of which provide an opportunity to learn technical analysis techniques, as well as being a forum for discussion and new ideas. In addition, members have access to a video tape library and discounts on various technical, psychology and trading courses and books.

Meetings are held in the evening each month except December and January in Sydney and Melbourne and regularly in Brisbane, Adelaide and Perth. Generally, Sydney meetings are held on the third Monday of the month, Melbourne on the following Wednesday, and in other states around the same time, dependent on the availability of speakers. All meetings are advised in advance by mail.

Entry to meetings is free to members. Visitors are charged \$20.00 per meeting, but if they join within a month, the entry amount is deductible from the initial annual subscription.

Membership is open to anyone using technical analysis for their trading decisions, or wanting to learn how to do so. To join, complete the application form over the page and mail it to the Honorary Secretary.

For information call the Honorary Secretary, Colin Nicholson on (02) 436 1610 or in other States, any of the local Committee listed inside the front cover of this Newsletter.