HARMONICTRADER.com

Education: Patterns

What is a Pattern?

Consistently profitable investing can be achieved through the recognition of price patterns. Although it might seem unlikely, stocks do move in harmonic patterns that are very easy to identify. To identify these patterns, you must train your eyes to decipher such price movements. Initially, these patterns might be difficult to identify because you probably have never studied a stock chart from this perspective. In a sense, discovering these patterns is the same as solving a crossword puzzle. The words that are the most familiar will be the easiest to find. But, the more complex words might take some time before they can be found. So, it is important to give yourself some time to decipher these patterns in stock charts. But, the more you study the patterns, the more they will begin to "jump out" at you.

There are many theories regarding the nature of price action. Many theorists believe that the stock market is random. According to the Random Walk Theory, popularized in the book, The Random Character of Stock Market Prices, by Paul H. Cootner (ed.), published by MIT press, 1964, price action is "serially independent." This means that price history is not a reliable indicator of future price action. Although this theory does have some validity, since anything can happen in the stock market, history has proven that certain patterns do repeat. Therefore, it is important to study historical examples of such patterns for future opportunities.

Patterns are defined by specific Fibonacci retracements that create the specifications for a valid trade signal. Essentially, patterns are price structures that contain combinations of distinct consecutive Fibonacci retracements and projections. These combinations are the very basic frameworks to help identify potential trade opportunities. By calculating the various Fibonacci aspects of a specific price structure, the patterns can indicate the general area to examine for a trade opportunity. I have observed many stocks that reverse after exactly hitting the completion point of a pattern. However, the most important concept of pattern recognition is to define the specific area where a stock can reverse. If a stock possesses several harmonic calculations that converge within a few points, a reversal is highly probable.

After you develop some experience, you will begin to "trust" the patterns more than any other information. In my experience, when I initially utilized these techniques, I frequently resisted to execute at the numbers. For example, if I was long a stock, I usually held on for a greater profit, even if I knew that a pattern was indicating resistance. However, I quickly learned that such thinking costs money. As I employed these techniques effectively, my trading and understanding of price action improved tremendously.

It is important to view these patterns as reliable signposts of future price action. They will guide you through very confusing markets. Quite often, the patterns will indicate a potential opportunity when the news in the media suggests otherwise. It has been my experience that the patterns are the most reliable indicators of price trends, and they are my fundamental basis for identifying trade opportunities.

Education: Patterns

This section provides a brief tutorial of each pattern and has many chart examples to illustrate these situations. To read more about stock patterns, click here: "What is a Pattern?"

The Patterns		
AB=CD	**The Crab**	**The Bat**
The Butterfly	**Three Drives**	**The Gartley**

Over of the course of the next year, there will be more patterns released to our members on the website. They are extremely precise - like the Crab - and offer excellent Harmonic Trading opportunities. They are still "in development" but they should be perfected soon.
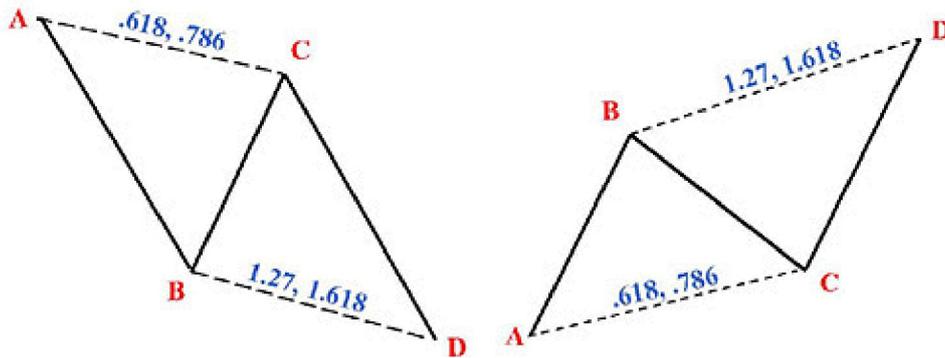
Education: Patterns

AB=CD

The AB=CD pattern is a price structure whereeach price leg is equivalent. The Fibonacci numbers in the pattern must occurat specific points. In an ideal AB=CD, the C point must retrace to either a0.618 or 0.786. This retracement sets up the BC projection that should convergeat the completion of the AB=CD and be either a 1.27 or 1.618. It is importantto note that a .618 retracement at the C point will result in a 1.618 BCprojection. A .786 retracement at the C point will result in a 1.27projection. The most important consideration to remember is that the BCprojection should converge closely with the completion of theAB=CD.
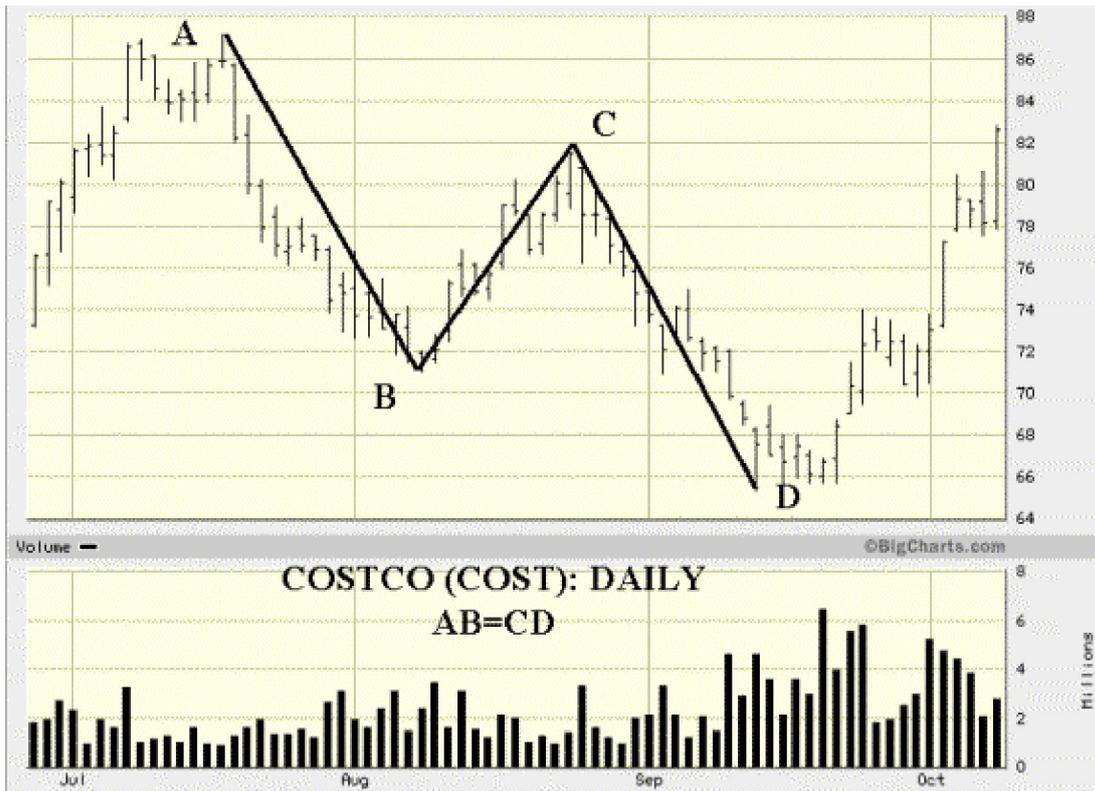
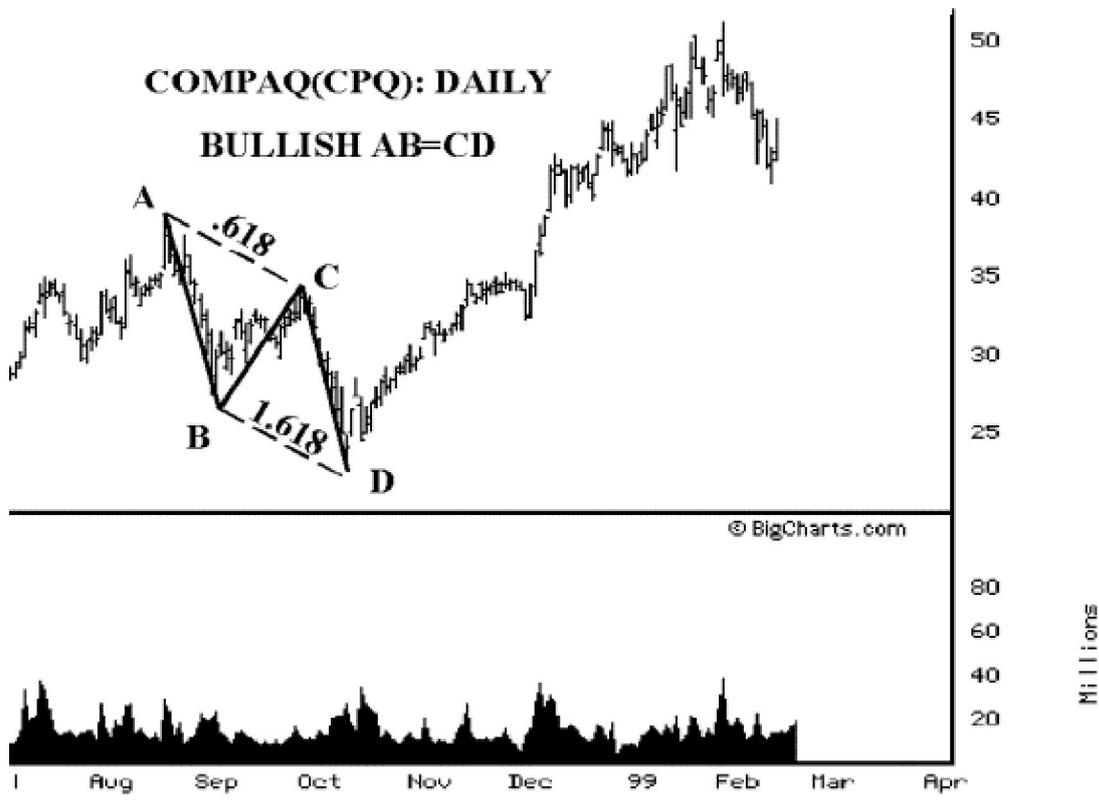**Bullish AB=CD: Buy at D!**   **Bearish AB=CD: Sell at D!**

Costco	Microsoft
Compaq	Intel
Fannie Mae	Cnet
Procter and Gamble	Federal Express
Pennzoil	Goodyear Tire
Viasat	General Motors

Costco (COST)

COSTCO (COST): DAILY
AB=CD
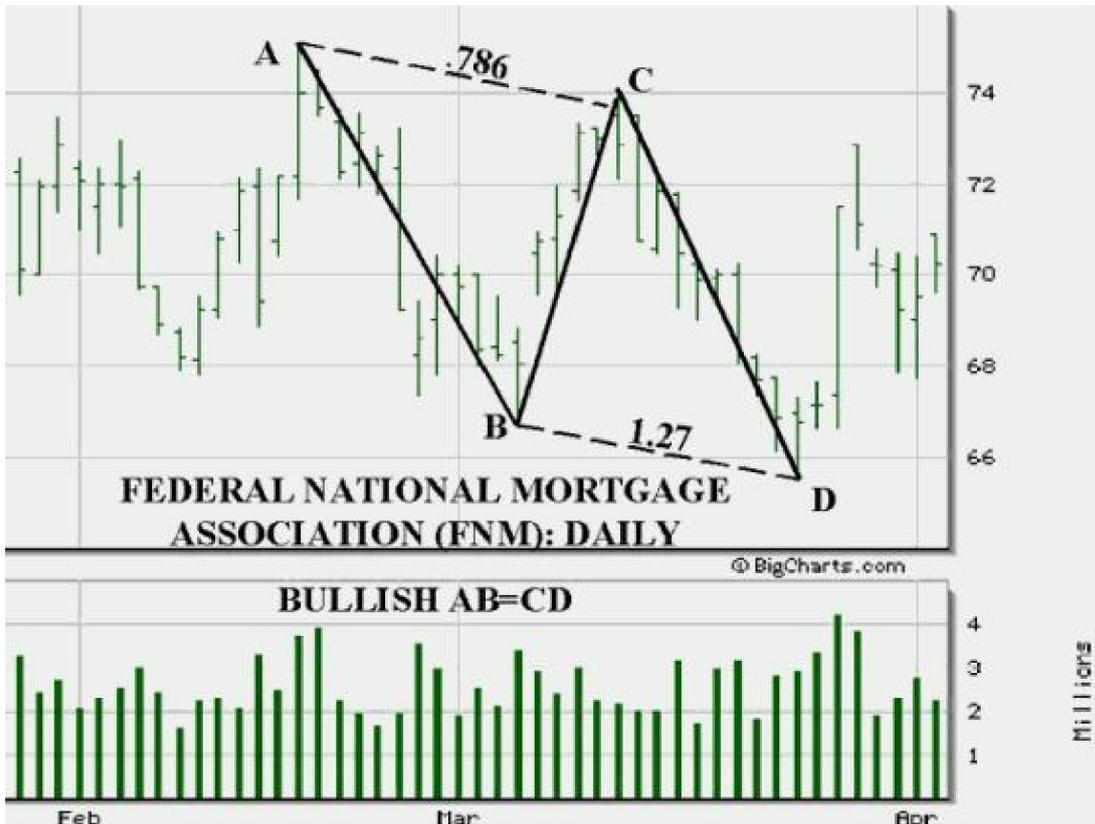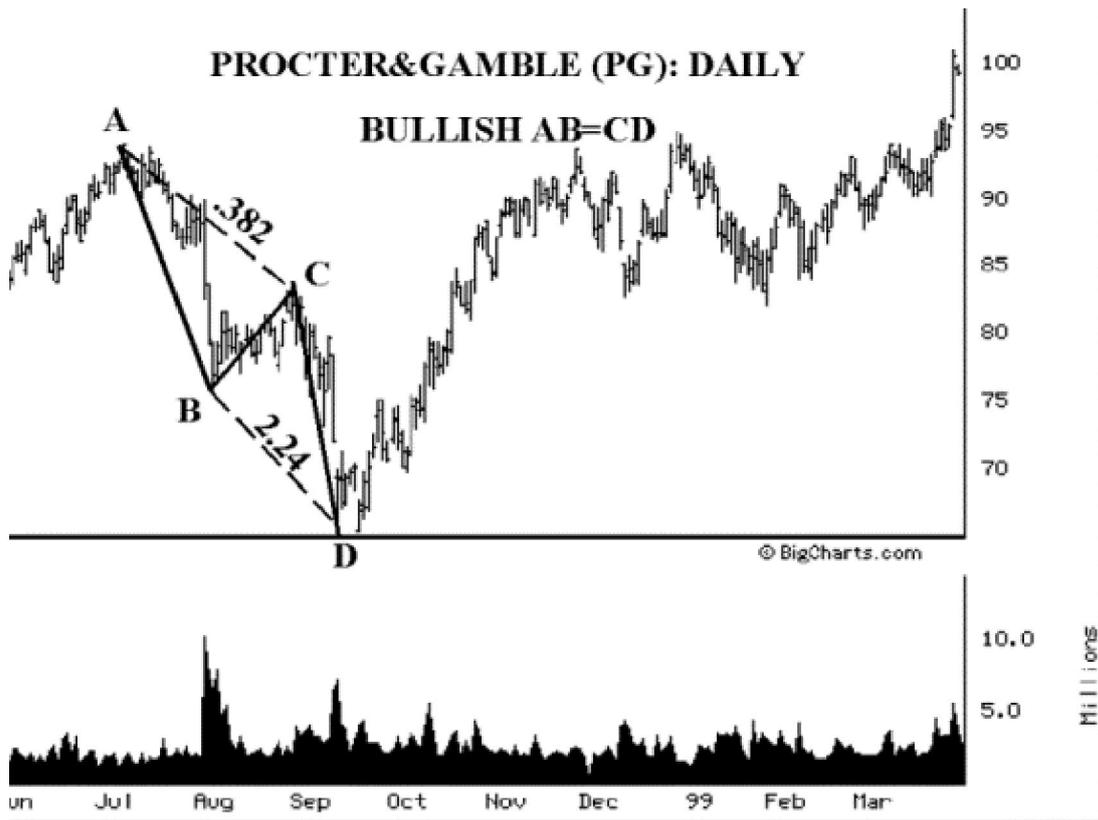
Compaq (CPQ)

COMPAQ(CPQ): DAILY

BULLISH AB=CD

Federal National Mortgage Association (FNM)

FEDERAL NATIONAL MORTGAGE
ASSOCIATION (FNM): DAILY

BULLISH AB=CD

Procter&Gamble (PG)

PROCTER&GAMBLE (PG): DAILY

BULLISH AB=CD

Microsoft (MSFT)

MICROSOFT (MSFT): DAILY
BEARISH AB=CD

Intel (INTC)

INTC Weekly ▬   10/19/99

INTEL (INTC): WEEKLY
BEARISH AB=CD

CNET Networks (CNET)

CNET Daily ─   4/06/00

HarmonicTrader.com

CNET NETWORKS (CNET): DAILY

BEARISH GARTLEY

Volume ─   ©BigCharts.com
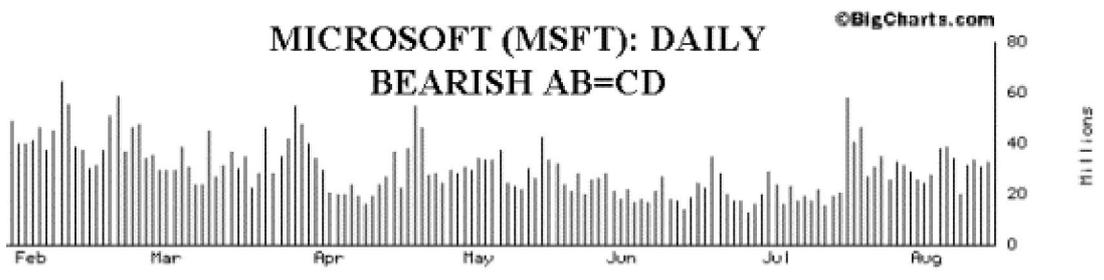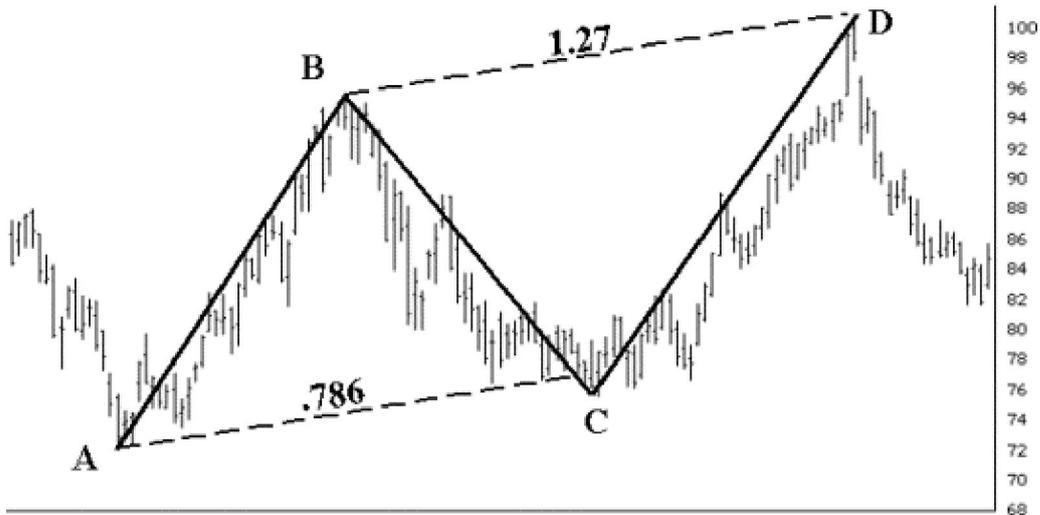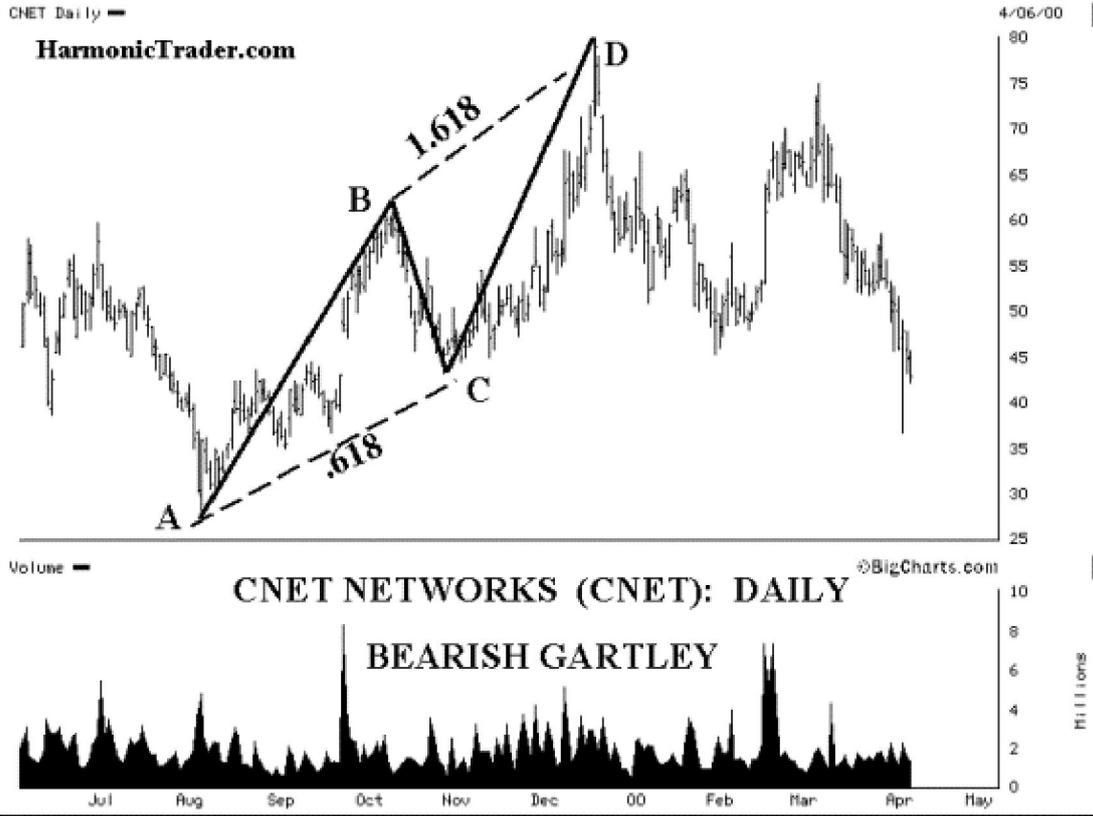
FDX Corp. (FDX)

FDX Daily ━   7/16/99

FDX CORP. (FDX): DAILY

BEARISH AB=CD
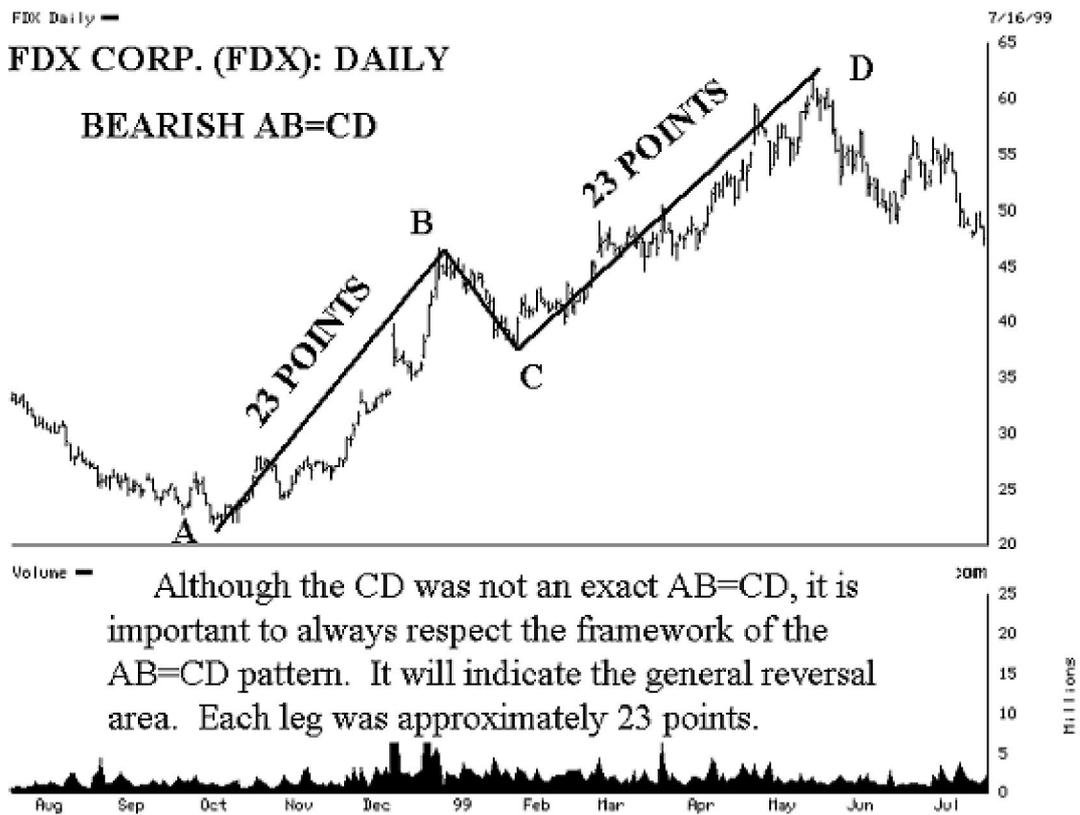
Although the CD was not an exact AB=CD, it is important to always respect the framework of the AB=CD pattern. It will indicate the general reversal area. Each leg was approximately 23 points.

Education: Patterns

"The Crab"

The Crab is a harmonic pattern discovered by Scott Carney in 2000. This pattern is one of the most precise of all the harmonic patterns. The critical aspect of this pattern is the tight Potential Reversal Zone created by the 1.618 of the XA leg and an extreme (2.618, 3.14, 3.618) projection of the BC leg.   The pattern requires a very small stop loss and usually provides an almost exact reversal in the Potential Reversal Zone.

Bullish Crab: Buy at D!	Bearish Crab: Sell at D!

<div align="center">
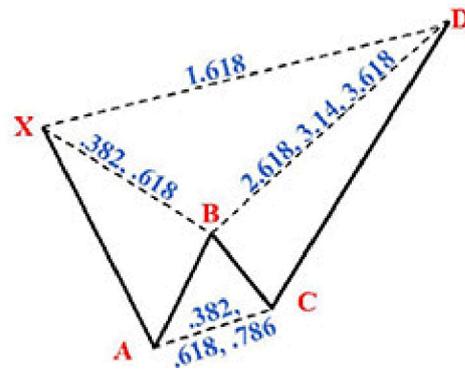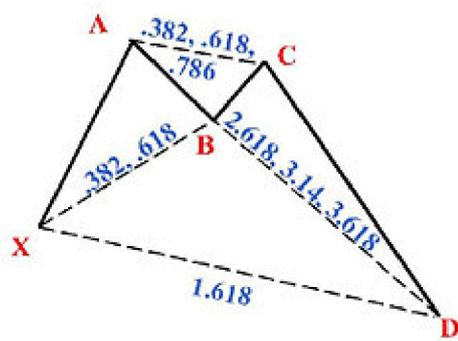
Foundry Networks

Flextronics

Galt Technologies

CNET

Nortel Networks

Rational Software

Exodus

</div>

The Required Conditions for the Pattern are:

1. A tight Potential Reversal Zone with the convergence of the 1.618XA leg and an extreme (2.618, 3.14, 3.618) projection.

2. B point retracement MUST be at a .618 or less. A .382 retracement is the ideal B point retracement.

3. The 1.618 XA leg must be the ultimate point in the Potential Reversal Zone. Therefore, the extreme BC projection that supercedes the 1.618XA must be used.

**The
Crab**
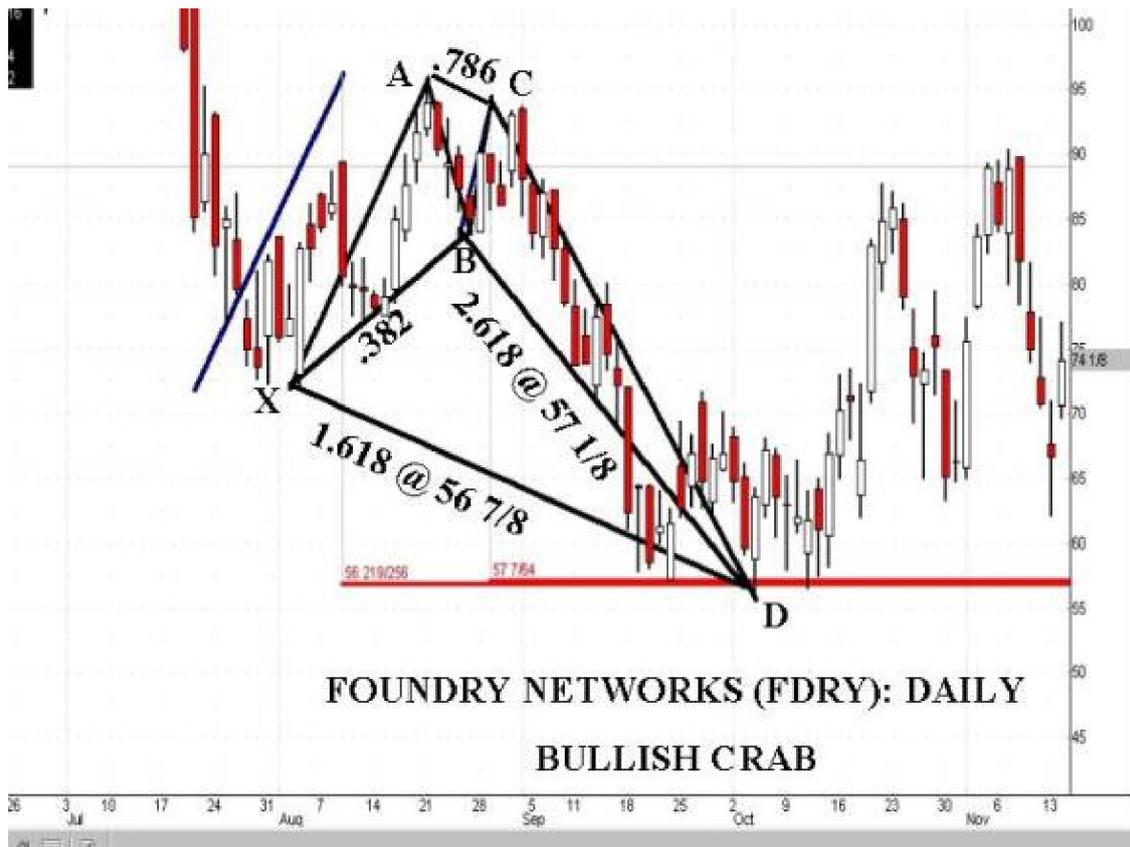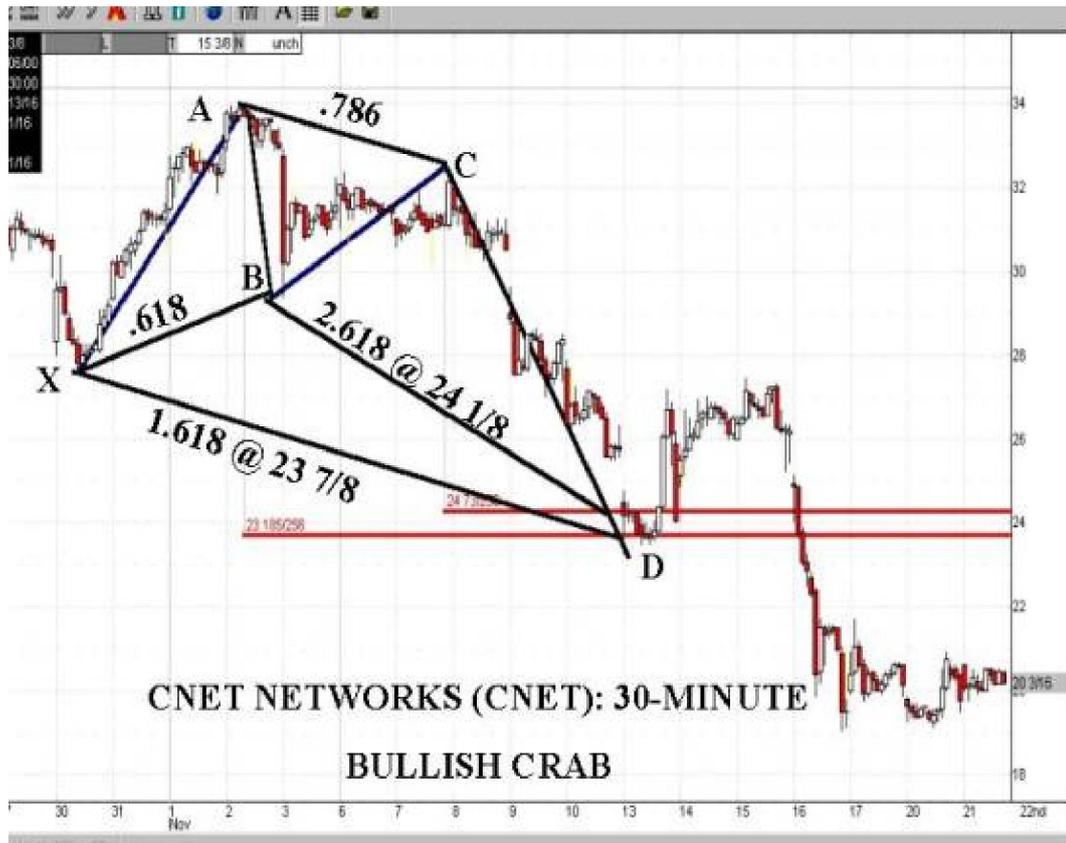
FOUNDRY NETWORKS (FDRY): DAILY

BULLISH CRAB

The
Crab

.786

.5

3.14 @ 38 11/16

1.618 @ 38 1/8

FLEXTRONICS (FLEX): 30-MINUTE

BULLISH CRAB

The
Crab

GALILEO TECHNOLOGIES (GALT):
30-MINUTE
BULLISH CRAB

The

CNET NETWORKS (CNET): 30-MINUTE

BULLISH CRAB

NORTEL NETWORKS (NT): DAILY

BEARISH CRAB

The Crab

RATIONAL SOFTWARE
(RATL): DAILY

BULLISH CRAB

Exodus Communications (EXDS)

EXODUS
COMMUNICATIONS
(EXDS): 5-MINUTE

BEARISH CRAB

Education: Patterns

The Bat

      The   Batpattern is a precise harmonic pattern discovered by Scott Carney in 2001. Thepattern incorporates the 0.886XA retracement, as the defining element in thePotential Reversal Zone (PRZ). The B point retracement must be less than a0.618, preferably a 0.50 or 0.382 of the XA leg. The Bat utilizes a minimum1.618BC projection. In addition, the AB=CD pattern within the Bat is extendedand usually requires a 1.27AB=CD calculation. It is an incredibly accuratepattern and requires a smaller stop loss than mostpatterns.
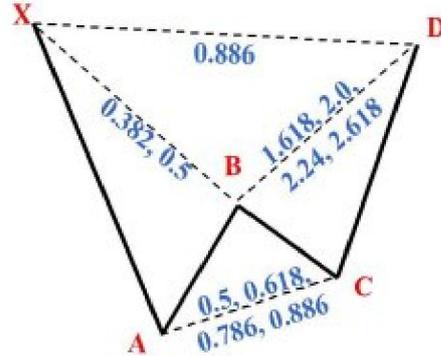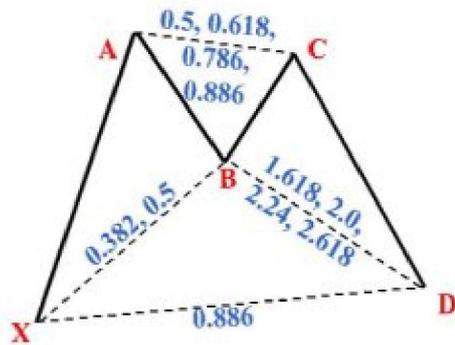
Bullish Bat: Buy at D!   **Bearish Bat: Sell at D!**

KLA Tencor (KLAC)   Varian (VAR)

Apple Computer (AAPL)   Genzyme (GENZ)

NASDAQ 100 Tracking Stock (QQQ)

Bat Conditions:
1. AB>CD within the AB=CD pattern (usually 1.27AB=CD)
2. B point must be less than a 0.618 retracement of the XA leg. (usually 0.382 or 0.5 of the XA leg)
3. D point must include an 0 .886 retracement of the XA leg.
4. BC projection is at least a 1.618 or greater. (The preferred BC projection is a 2.0)

PRIOR GAP
FILLED @ 58.80

.886 @ 59.20

.382

1.618 @ 57.50

2.24 @ 58.90

.886

.786

KLA-TENCOR (KLAC):
60-MINUTE

BEARISH BAT

X   B   x   C   A   D

APPLE COMPUTER (AAPL): DAILY BULLISH BAT

1.27AB=CD @ 15.20

.786

.5

1.618 @ 15.65

.886 @ 15.15

1.618 @ $15.641
0.886 @ $15.163

VARIAN MEDICAL SYSTEMS (VAR): DAILY BEARISH BAT

1.27AB=CD @ 74.15

.886 @ 74.50

1.618 @ 73.60

.786

0.886 @ $74.519

1.618 @ $73.572

GENZYME (GENZ):
DAILY
BEARISH BAT

.886 @ 61.20

0.886 @ $61.220

1.618 @ $59.620

AB=CD @ 58.70

1.618 @ 59.60

.786

NASDAQ 100 TRACKING STOCK (QQQ): DAILY BEARISH BAT

Education: Patterns

Butterfly

The Butterfly pattern was discovered by BryceGilmore and Larry Pesavento.The important features of the Butterfly includethe specific Fibonacci numbers at each point. Although this is widely debated,I believe the most critical aspect of the pattern is that the B point whichMUST BEat a .786 of the XA leg. Also, the Butterflypattern must include an AB=CD pattern to be a valid signal. Frequently, theAB=CD pattern will possess an extended CD leg that is 1.27 or 1.618 of the ABleg. Although this is an important requirement for a valid trade signal, themost critical number in the pattern is the XA leg. The XA calculation isusually complemented by an extreme (2.00, 2.24, 2.618) BC projection. Thesenumbers create a specific Potential Reversal Zone (PRZ) that can yield powerfulreversals, especially when the pattern is in all-time (new highs/new lows) pricelevels.

Bullish Butterfly: Buy at D!   **Bearish Butterfly: Sell at D!**
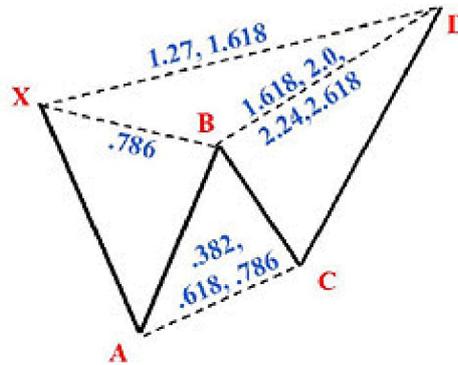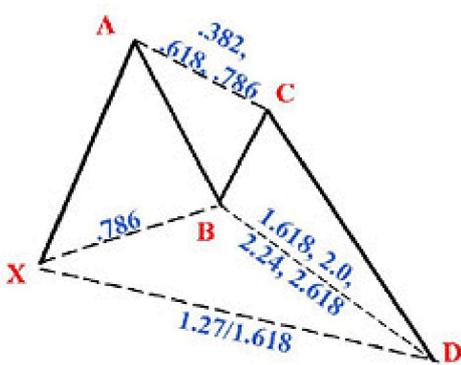
NASDAQ 2000   K Mart
Becton-Dickinson   Nike
Mirage   US Airways
Novellus   Haliburton

Pattern Conditions:

1. Execute trade at 1.27 or 1.618 of XA leg.
2. AB=CD OR AB > CD (1.27 OR 1.618 of AB leg).
3. Extreme (2.00, 2.24, 2.618) BC projection.

4. Excellent pattern in all-time price levels (New Highs/New Lows)

Nasdaq Composite (COMPQ)
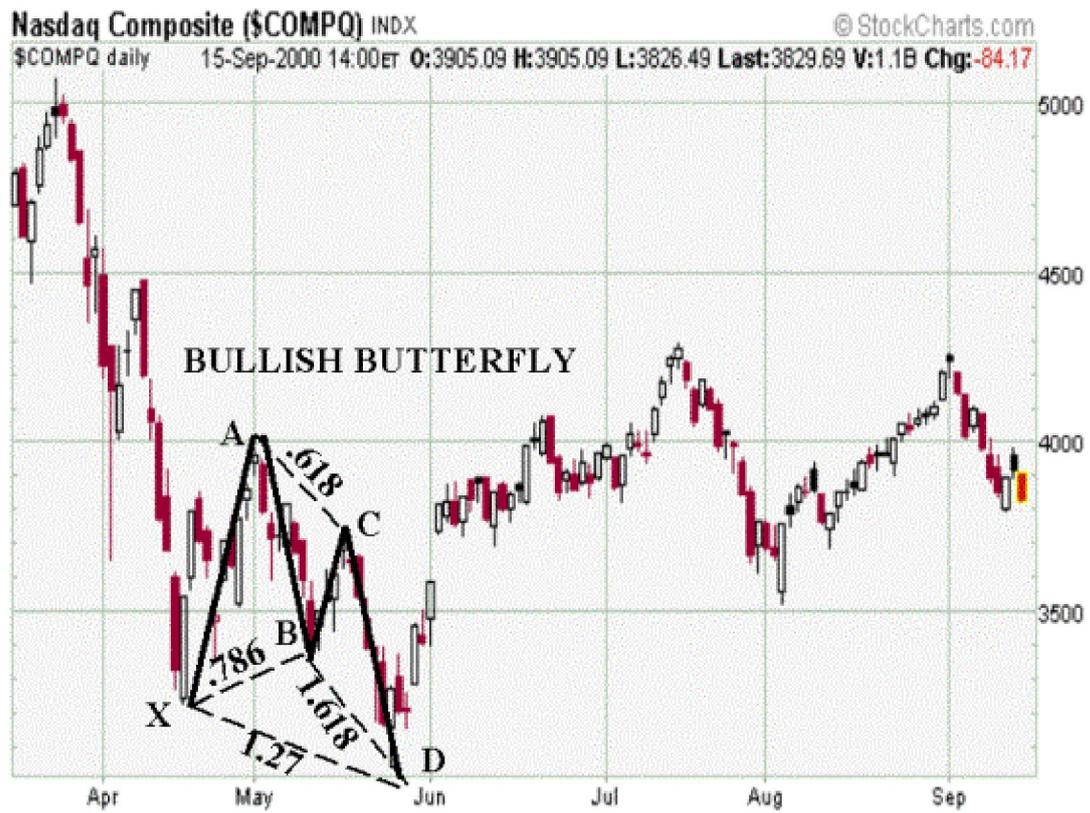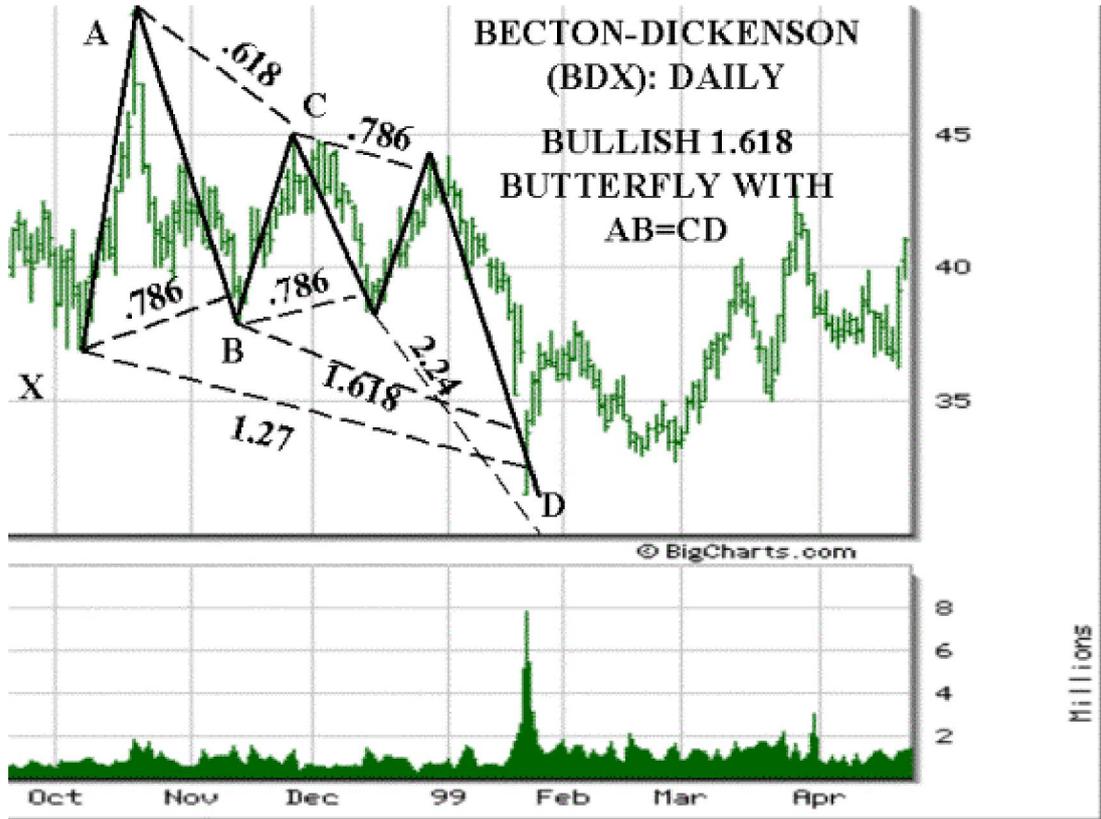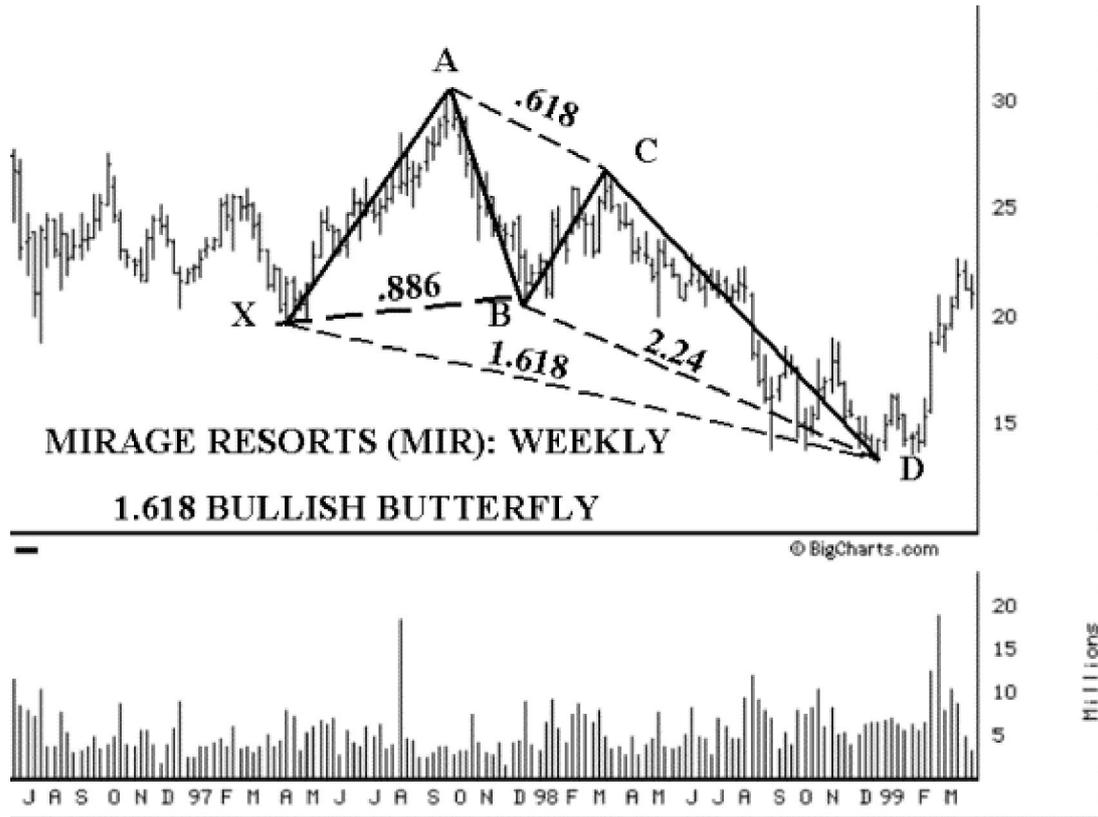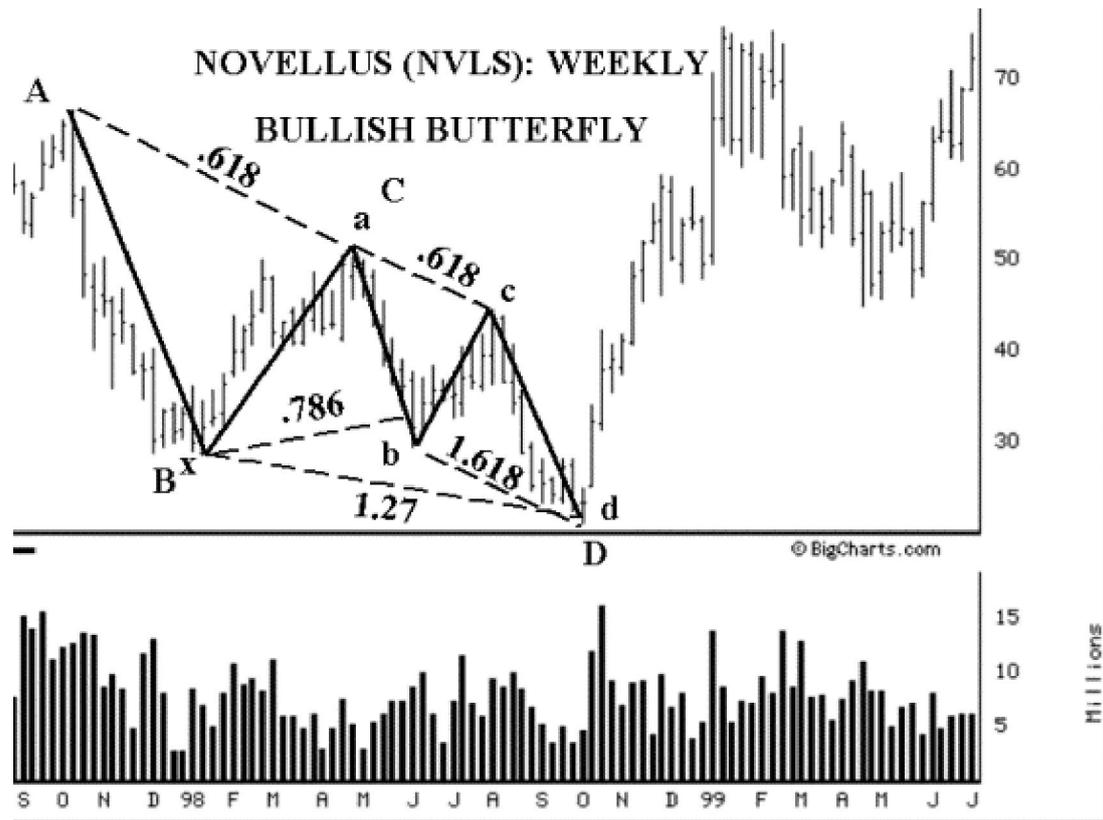
Nasdaq Composite ($COMPQ) INDX   © StockCharts.com
$COMPQ daily   15-Sep-2000 14:00ᴇᴛ O:3905.09 H:3905.09 L:3826.49 Last:3829.69 V:1.1B Chg:-84.17

BULLISH BUTTERFLY

Becton-Dickenson (BDX)

BECTON-DICKENSON
(BDX): DAILY

BULLISH 1.618
BUTTERFLY WITH
AB=CD

© BigCharts.com

Mirage Resorts (MIR)

MIRAGE RESORTS (MIR): WEEKLY

1.618 BULLISH BUTTERFLY

© BigCharts.com

J A S O N D 97 F M A M J J A S O N D 98 F M A M J J A S O N D 99 F M

Novellus (NVLS)

NOVELLUS (NVLS): WEEKLY
BULLISH BUTTERFLY

A

.618

C
a
.618 c

.786
B x b 1.618

1.27 d
D

© BigCharts.com

15
10
5
Millions

S O N D 98 F M A M J J A S O N D 99 F M A M J J

KMART (KM)

KMART (KM): WEEKLY

BEARISH BUTTERFLY

Nike (NKE)

33

NIKE (NKE): WEEKLY

1.618 BEARISH BUTTERFLY

USAirways (U)

USAIRWAYS (U): DAILY

BEARISH BUTTERFLY
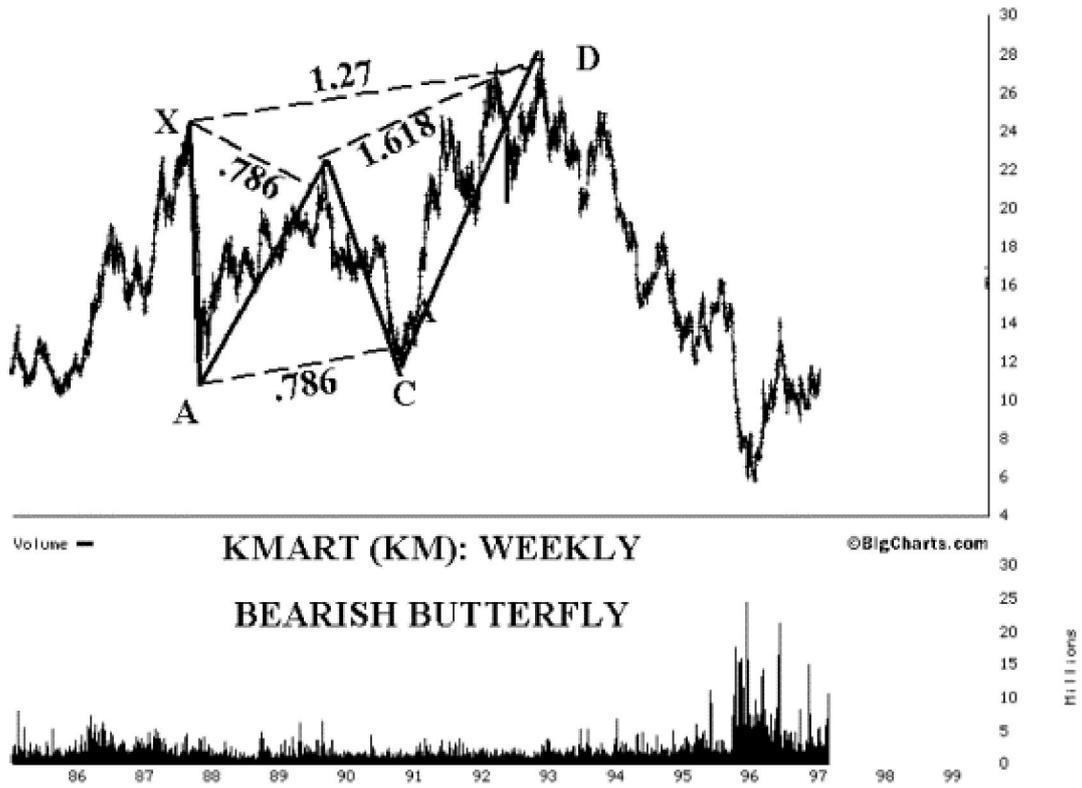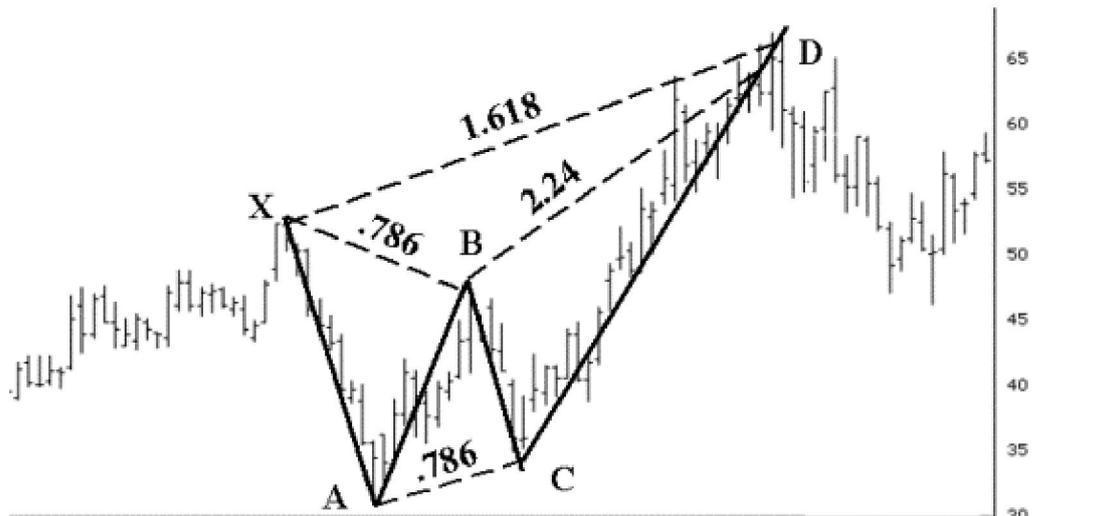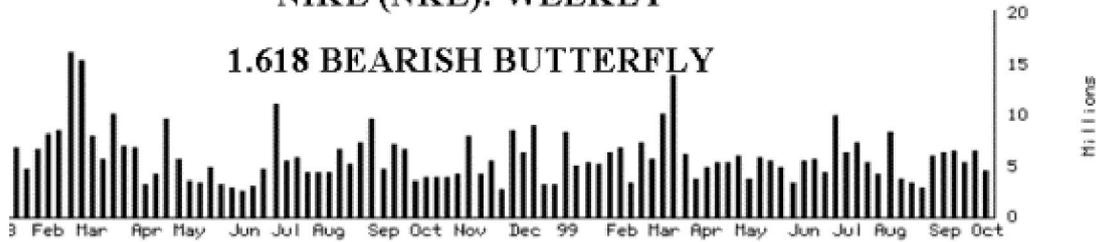
Haliburton (HAL)

Education: Patterns

Three Drives

Although it was not specifically identified,the first reference to a Three Drives pattern was made in Robert Precter'sbook, "Elliot Wave Principle." He described the general nature of price actionpossessing a five-wave structure. Adapted from this principle, Fibonaccinumbers that possess identical projections at each wave constitute a ThreeDrives pattern. The critical aspect of this pattern is that each drivecompletes at either a 1.27 or a 1.618 of the prior price move. Also, the pricelegs should possess clear symmetry with each drive forming over equivalent timeperiods.

Bullish Three Drives: Buy at 3!   **Bearish Three Drives: Sell at 3!**
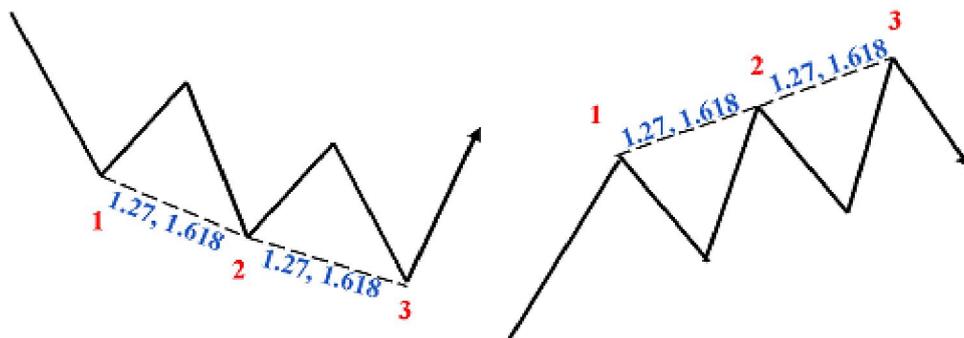
Home Depot	S&P 500 MINI (ES)
Gateway Computer	Kellogg
Scientific-Atlanta	Cnet
Mercury	PNC Bank
Bristol-Myers	Albemarie
Abovenet	Exchange Applications

The Three Drives pattern is probably the most difficult patternto trade. It is important only to trade those Three Drive patterns that are soclear that they are practically obvious. Also, it is common for Three Drivespatterns to form a critical Fibonacci retracements (0.618, 0.786) or projections(1.27, 1.618). Fibonacci numbers that converge with this pattern add to theharmonics of the set up and provide greater confirmation for a potentialreversal.

Home Depot (HD)

HOME DEPOT (HD): DAILY
BULLISH THREE DRIVES

Gateway Computer (GTW)

GATEWAY COMPUTER (GTW): DAILY
BULLISH THREE DRIVES

Scientific-Atlanta (SFA)

SCIENTIFIC-ATLANTA (SFA):
DAILY

BULLISH THREE DRIVES

Mercury (MERQ)

MERQ Daily ■   7/26/99

MERCURY (MERQ): DAILY

BULLISH THREE DRIVES

The stock formed a nice bullish Three Drives at the .618 retracement.
Each drive reversed at the 1.27 projection (although I didn't show it). A
Three Drives pattern is especially significant at a Fibonacci retracement.
The stock reversed nicely and possessed a clear bullish continuation.

Bristol Myers Squibb (BMY)

BRISTOL MYERS SQUIBB (BMY):
DAILY

BULLISH THREE DRIVES AT A
FIBONACCI RETRACEMENT

Abovenet (ABOV)

ABOVENET (ABOV): DAILY
BULLISH THREE DRIVES

.707 @ 26 3/16

© BigCharts.com

Kellog (K)

KELLOG (K): DAILY

BEARISH THREE DRIVES AT A 78.6 RETRACEMENT

CNET Network (CNET)

PNC Bank (PNC)

PNC Daily ▬   7/09/99

PNC BANK (PNC): DAILY
BEARISH THREE DRIVES

Albemarie (ALBE)

ALBEMARIE (ALB): DAILY

BEARISH THREE DRIVES AT A MAJOR
FIBONACCI RETRACEMENT

EXCHANGE APPLICATIONS
(EXAP): DAILY

BEARISH THREE DRIVES

Education: Patterns

Gartley

The Gartley pattern was outlined by H.M. Gartley in his book"Profits in the Stock Market," published in 1935. Although the pattern is named"The Gartley," the book did not discuss specific Fibonacci retracements! It wasnot until "The Harmonic Trader" was released that the specific retracements ofthe B point at a .618 and the D point at a .786 were assigned to the pattern.There are others who have assigned Fibonacci retracements to this framework.However, they use a variety of Fibonacci numbers at the B and D points.Despite these variations, the Fibonacci retracements that yield the mostreliable reversals are the .618 at the B point and the .786 at the D point.Furthermore, the pattern should possess a distinct AB=CD pattern that convergesin the same area as the 0.786 XA retracement and the BC projection (either 1.27or 1.618). The most critical aspect of the Gartley is the B point retracement,which must be at a 0.618 of the XA leg.

Bullish Gartley: Buy at D!   **Bearish Gartley: Sell at D!**
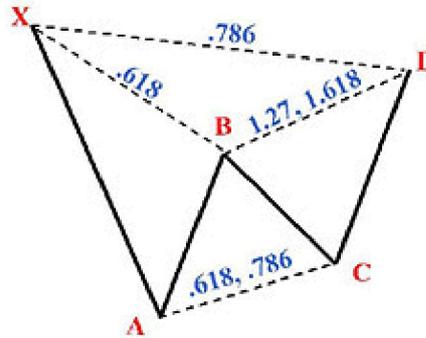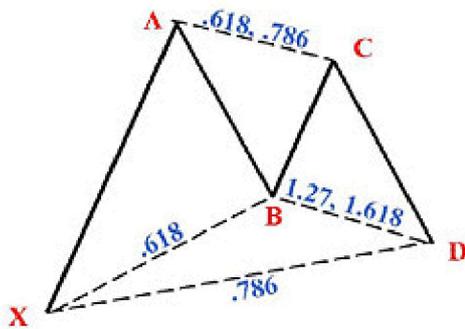
Dow Jones Industrials 2000   Homestake Mining
General Mills   Veritas
Lucent   Walmart
Cooper Cameron   Intel
America Online   Harley-Davidson
                                 Exxon-Mobil

Gartley Conditions:
1. AB=CD
2. B point at a .618 retracement of the XA leg.
3. D point at .786 retracement of the XA leg.
4. BC projection is either a 1.27 or 1.618.

Dow Jones Industrial Average (DJIA)

Dow Jones Industrial Average ($INDU)
$INDU daily   23-Jun-2000 O:10376.400 H:10478.600 L:10376.400 C:10404.700 V:142.4M

BULLISH
GARTLEY

.618

AB=CD @ 10,390

A

C

7 DAYS DOWN

6 DAYS DOWN

.618

B

1.618 @ 10, 320

.786 @ 10, 385

D

X

Volume 142392096
MA(60)

10800

10700

10600

10500

10400

10300

225M
200M
175M
150M

Clear patterns on daily charts like this one occur
in the major indices a few times a year. Don't
ignore them! In this case, the Dow rallied over 500
points from the low within the next three weeks.

Jun

The Harmonic Analyzer (TM) : GIS

LUCENT (LU): DAILY

BULLISH GARTLEY

A   .786   C

.618   B   1.27   D

.786

Nice reversal….note the nice up-trend channel and bullish continuation

© BigCharts.com

May   Jun   Jul

Millions

The Harmonic Analyzer (TM) : CAM

AMERICA ONLINE(AOL): DAILY
BULLISH GARTLEY

An incredible bearish Gartley that possessed a fantastic reversal and strong bearish continuation!

Veritas Software Corporation (VRTS)

VERITAS Software Corporation (VRTS) Nasdaq Nat. Mkt.   © StockCharts.com
VRTS daily   5-Jan-2001 O:89.88 H:90.00 L:76.50 C:80.44 V:12.5M Chg:-11.38

Volume 12519000
EMA(60) 11077065

VERITAS (VRTS): DAILY

BEARISH GARTLEY

Wal-Mart Stores Inc. (WMT)

Intel (INTC)

INTEL (INTC): DAILY

BEARISH GARTLEY

Harley-Davidson (HDI)

Exxon-Mobil (XOM)

NOTE: PRIOR GAP

EXXON-MOBIL (XOM): 60-MINUTE
BEARISH GARTLEY
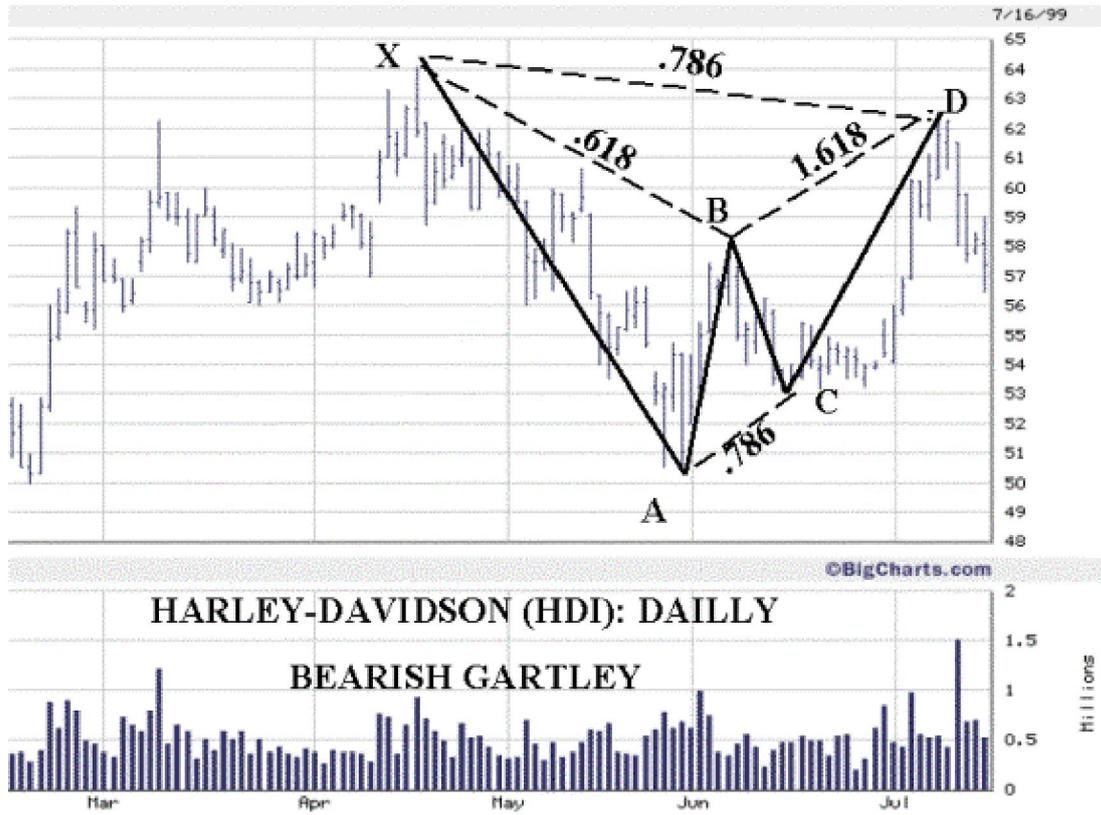
Education: Fibonacci Numbers

Learn about the critical Fibonacci numbers that effectively gauge price action in the markets. Learn the other Fibonacci-related numbers that are relatively unknown in the technical community and when to use them.

The Primary Numbers:			
0.618	**0.786**	**1.27**	**1.618**
The Secondary Numbers:			
0.382	**Extreme Numbers**		**0.886**

Education: Fibonacci Numbers

0.618 Retracement

The .618 is probably the most popular Fibonacci retracement percentage that is used by technicians. Often, technicians will round the number and just state that this percentage is a two-thirds retracement. I strongly urge that the exact .618 retracement percentage, carried to three decimal places, be used. I have witnessed many patterns that have completed exactly at the .618. Therefore, utilizing a rounded number of two-thirds or 66% will not yield the same results as the precise .618 for Fibonacci calculations.

Bullish .618 Retracement: Buy at B! Bearish .618 Retracement: Sell at B!
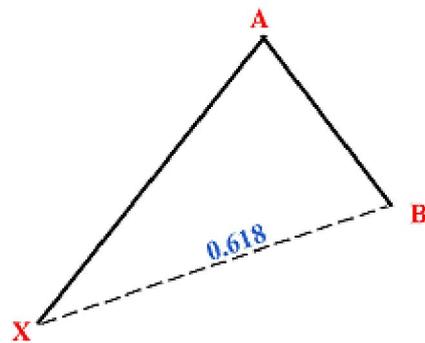
A.G. Edwards
Amazon.com
J.P. Morgan
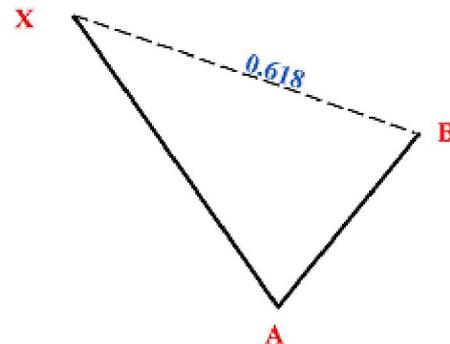
Dell Computer
3 Com
Airbourne Frieght
Chase ManhattanBank

A.G. Edwards (AGE)

A.G. EDWARDS (AGE):
WEEKLY

BULLISH .618
RETRACEMENT

65

AMAZON.COM (AMZN): DAILY

.618 BULLISH RETRACEMENT
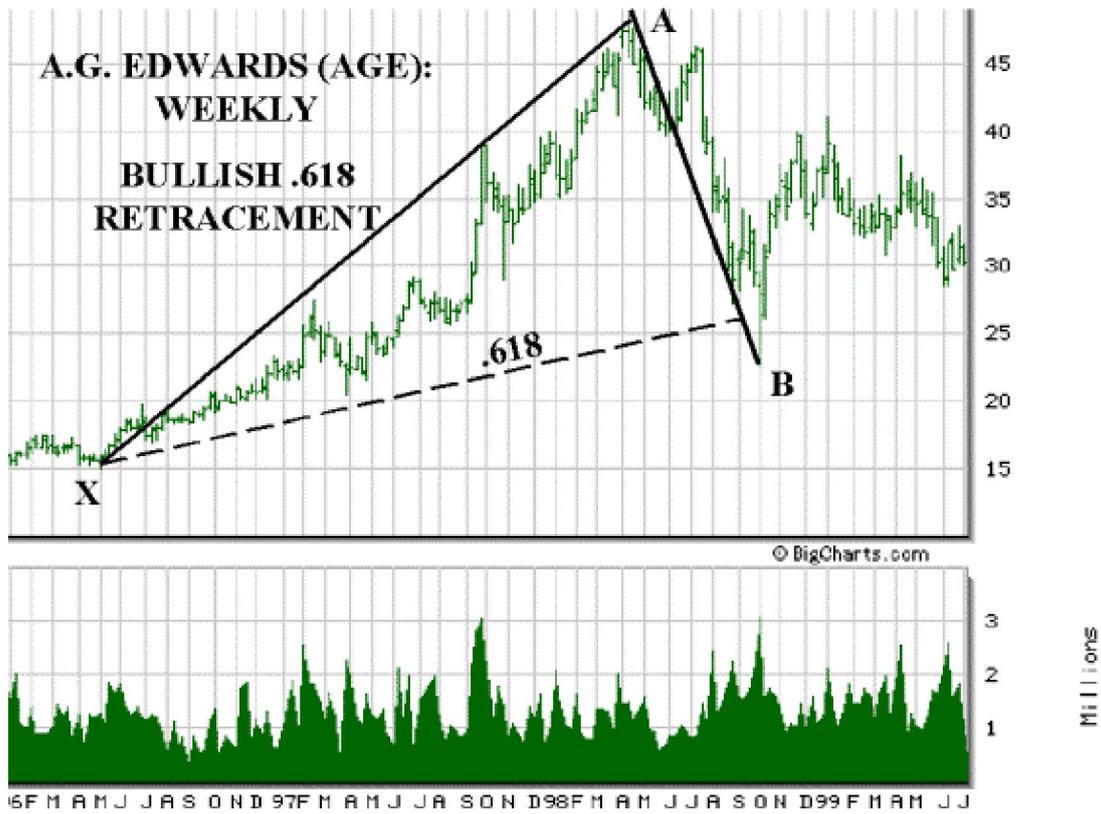
JP Morgan & Company Inc. (JPM)

Dell Computer (DELL)

DELL COMPUTER (DELL): DAILY

BEARISH .618

3COM (COMS)

3COM (COMS): WEEKLY
BEARISH .618 RETRACEMENT

© BigCharts.com

Airborne Freight Corp. (ABF)

Airborne Freight Corp. (ABF) — ABF daily — 27-Jun-2000 O:18.563 H:19.750 L:18.563 C:19.625 V:195.9K — © StockCharts.com

BEARISH .618 RETRACEMENT
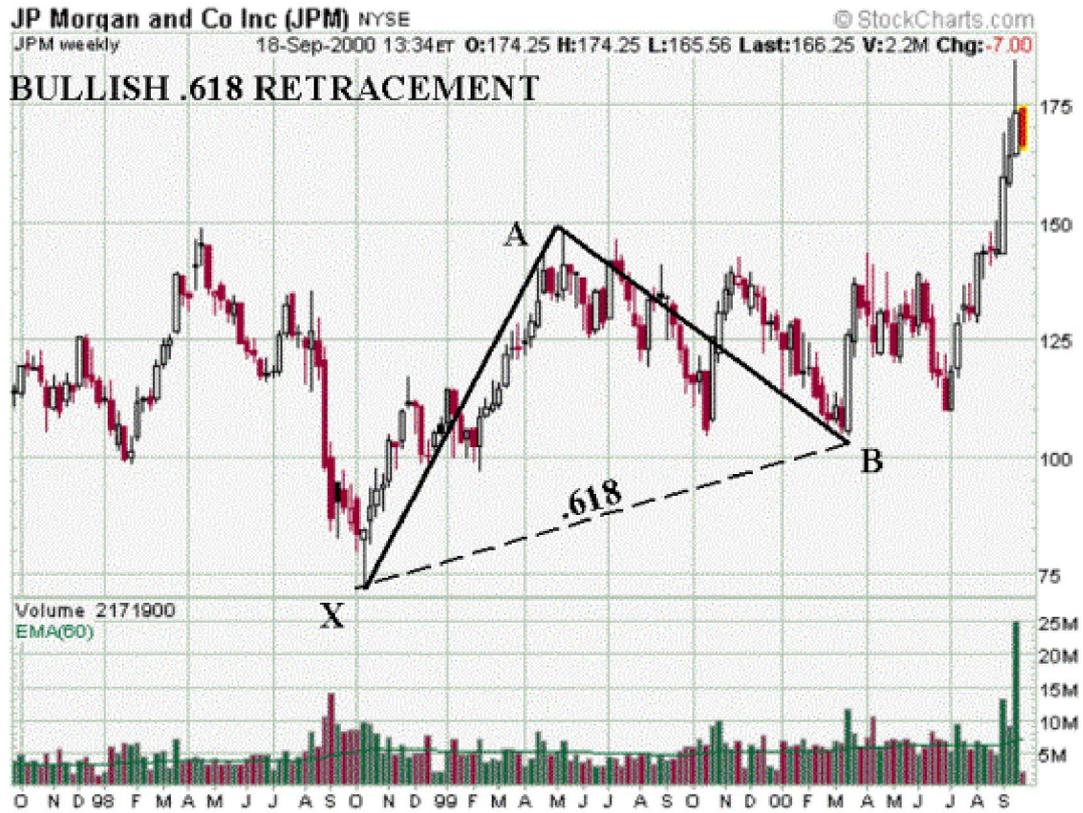
Chase Manhattan Corp (CMB)
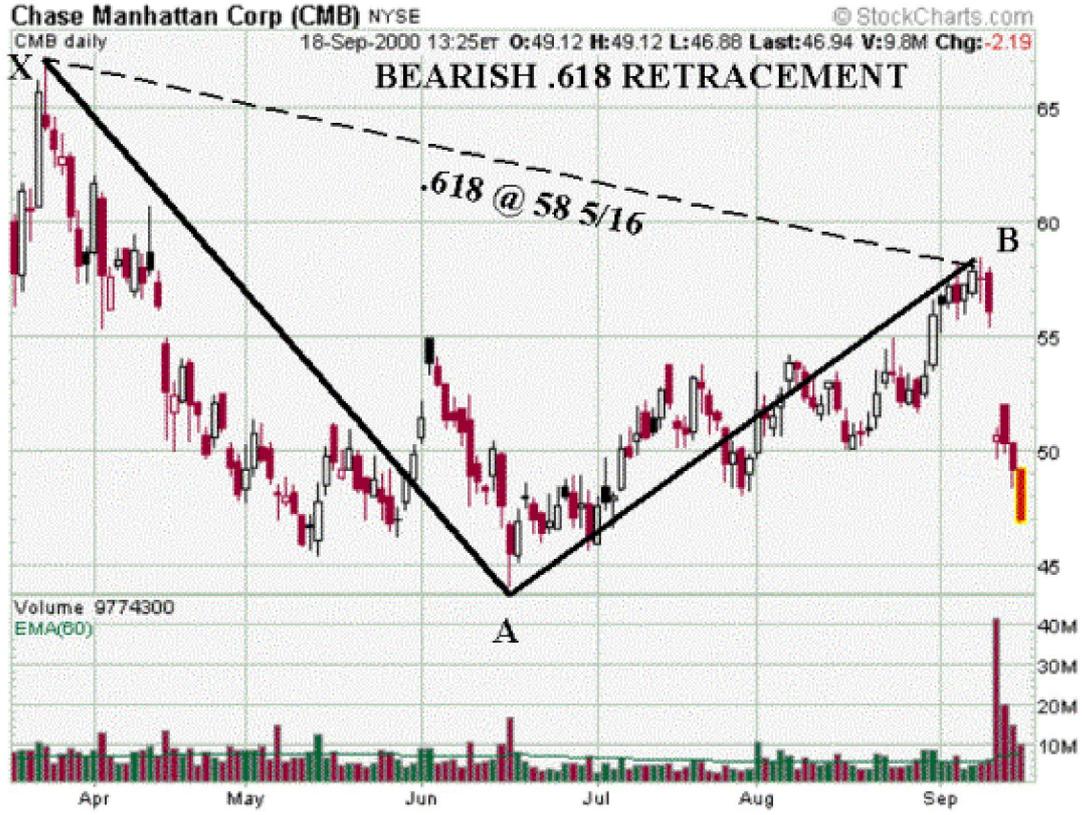
Education: Fibonacci Numbers

0.786 Retracement

The .786 retracement is the square root of the .618. The .786 retracement is the next critical area to examine, after the .618 has been clearly violated. The .786 is a vital Fibonacci number because it is often the "last chance reversal area" before retesting the original price point. Price action that does not reverse off the .786 usually will retest, and often break past the original starting point. Therefore, .786 failures are significant because the stop loss limit will be clearly defined by the original starting point and relatively small in comparison to the potential reversal.

Bullish .786 Retracement: Buy at B! Bearish .786 Retracement: Sell at B!
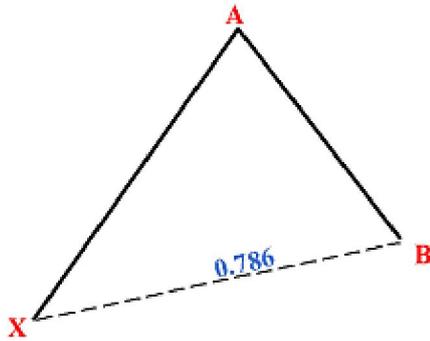
Disney
Dow Jones Industrials
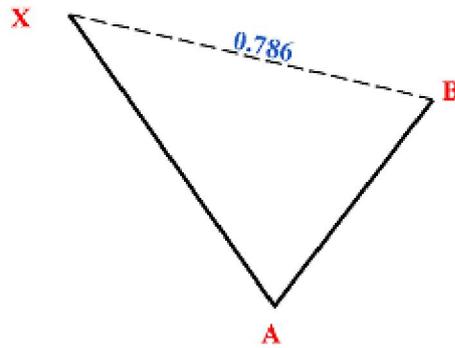
Dow Jones Industrials 2000
America Online
3 Com
Walmart
Semiconductor Index (SOX)

Disney (DIS)

DISNEY (DIS): WEEKLY
.786 BULLISH RETRACEMENT

DOW JONES INDUSTRIALS: DAILY

.786 BULLISH RETRACEMENT
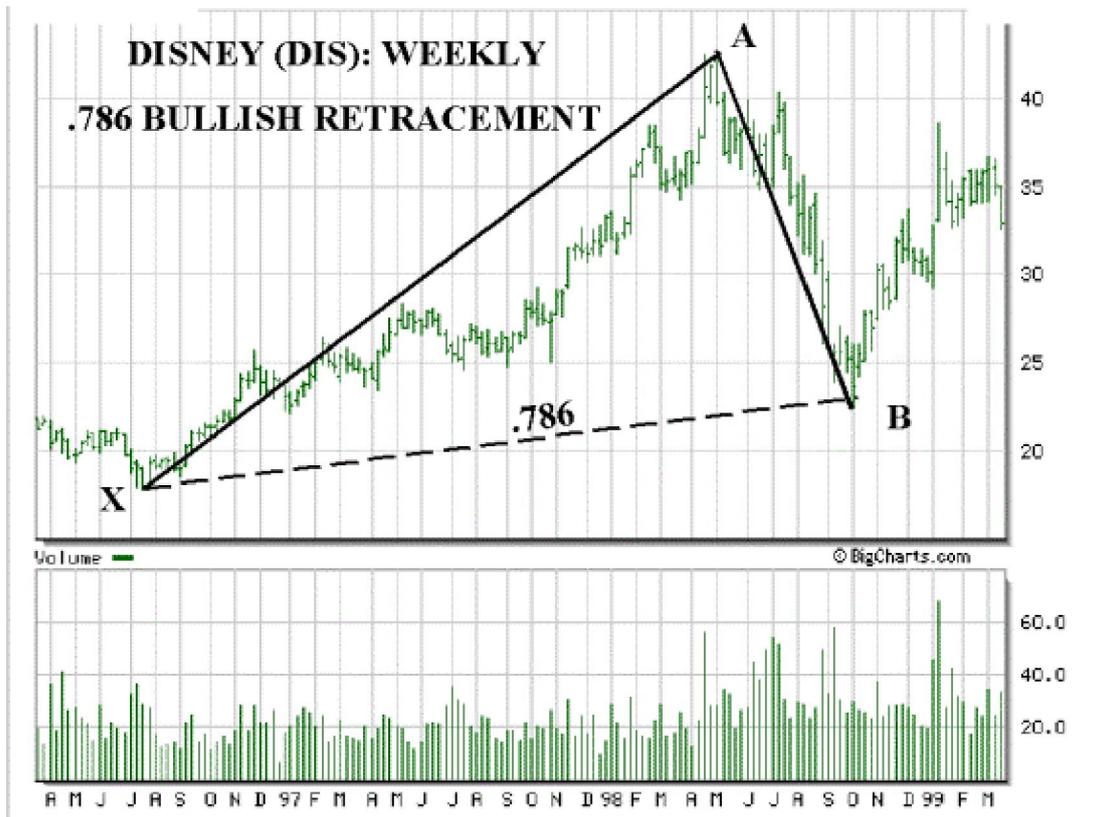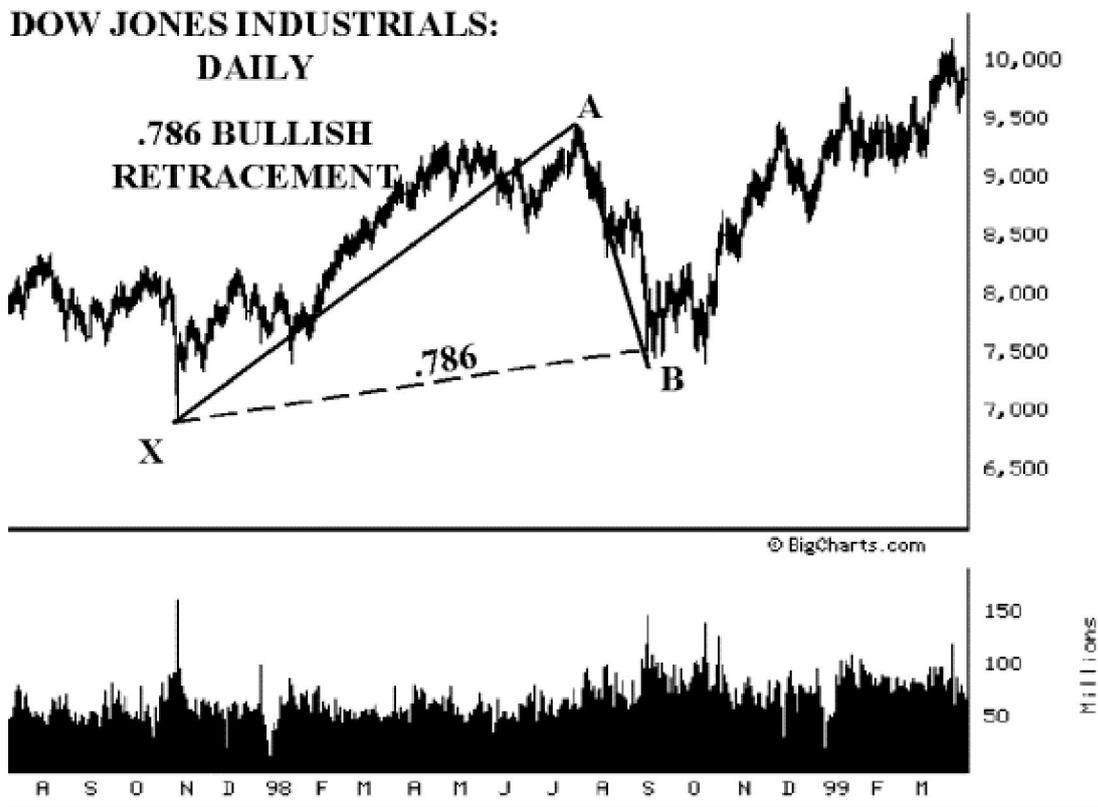
Dow Jones Industrial Average (DJIA)

America Online (AOL)

AMERICA ONLINE (AOL): DAILY

BEARISH .786 RETRACEMENT

© BigCharts.com

3COM (COMS)

3COM (COMS): DAILY

BEARISH .786 RETRACEMENT

Wal-Mart Stores Inc. (WMT)
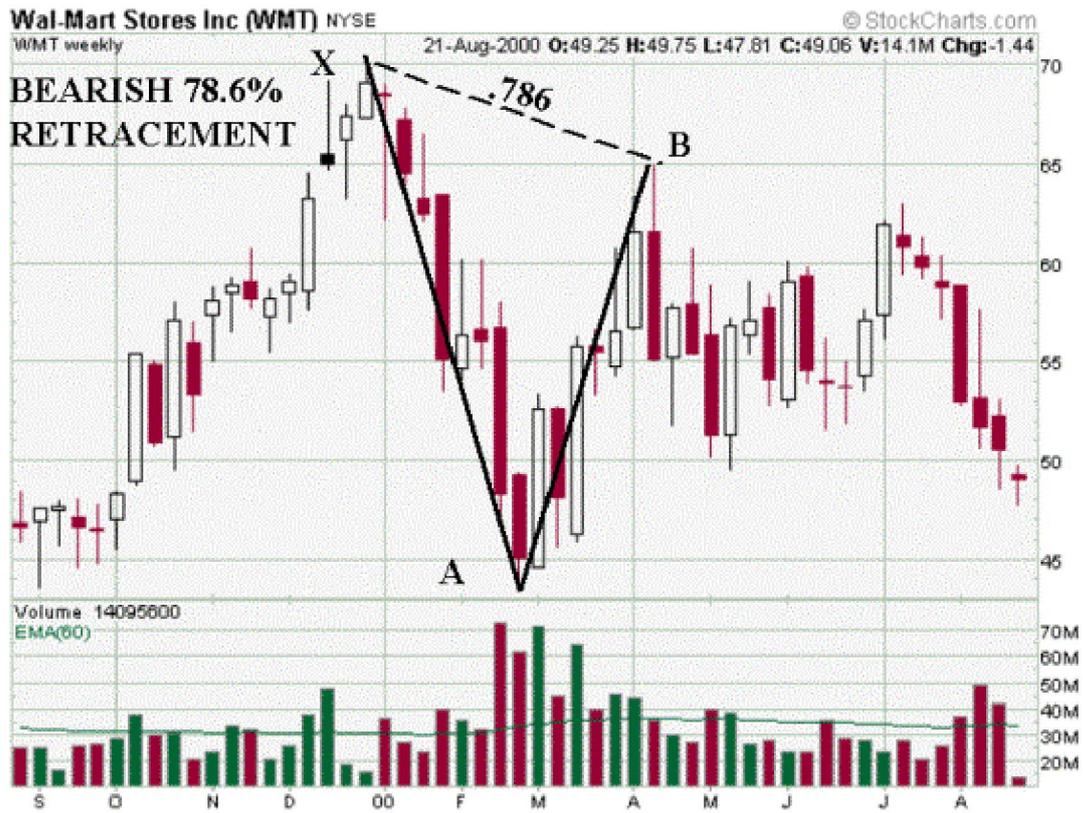
Philadelphia Semiconductor Index (SOX)
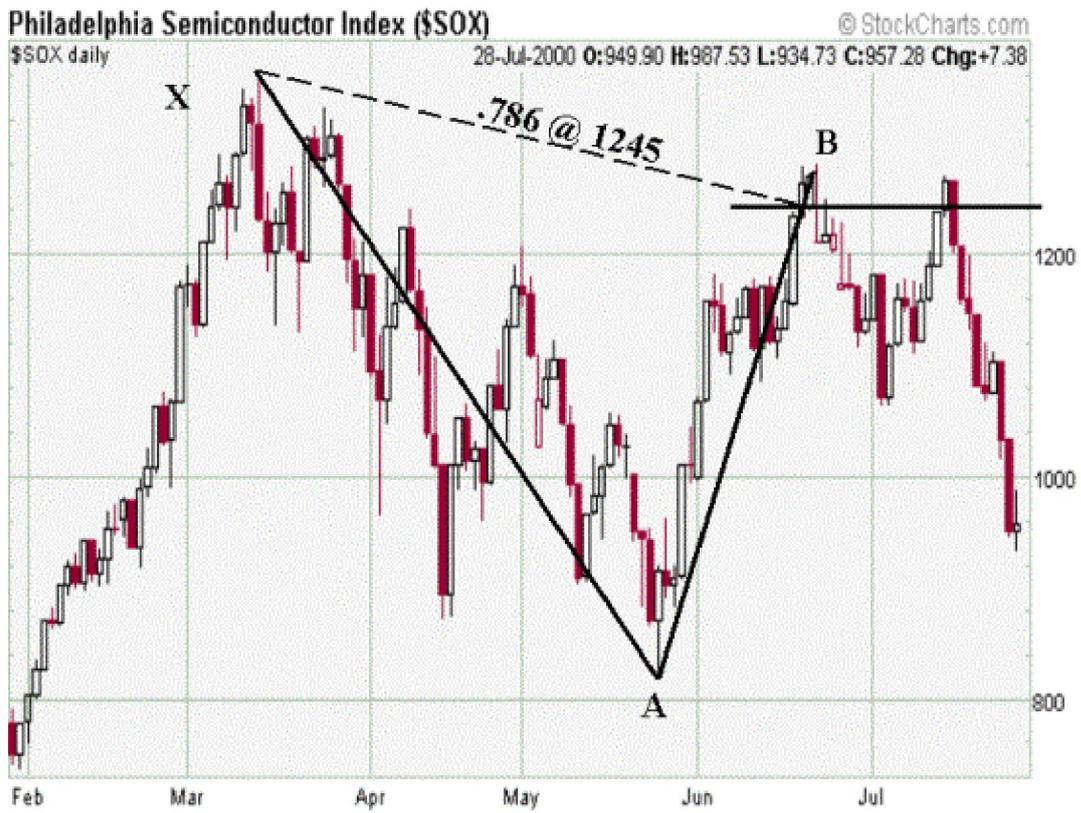
Education: Fibonacci Numbers

Bullish 1.27 Projection: Buy at B!   Bearish 1.27 Projection: Sell at B!
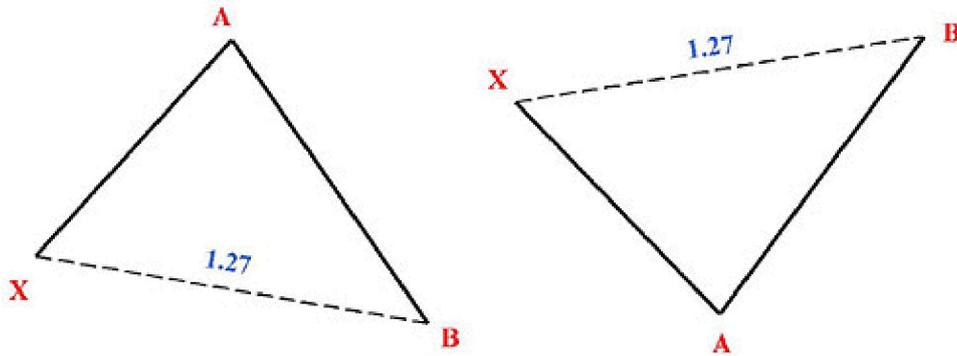
Texaco	TheGlobe.com
J.C. Penney	Broadcast.com
	Hilton
	Rambus
	Silicon Graphics
	Micron Technology

Texaco (TX)

JC Penney (JCP)

JC PENNEY (JCP):
DAILY

BULLISH 1.27
PROJECTION

© BigCharts.com

The Globe.com (TGLO)

THE GLOBE.COM (TGLO): DAILY
BEARISH 1.27 PROJECTION

1.27

X

B

160

140

120

100

80

60

A

BROADCAST.COM (BCST): DAILY

40

BEARISH 1.27 PROJECTION

© BigCharts.com

10

5

Millions

99   Feb   Mar   Apr   May
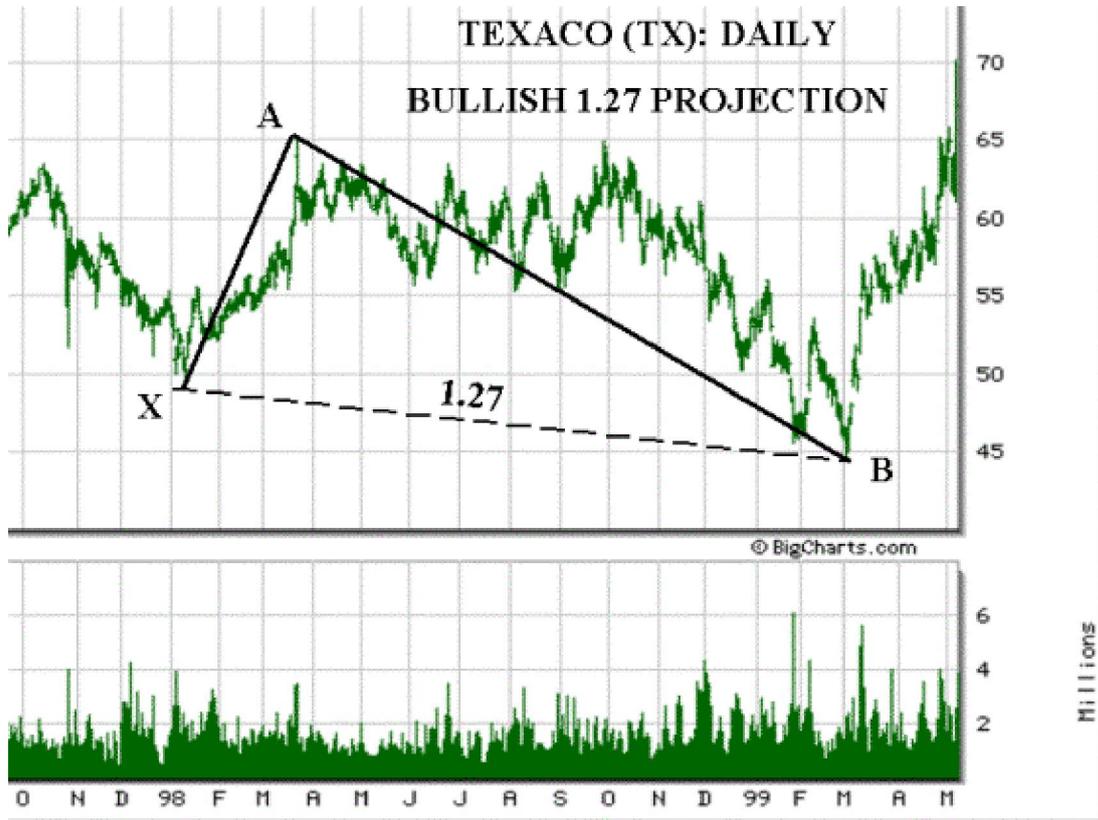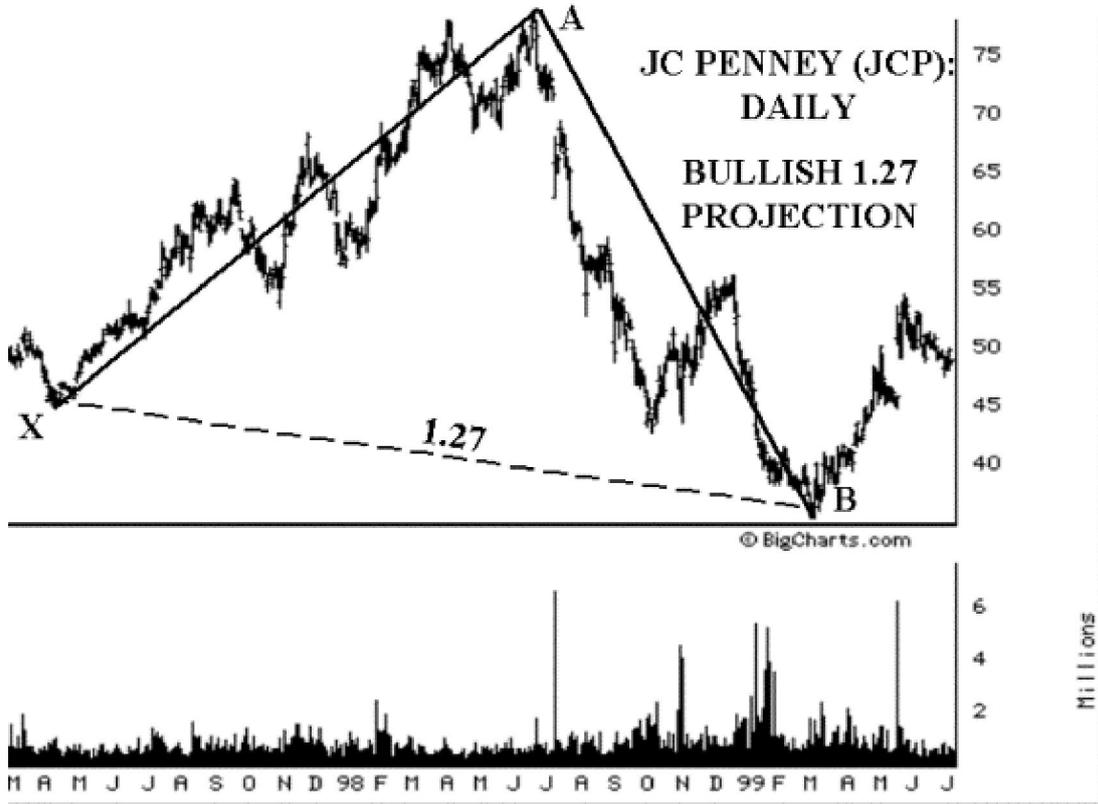
Hilton Hotels (HLT)

HILTON HOTELS (HLT): DAILY

BEARISH 1.27 PROJECTION

Rambus (RMBS)

RAMBUS (RMBS): DAILY

BEARISH 1.27
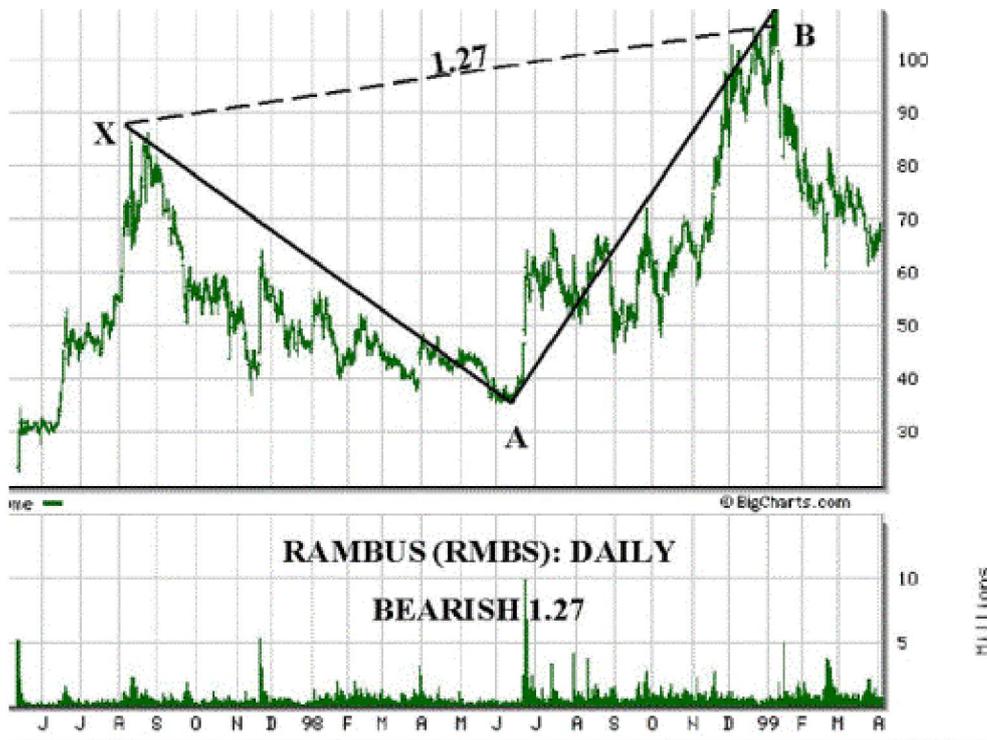
Silicon Graphics (SGI)

Micron Technology (MU)

MICRON TECHNOLOGY (MU): DAILY

BEARISH 1.27 PROJECTION

Education: Fibonacci Numbers

1.618 Projection

   The 1.618 projection indicates exhaustive price action. When a stock exceeds a 1.618, it frequently represents extreme price action that can be difficult to sustain.   A stock that rallies beyond a significant 1.618 can be considered overbought. Meanwhile, a stock that declines past a significant 1.618 can be considered oversold. The 1.618 is especially effective when other harmonic numbers converge in the same area.

Bullish 1.618 Projection: Buy at B!   Bearish 1.618 Projection: Sell at B!
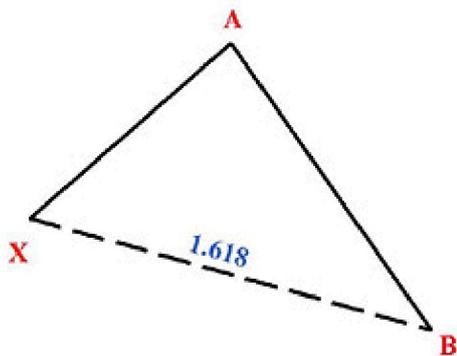
American International Group
General Electric
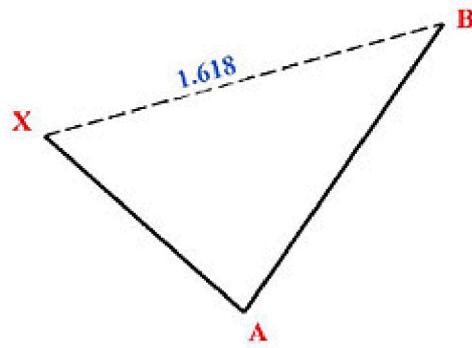
Oracle
Medtronic

AMERICAN INTERNATIONAL GROUP
(AIG): WEEKLY

BULLISH 1.618 PROJECTION

© BigCharts.com
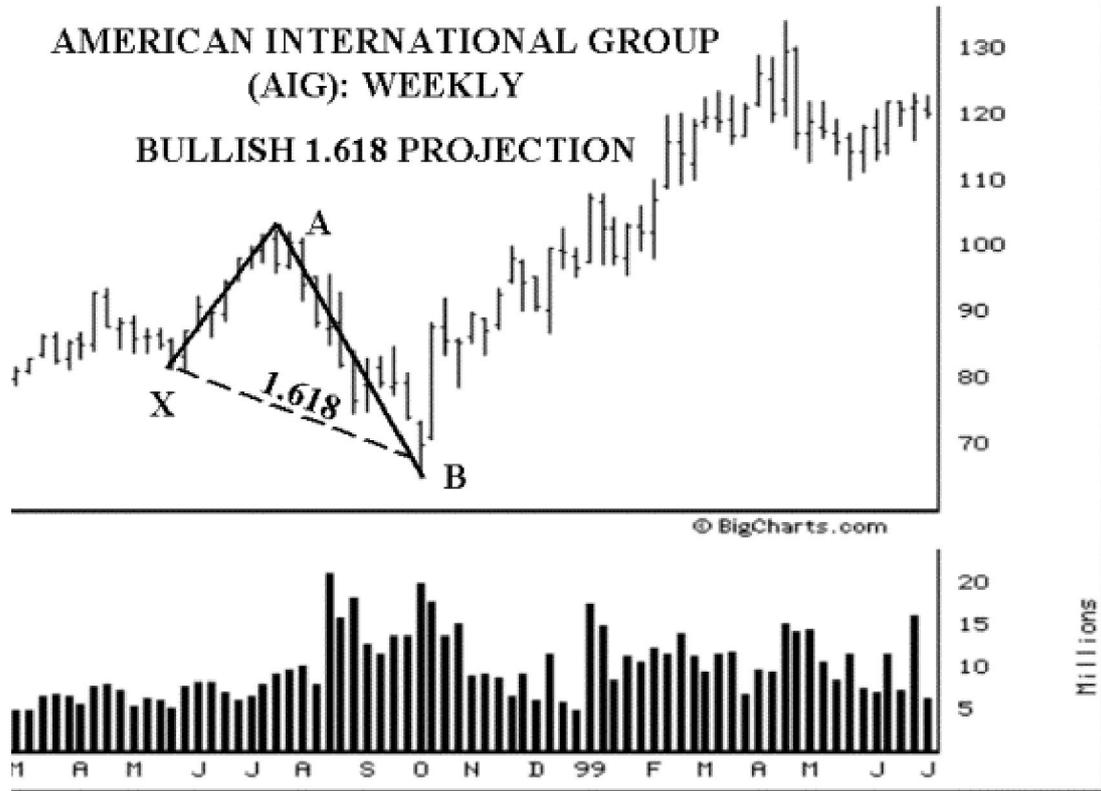
General Electric (GE)

GENERAL ELECTRIC (GE): DAILY
BULLISH 1.618 PROJECTION
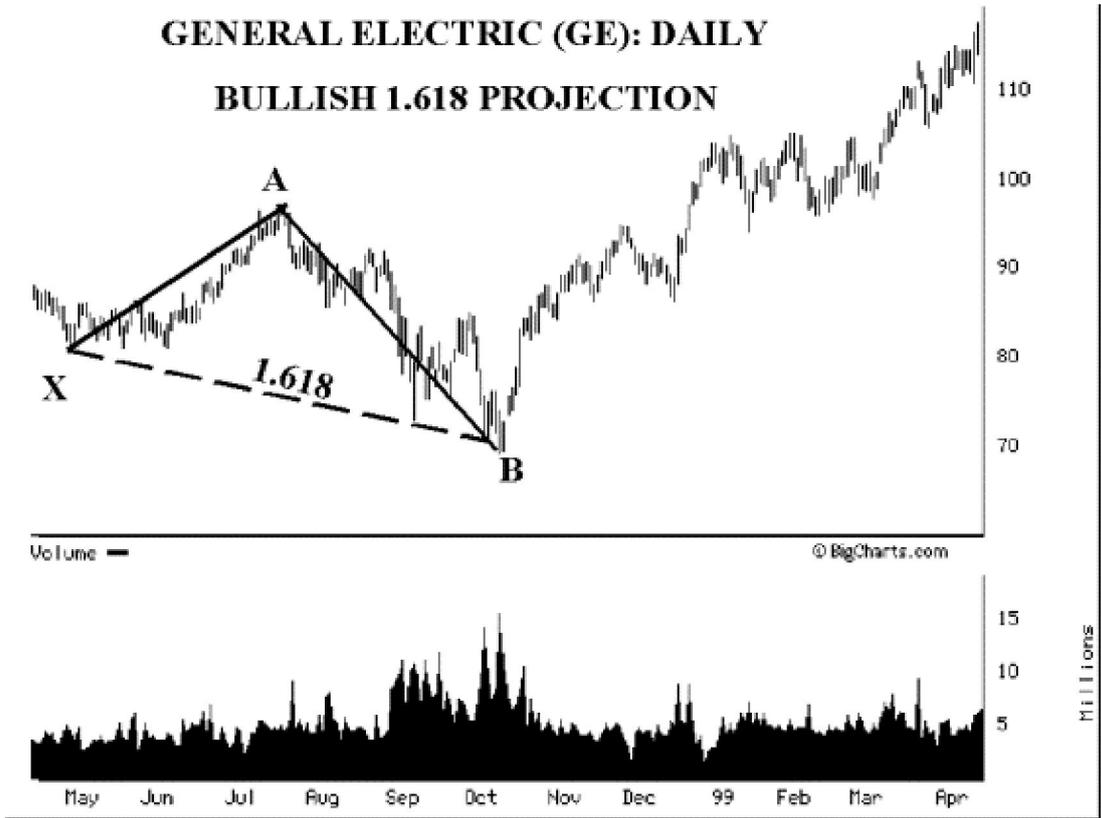
Oracle (ORCL)

Medtronic (MDT)

MEDTRONIC (MDT): WEEKLY
BEARISH 1.618 PROJECTION
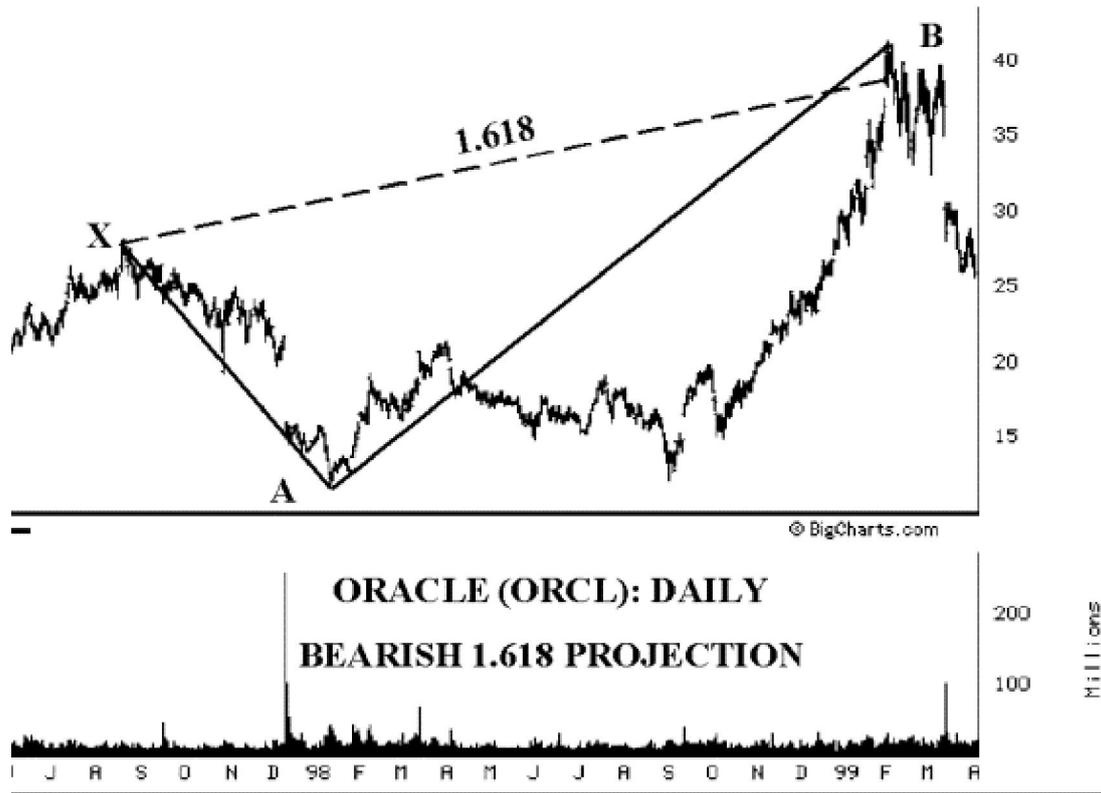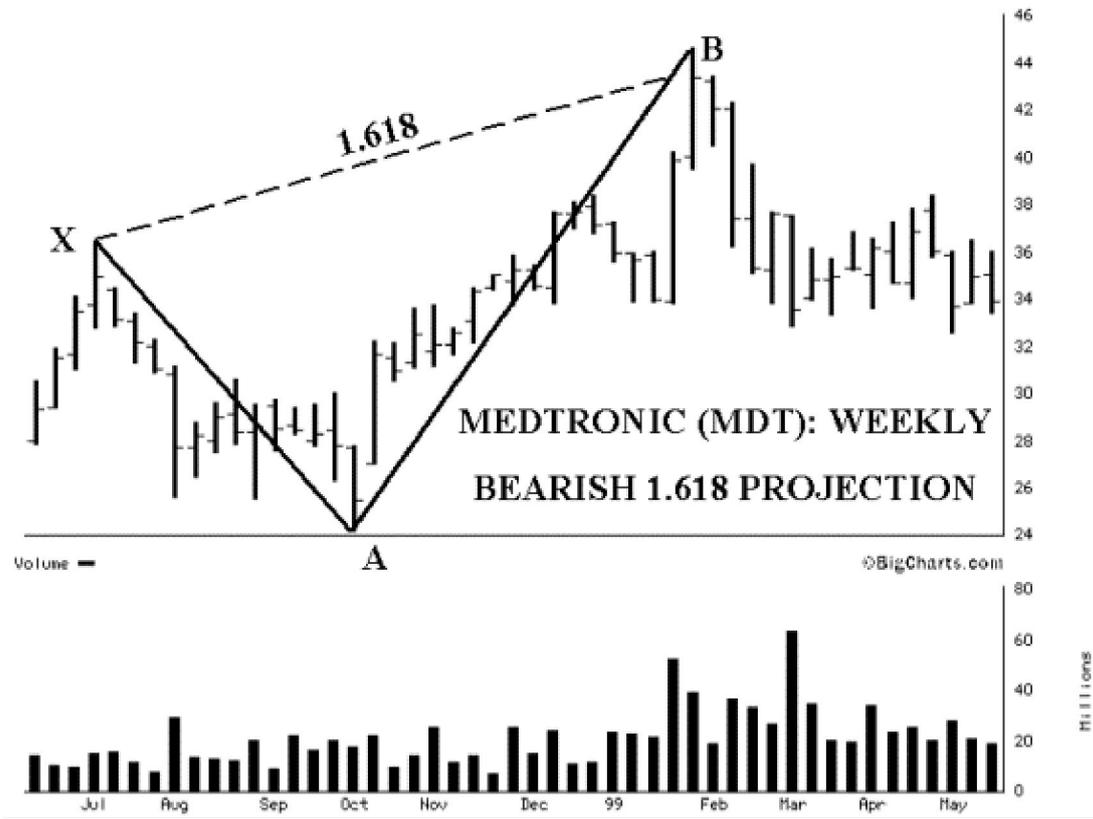
Education: Fibonacci Numbers

0.382 Retracement

The .382 is mostly associated with a sharp pullback or retracement after a strong move. The .382 retracement occurs when the price action is extreme. The quick and sudden nature of the .382 pullback often leads to another extreme price move in that same direction. Usually, a .382 retracement of a price move is followed by a 1.618 of that pullback. This means that if the .382 retracement is equal to 1, then the following price move should be at least 1.618. Sometimes, when the price action is very extreme the following price move can be 2.24, 2.618 or 3.14 of that retracement. The most important concept of the .382 is that it is associated with extreme price action.

Bullish 0.382 Retracement   **Bearish 0.382 Retracement**
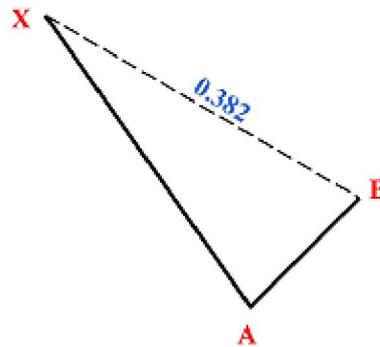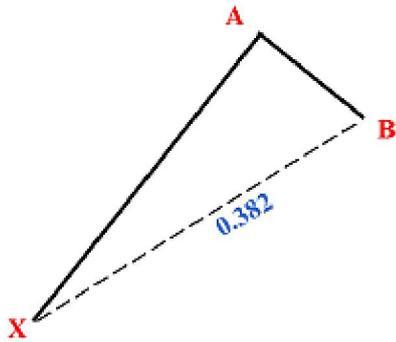
Scientific Atlanta   Etoys

Scientific-Atlanta (SFA)

SCIENTIFIC-ATLANTA (SFA): DAILY

BULLISH .382

© BigCharts.com

Etoys (ETYS)

ETOYS (ETYS): DAILY
BEARISH .382

Education: Fibonacci Numbers

Extreme Numbers

       The extreme numbers consist of 2.24, 2.618, 3.14. These numbers should be utilized when a stock's price action has exceeded the 1.618 projection. When the 1.618 has been "blown out," the price action can be very volatile. Reversals off the extreme numbers can be quite dramatic, quickly turning after hitting an extreme projection. The extreme numbers are best used when complementing more significant Fibonacci levels. Patterns, like the Crab and the Butterfly, incorporate these harmonic measures and are an excellent means of pinpointing execution points.

Bullish Extreme Projections   **Bearish Extreme Projections**
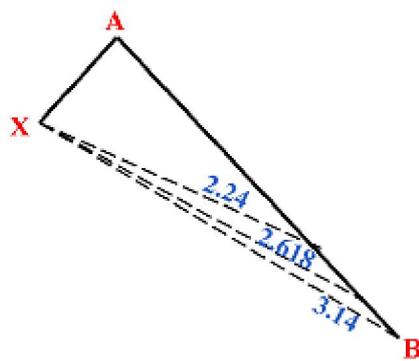
Becton-Dickinson 2.24
General Motors 2.618
CBS 3.14
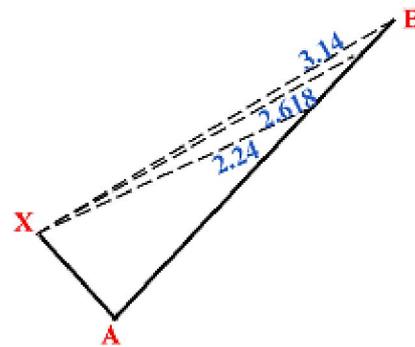
Microsoft 2.618
Legato 3.14

Becton-Dickenson (BDX)

97

BECTON-DICKENSON
(BDX): DAILY

BULLISH 2.24

General Motors (GM)

98

GENERAL MOTORS (GM): DAILY
BULLISH 2.618

© BigCharts.com

99
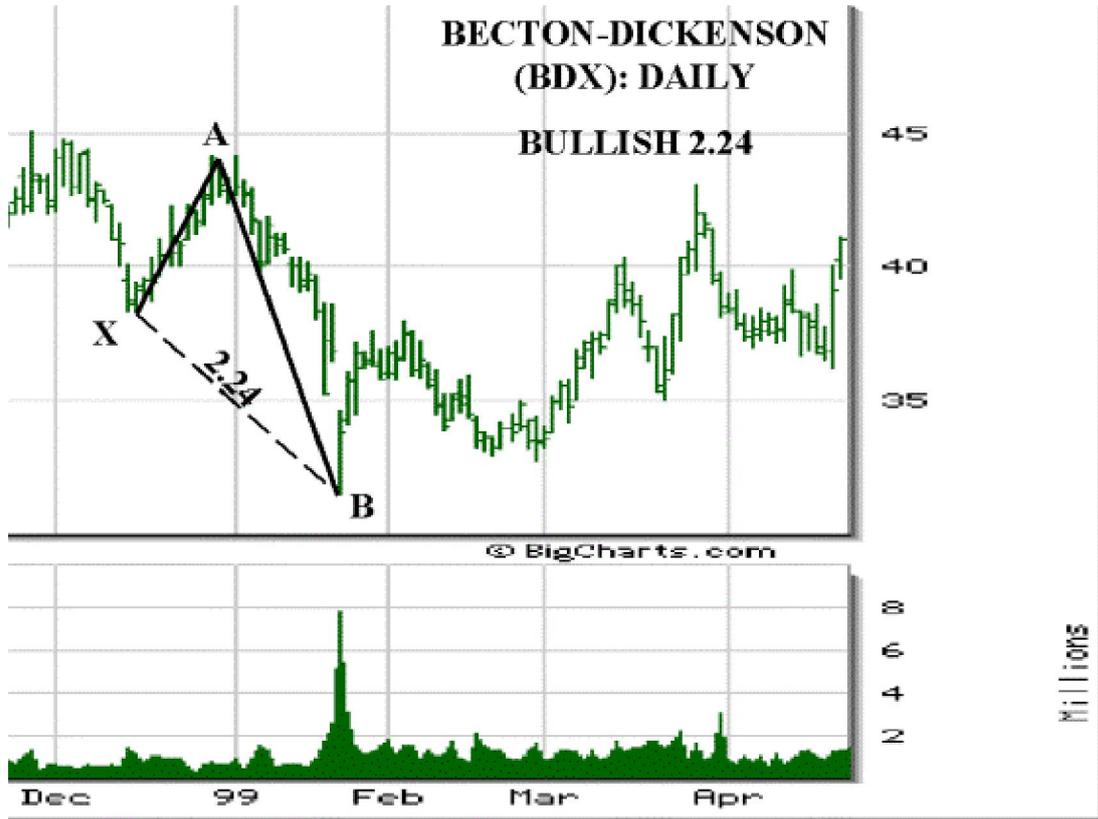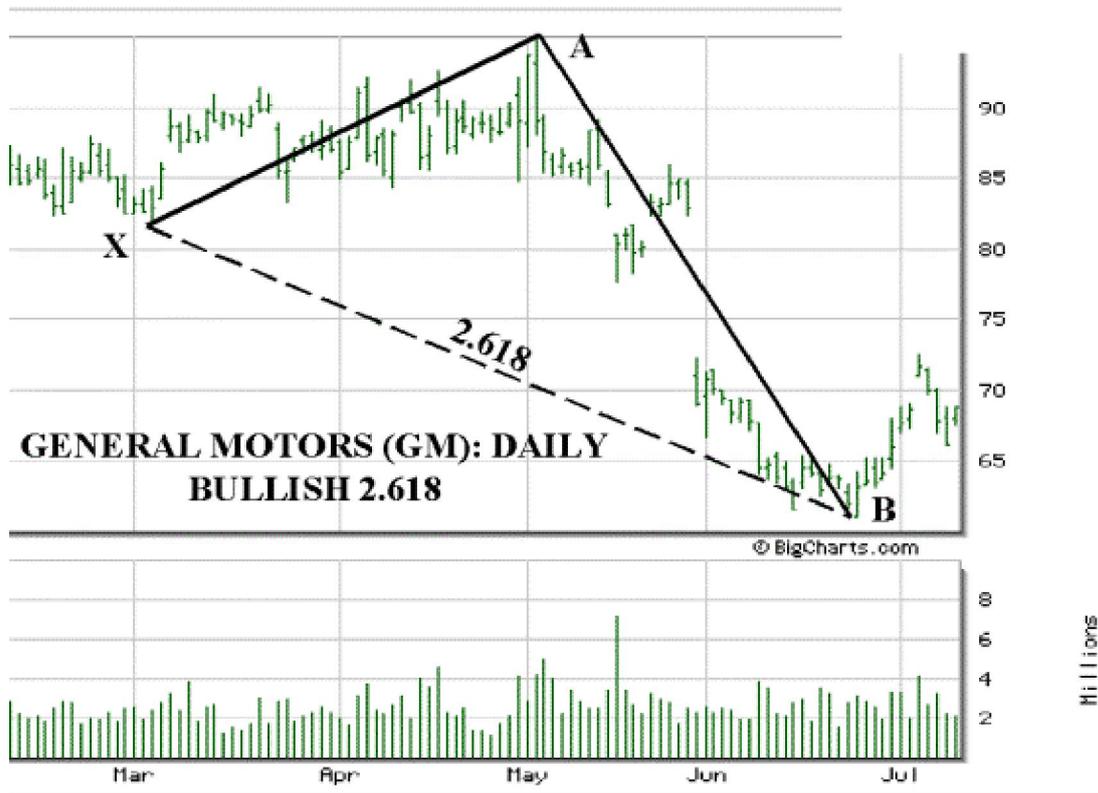
CBS (CBS): DAILY

BULLISH 3.14
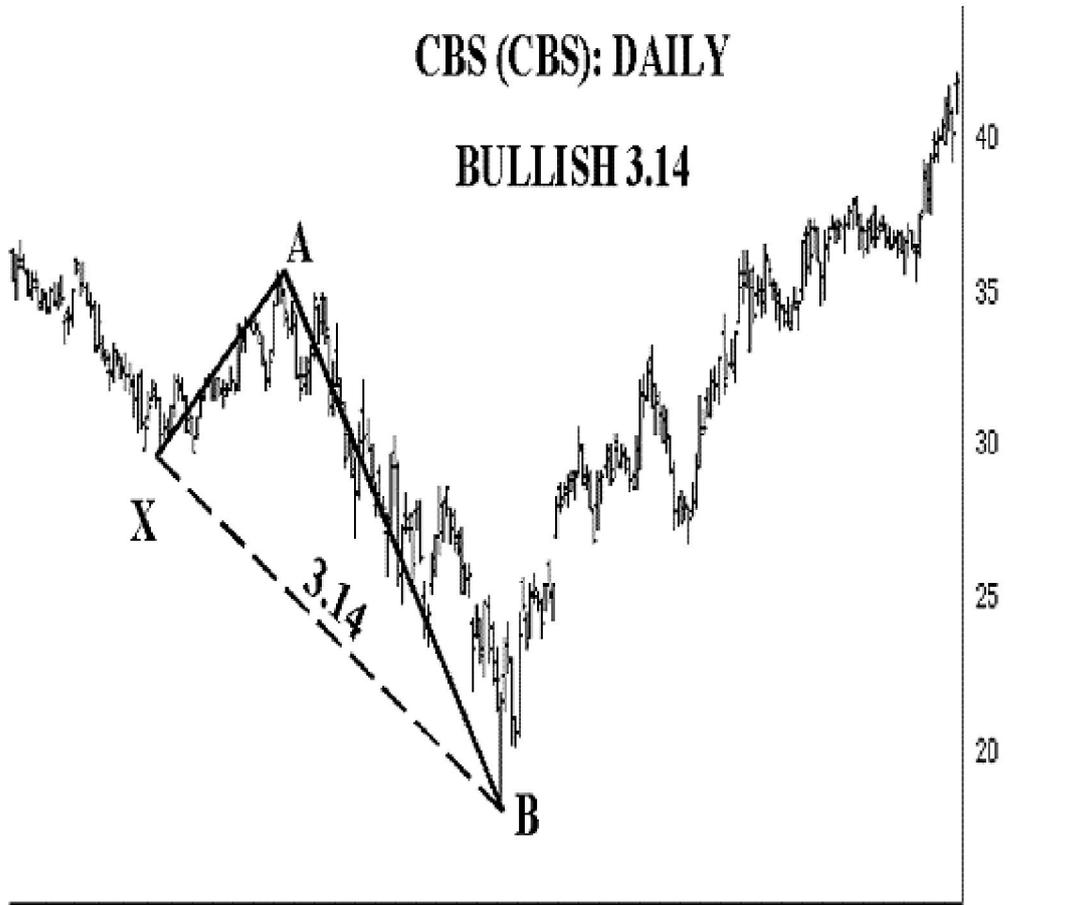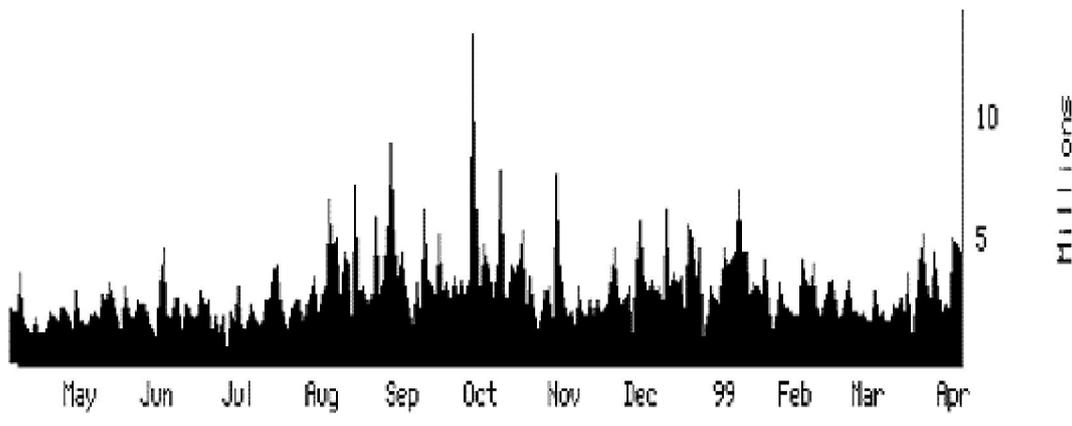
Microsoft (MSFT)

MICROSOFT (MSFT): DAILY

BEARISH 2.618
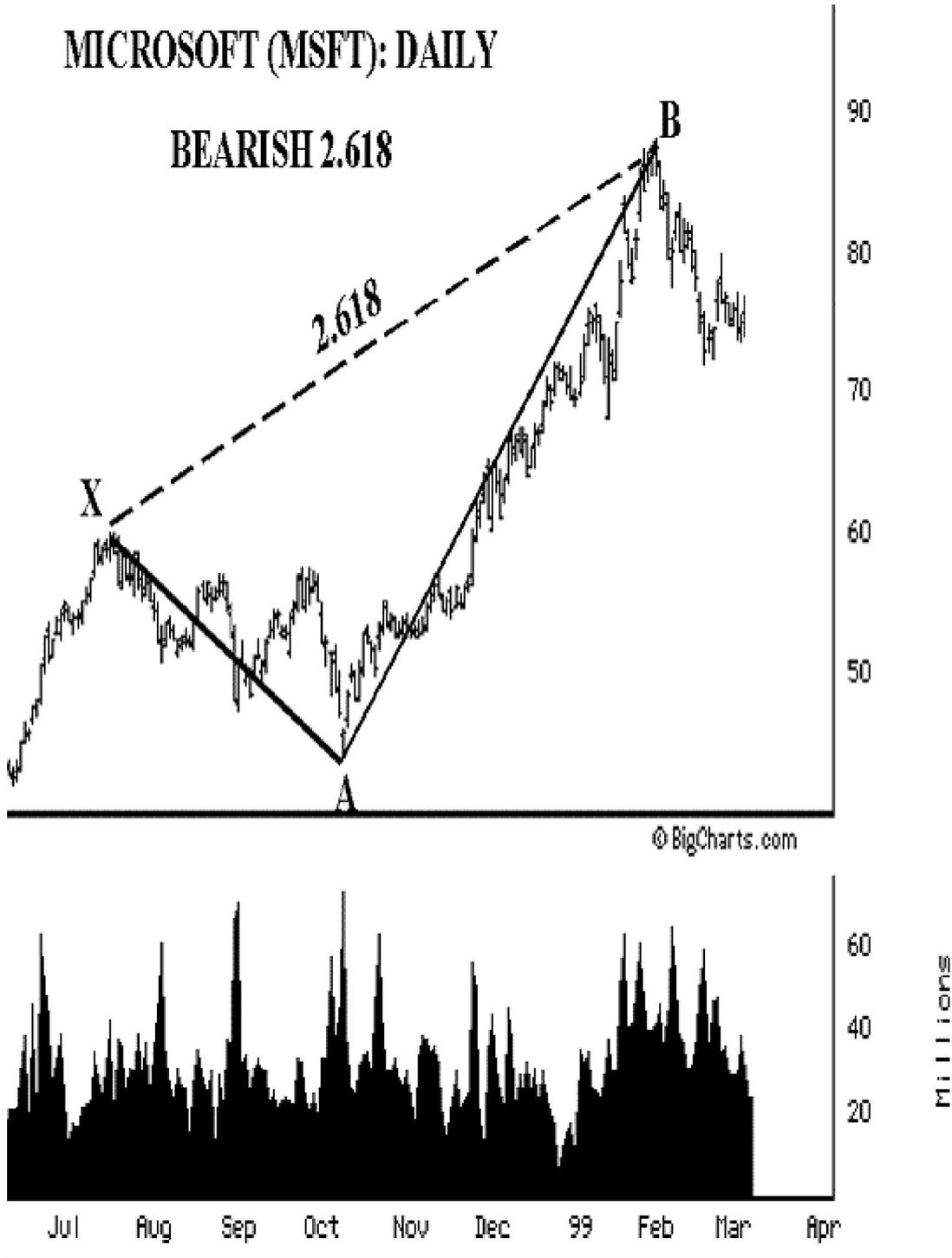
Legato (LGTO)

LEGATO (LGTO): WEEKLY

BEARISH 3.14

3.14

X

A

B

© BigCharts.com

A S O N D 97 F M A M J J A S O N D 98 F M A M J J A S O N D 99 F M A
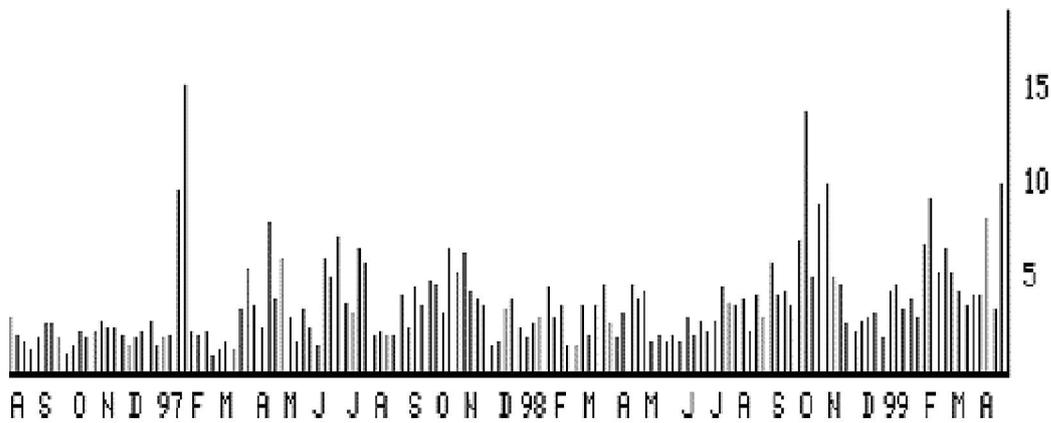
0.886 Retracement

The 0.886 retracement is derived from the Fibonacci sequence as the square rootof the 0.786. The 88.6% retracement is extremely effective when combined withother specific retracements. For example, a Crab with a B point beyond the88.6% retracement of the XA leg usually signifies an eventual move andcompletion of the pattern predominantly at the 1.618 projection - not the1.27.To read more about this "deep retracement" and the 0.886 in theButterfly pattern, go to:"TheDeep Crab".

Bullish 0.886 Retracement   **Bearish 0.886 Retracement**
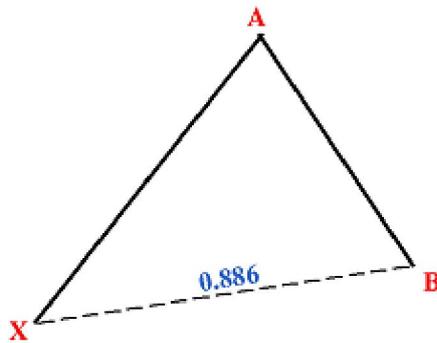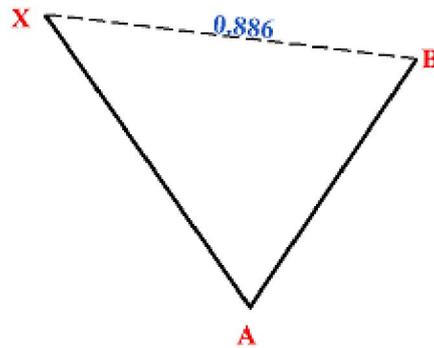
Banc One   TriQuint Semiconductor
Ericsson
Exodus

        I first noticed the 0.886 retracement in the Deep Crab pattern. A friend ofmine, Jim Kane identified this point as an 0.886 retracement. He quantifiedthe retracement, as the square root of the 0.786. After checking many examplesof Deep Crab patterns, the 0.886 B point retracement was frequently exact.Hence, it became the distinguishing metric for this pattern.

        The 88.6% retracement can help identify .786 failures. Quite often,if a setup completes at a 78.6 retracement and does not yield a sharp reversalin this area, the 88.6% can act as the last chance price level and reduce thetotal stop loss required in a trade. There are many instances when a stockclearly violates the .886 and signals the failure of a trade well before itactually occurs.

Banc One (ONE)

BANC ONE (ONE):
WEEKLY

BULLISH .886
RETRACEMENT

.886 @ 26 7/8

X

A

B

TriQuint Semiconductor, Inc. (TQNT)

TriQuint Semiconductor, Inc. (TQNT) Nasdaq Nat. Mkt.

© StockCharts.com

TQNT daily   5-Jan-2001 O:46.69 H:46.69 L:40.88 C:42.00 V:2.7M Chg:-4.38

.886   .886

BEARISH 88.6% RETRACEMENTS

Volume 2721000
EMA(60) 3697876

Ericsson (ERICY)

105

ERICSSON (ERICY):
60-MINUTE

BEARISH .886
RETRACEMENT

.886 @ 13 3/4

Exodus (EXDS)

EXDS 15-Minute

4:01 PM

.886

EXODUS (EXDS):
15-MINUTE

BEARISH 88.6%
RETRACEMENT

Volume

©BigCharts.com
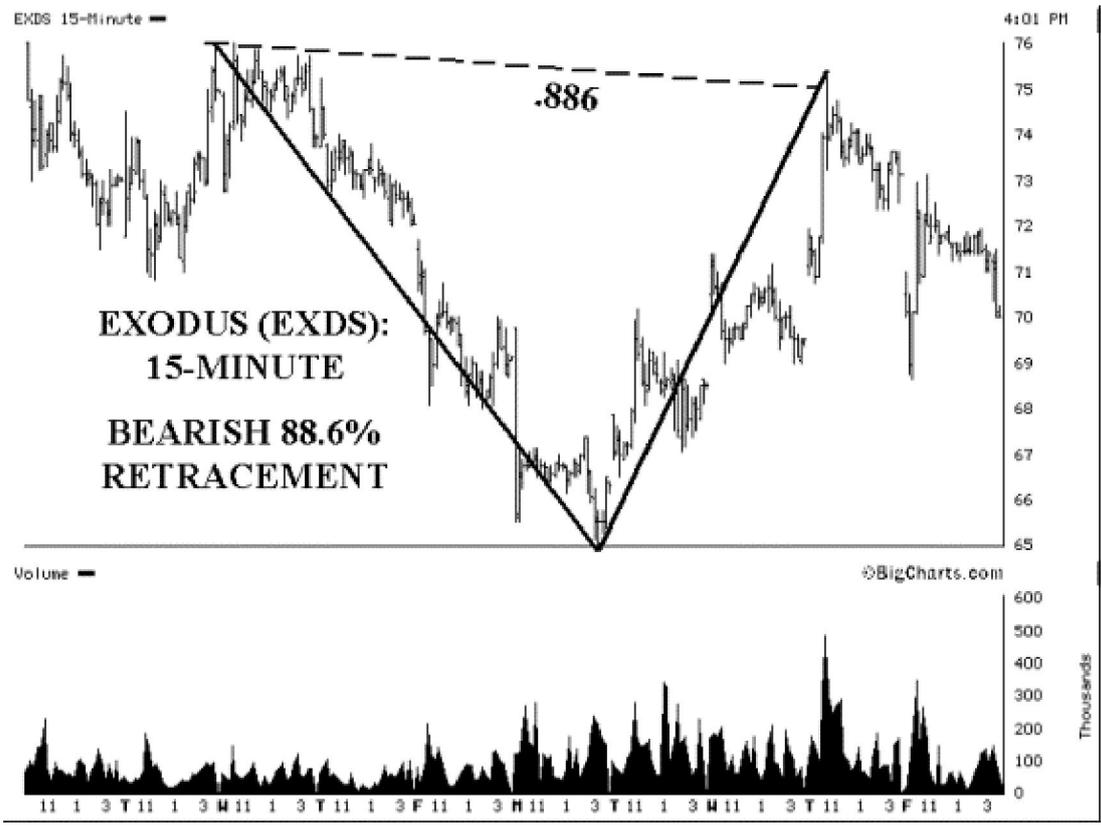
Education: Harmonic Research

This section exhibits some of the latest findings and presents new applications of Fibonacci Ratios and Price Pattern Recognition techniques. New articles will be posted periodically. It is recommended that these subjects be studied thoroughly before utilizing them in real trading situations.

Date	Title	Subject	Comments
01/01	"The Deep Butterfly"	.886 B point retracement in the Butterfly pattern	Must Read
11/99	Initial Public Offerings (I.P.O.s): Bearish	Looking for bearish setups after I.P.O.s come to market.	Great situation trade.
11/99	Contrarian News Stories: Bearish Set-up	Looking for bearish setups that coincide with bullish news announcements.	
11/99	"Intra-Day Chart Examples: Bearish	Bearish intra-day patterns	
11/99	Intra-Day Chart Examples: Bullish	Bullish intra-day patterns	
11/99	Prior Gaps in the Potential Reversal Zone	Prior unfilled price gaps that coincides with harmonic reversal zones.	Important trading tip.
11/99	Volume Exhaustion	Looking for extreme volume at a harmonic area.	

<p style="text-align:center">"The Deep Crab"</p>

Since the .786 retracement at the B point differentiates the Butterfly from a Crab, this area provides significant information about the Potential Reversal Zone. A precise .786 retracement at the B point would clearly guide an execution at the 1.27XA leg and signal the completion of a Butterfly pattern. However, there are many instances where the B point exceeds the .786 retracement. Sometimes, the B point can be as much as a 90-95% retracement. This alignment of pattern points usually results in a 1.618XA leg projection. Since the Crab is an extension pattern that only utilizes the 1.618XA leg, the 0.886 B point retracement presents another variation of the Crab pattern called, "The Deep Crab.".

This "deep retracement," where the B point trades beyond the .786 retracement but it does not exceed the initial point at X, is a critical indicator of the corresponding XA leg projection. I use the 0.886 retracement level to validate the "deepness" of the B point and determine the validity of the Deep Crab pattern.

The 0.886 is the cube root of the 0.618 and is an effective retracement when combined with other Fibonacci numbers. (To read more about this Fibonacci number go to: 0.886.)

It is important to be mindful of the BC projection in this setup, as it usually requires an extreme projection. The BC projection will usually require a 2.00, 2.24 or 2.618 to define the Potential Reversal Zone.

Deep Bullish Crab	Deep Bearish Crab

<p style="text-align:center">Amex Drug Index ($DRG)
Mirage</p>

<p style="text-align:center">AT & T
Dow Jones Industrials 1990</p>
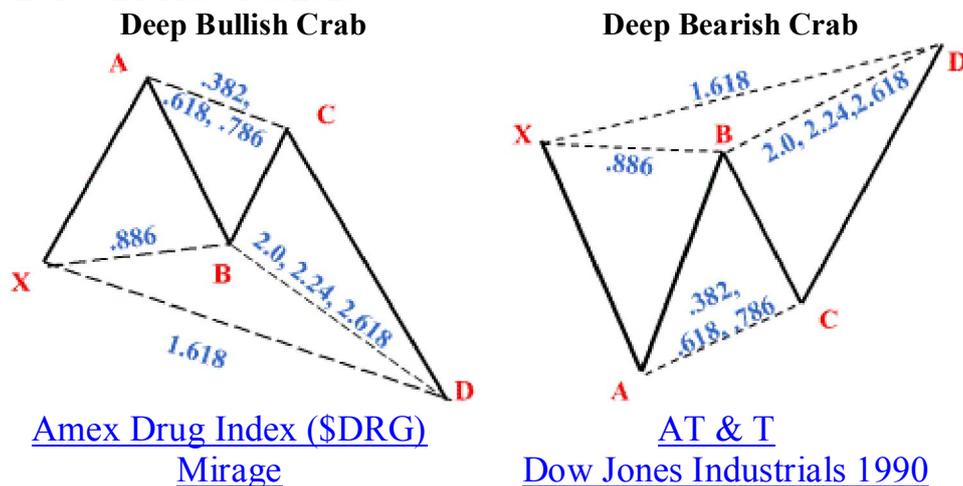
The interesting aspect of the 0.886 B point retracement is that the reversal usually occurs at the 1.618XA. This happens for two reasons:

- The .886 retracement sets up for a larger AB=CD pattern that is usually above the 1.27XA;
- When the stock eventually breaks above that B point, it usually signifies a move beyond a double support (bullish setup) / resistance (bearish setup) area that

creates a larger move beyond the 1.27

Remember, an 0.886 retracement is defined by the B point in the Crab. If the B point retraces to .886 of the XA leg or greater, and DOES NOT exceed the initial point at X, the corresponding entry point will most likely occur at the 1.618 of the XA leg.

Amex Pharmaceutical Index (DRG)

BULLISH BUTTERFLY WITH .886 B POINT

Mirage Resorts (MIR)

MIRAGE RESORTS (MIR): WEEKLY

1.618 BULLISH BUTTERFLY

© BigCharts.com

AT&T (T)

AT&T (T): WEEKLY

DEEP BEARISH BUTTERFLY
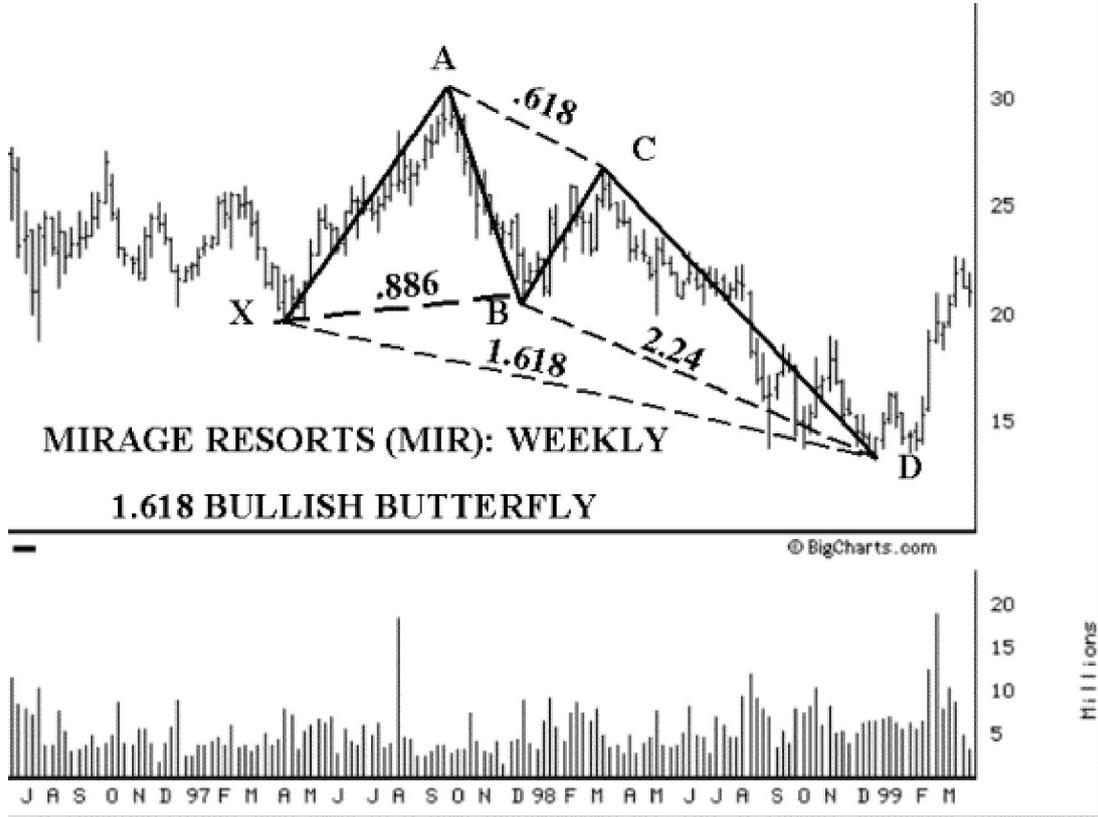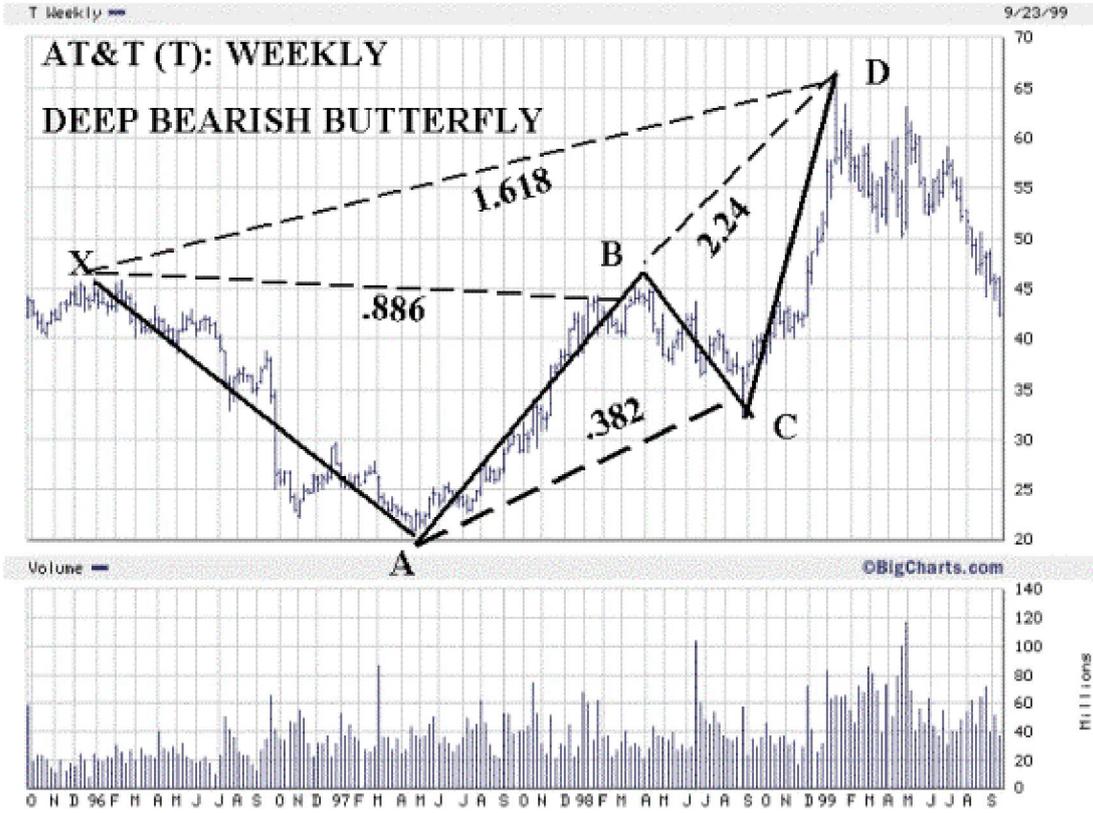
Dow Jones Industrials (DJIA)

Education: Harmonic Research

Initial Public Offerings (I.P.O.): Bearish Examples

The initial public offering market is a very interesting area to trade. Many issues rally several hundred percent from their offering price in their first day of trading, providing astronomical returns for those who got in on the ground floor. The problem for the general public is that access to such offerings is very difficult. Usually, these I.P.O.s are reserved for preferred clients and information on these offerings can be very limited.

Although it is difficult to get in on the ground floor for most I.P.O.s, there are many significant opportunities that materialize shortly after these issues trade publicly. In fact, the best opportunity in an I.P.O. usually occurs within a few days to a few weeks after the company goes public.

The Bearish I.P.O. Scenario:

The typical I.P.O. scenario involves an enthusiastic rally on the first day above the "Offering Price." It is during this post-I.P.O. exuberance (hangover) that many excellent bearish opportunities materialize. In fact, there are many I.P.O.s that form very bearish patterns within a few days to a few weeks after their first day of trading. Therefore, it is important to keep these issues on the "radar screen" and watch for potential opportunities..

Waterhouse Securities (TWE)

The first example of Waterhouse Securities clearly demonstrates an ideal bearish opportunity in an I.P.O. On its first day of trading, the stock rallied sharply above its "Offering Price." Despite the rally, within a few weeks after the I.P.O. the stock formed a near perfect bearish Gartley that resulted in quite a sell off. After a month of trading, Waterhouse Securities lost all of the initial gain and was well below the offering price.
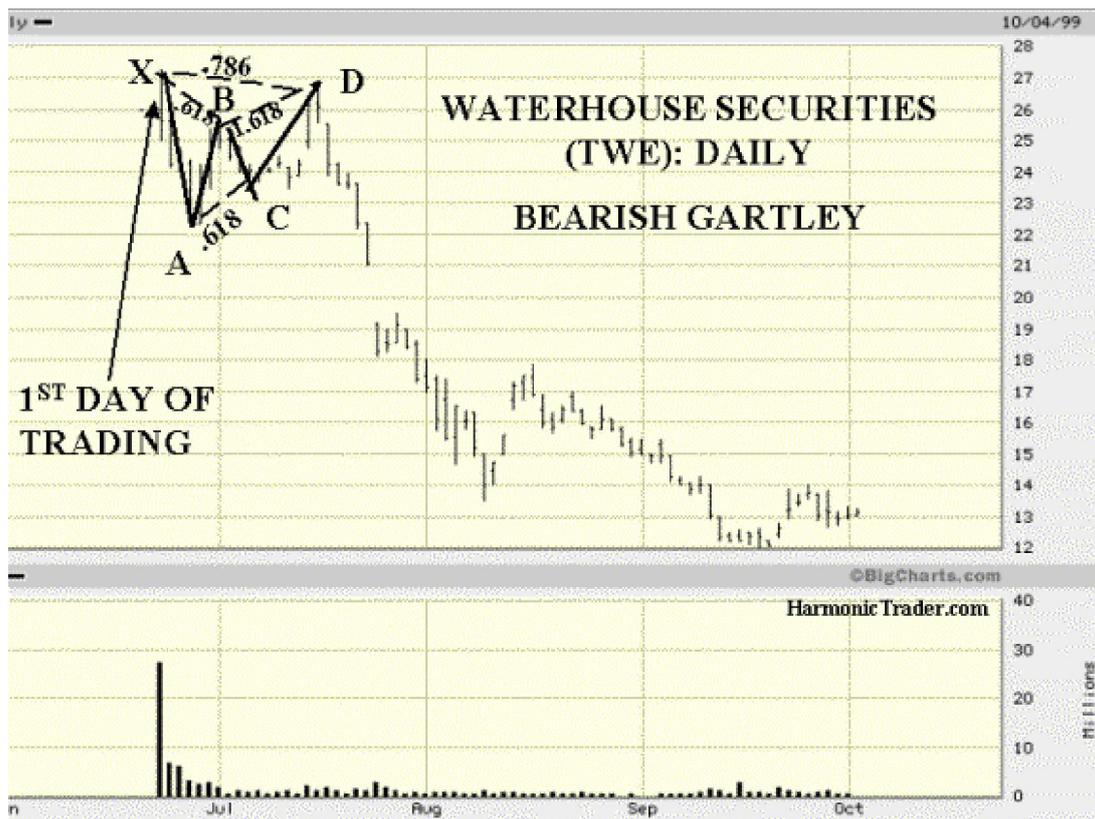
Although these circumstances do not exist in every I.P.O., it is important to examine these situations in case such clear opportunities materialize – because they frequently do!

McAffee Associates

McAffee Associates formed a very bearish Gartley on this 15-minute chart. The stock opened well above its "Offering Price." But, it quickly sold off. The interesting aspect of the chart is the clarity of the Gartley pattern. The stock reversed quite nicely off the potential reversal zone between $50 and $51 a share. The reversal resulted in an 8 point sell off within a few days after completing the pattern.

MCAF 15-Minute ▬   1:37 PM

1ST DAY OF
TRADING

MCAFFE ASSOCIATES (MCAF):
15-MINUTE
BEARISH GARTLEY

HarmonicTrader.com
©BigCharts.com
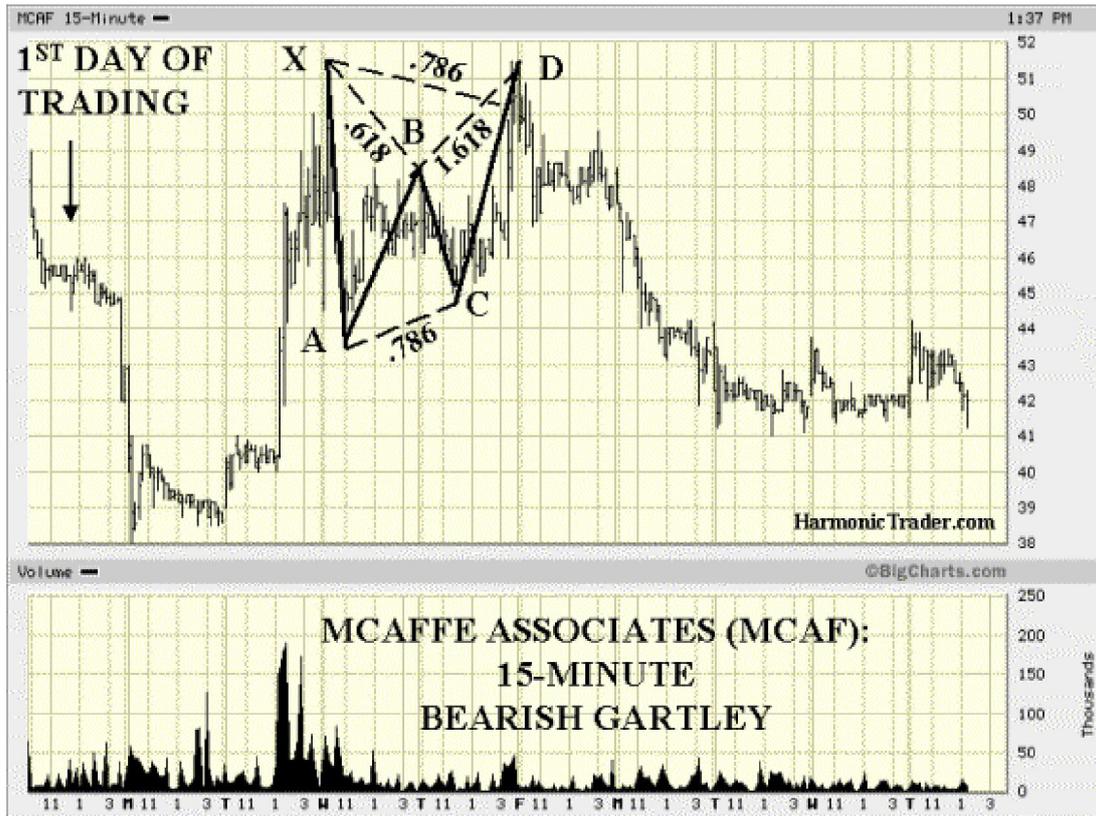
These examples demonstrate that I.P.O.s can yield very clear bearish opportunities. Although it may be difficult to keep track of a large number of I.P.O.s, it is easy to monitor the large public offerings that are well-publicized in the media. The most important consideration is to wait for clear patterns in these I.P.O. situations. But, when they do materialize, it is important to recognize these opportunities as especially significant.

Education: Harmonic Research

<u>Contrarian News Stories: Bearish Examples</u>

It is truly amazing how frequently major news announcements coincide with very harmonic set-ups. Quite often, a stock will form a very bearish pattern that reverses on a day that has incredibly bullish news. As a rule of thumb, these news stories are contrarian indicators. This means that if a bullish news story coincides with a bearish set-up, the most likely outcome is that the bearish pattern will be valid. It is important to respect these situations because it can be easy to get caught up in all of the bullish euphoria and forget about what the pattern is indicating.

<u>Amazon.com</u>

This example of Amazon.com demonstrates this situation very clearly. The stock rallied significantly in the weeks leading up to the bullish news announcement. Amazon.com formed a fantastic bearish AB=CD that coincided with the following bullish news release.

J.P. Morgan Initiates Coverage of eTailing Sector, Amazon.com

BUSINESS WIRE - December 09, 1999 13:01

SAN FRANCISCO, Dec 9, 1999 (BUSINESS WIRE) -- J.P. Morgan Securities Inc. equity research analyst Tom Wyman today initiated coverage of the eTailing sector with a 40-page industry report. He also launched coverage of the following stocks:

   -- Amazon.com (Nasdaq:AMZN) with a "BUY" rating and a 12-month price target of $160

In his report, "eTailing and the Five Cs: Building and eTailing Megabrand Through Content, Community, Customization, Commerce and Customer Care" Wyman calls eTailing "the new shopping paradigm that will forever change the way goods and services are bought and sold." However, he adds that not all eTailers are created equal: "The competitive pricing of the Internet and low barriers

118

to entry mean that in the emerging eTailing battle, brand
equity matters as never before. Those that create
discount-oriented commerce-only web sites will likely
become roadkill on the eTailing superhighway."

"Competing on price is not a sustainable competitive
advantage over the Internet in our view," says Wyman. "We
believe the winners will be those eTailers that build
their brands by creating a 'destination' online store
experience known for great selection, information,
customer service and prices that meet -- but do not
necessarily beat -- bricks-and-mortar-prices."

J.P. Morgan is a global financial firm with a growing
technology, media, and telecom investment banking and
equities practice. The firm has more than 150
professionals worldwide dedicated to this business and, in
the United States, has teams in San Francisco, New York,
and Los Angeles.

And now for the reality :

Clearly, Amazon.com formed a distinct bearish pattern that reversed almost
exactly off the completion of the AB=CD. Within the following few days, the stock
sold off sharply.

BULLISH NEWS RELEASE

AMAZON.COM (AMZN): DAILY
BEARISH AB=CD

These situations materialize frequently. It is important to "trust the pattern" and ignore the news story. One way to look at such a situation is to ask yourself: "With all of the bullish news, how much better can it get?" After witnessing a few of these situations unfold, you will begin to realize that such news stories are contrarian indicators, especially when they coincide with very clear patterns.

Education: Harmonic Research

DayTrading: Bearish Intra-day Chart Examples:
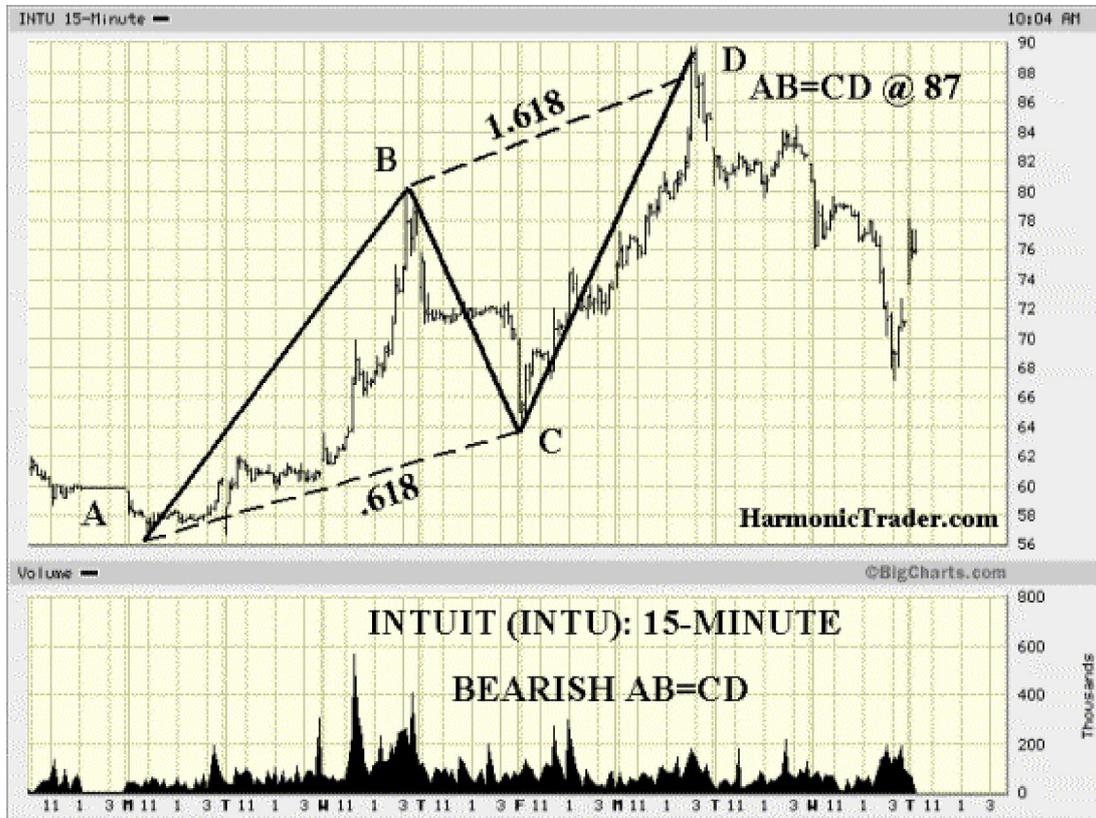
Education: Harmonic Research

Day Trading: Bullish Intra-day Chart Examples:
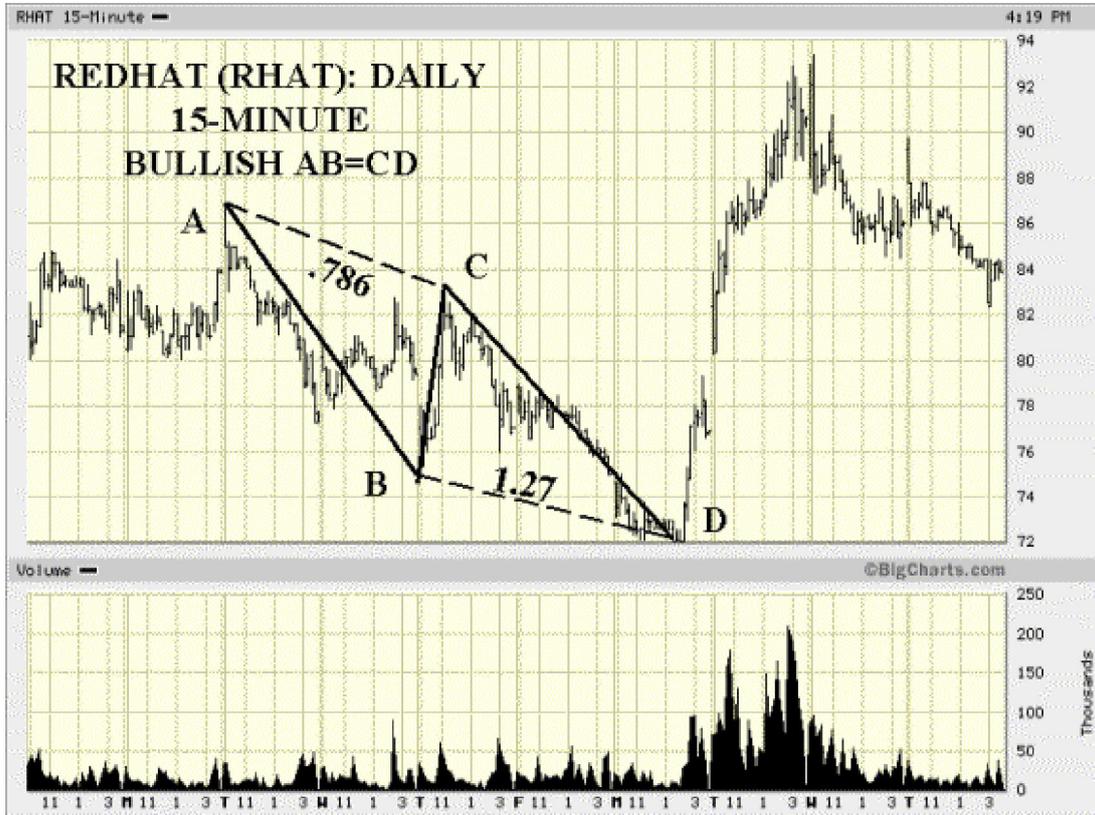
Education: Harmonic Research

Prior Gaps in the Potential Reversal Zone

Once a potential reversal zone is identified, it is important to look for any prior gaps in a stock's price action that corresponds with this area. Often, a prior gap will get filled when it occurs within a potential reversal zone. I utilize a rule of thumb, which states that most prior gaps get filled – sooner or later. Although I can not provide exact statistical evidence to prove this rule valid, I can state upon observing thousands of charts that prior gaps are filled more than they are not. Therefore, prior gaps provide even further indication of a potential reversal.

This chart of Applied Materials demonstrates the effectiveness of using a prior gap to confirm a potential reversal zone. The stock formed a bearish Gartley that had three harmonic numbers and a prior gap within a very tight area.

POTENTIAL REVERSAL ZONE

X

.786

.618

B

1.27

D

PRIOR
GAP

.786

A

C

APPLIED MATERIALS (AMAT): DAILY © BigCharts.com

BEARISH GARTLEY WITH PRIOR GAP
IN THE POTENTIAL REVERSAL ZONE

Mar   Apr
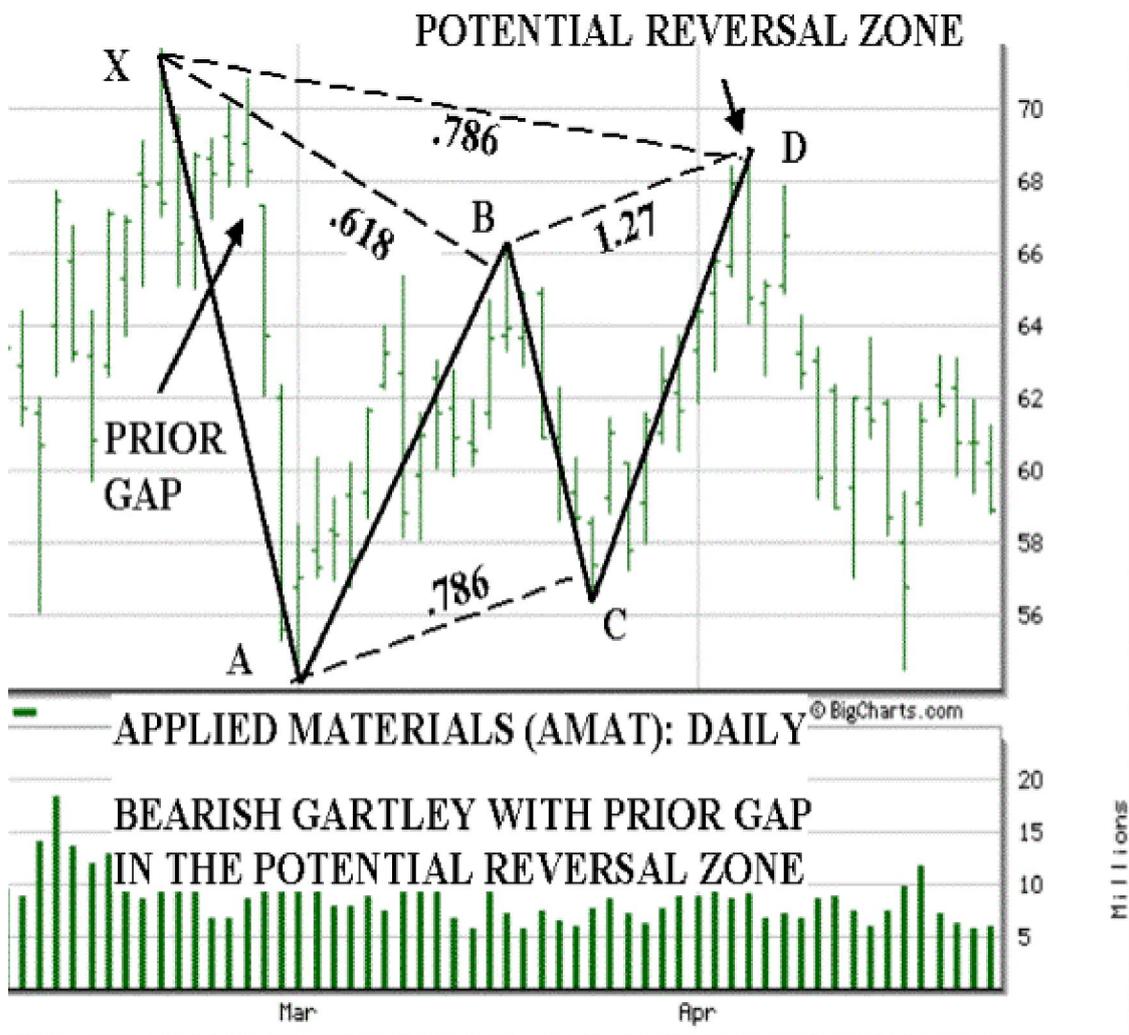
    The Gartley pattern was very clear. The potential reversal zone consisted of: 1. .786XA at 68; 2. AB=CD at 69 13/16; 3. 1.27BC at 69 3/4. The prior gap converged nicely in this area, which was filled at 68 1/4. With all of these numbers in such a tight area, the probability for a reversal was quite high.

    The next chart also illustrates the importance of prior gaps in a potential reversal zone. Broadcast.com completed a very bullish Gartley that possessed a very harmonic area. The stock possessed five harmonic calculations and prior gap in this area.

BROADCAST.COM (BCST): DAILY

BULLISH GARTLEY WITH PRIOR GAP IN THE POTENTIAL REVERSAL ZONE

It has been my experience that prior price gaps generate some type of bounce. In combination with a potential reversal zone, prior gaps can provide excellent trading opportunities. The price action can be extreme in these areas, as reversals frequently occur sharply after filling the prior gap. But, these opportunities are especially significant

Volume Exhaustion

Volume can often provide a clear signal of potential reversals, especially when a stock hits a potential reversal zone. The most important concept of volume in the potential reversal zone is to focus on an extreme. When a huge volume spike occurs, either on the downside or upside, the price action can indicate a state of exhaustion. It is important to note that the reversal must occur very close to that exhaustion point. Although the evidence of a volume spike in the potential reversal zone does not always yield a reversal, its existence adds to the probability of a change in trend. It is important to be aware of such phenomenon, as greater indication of a reversal. Let's look at an example.

The following chart of Becton-Dickenson clearly illustrates how an extreme volume spike can signal a potential reversal at hand. This set-up was very harmonic, as it possessed two Butterfly patterns, two AB=CD patterns, and five harmonic calculations in the potential reversal zone.

This potential reversal zone contained five harmonic calculations that all converged around 33. Such a harmonic set-up is a highly probable reversal area. The

convergence of these numbers and the obvious volume spike indicated a significant area for a bounce.

Although the price action was quite strong on the day it hit the potential reversal zone, the price action and the volume exhaustion indicated a significant reversal in the works. Even if you waited a day for clear confirmation of the reversal, the set-up projected an important bottom in the stock.

The next chart of Broadvision clearly illustrates the significance of extreme volume. The stock completed an ideal bullish Butterfly in October 1998 and rallied 700% in the following six months.
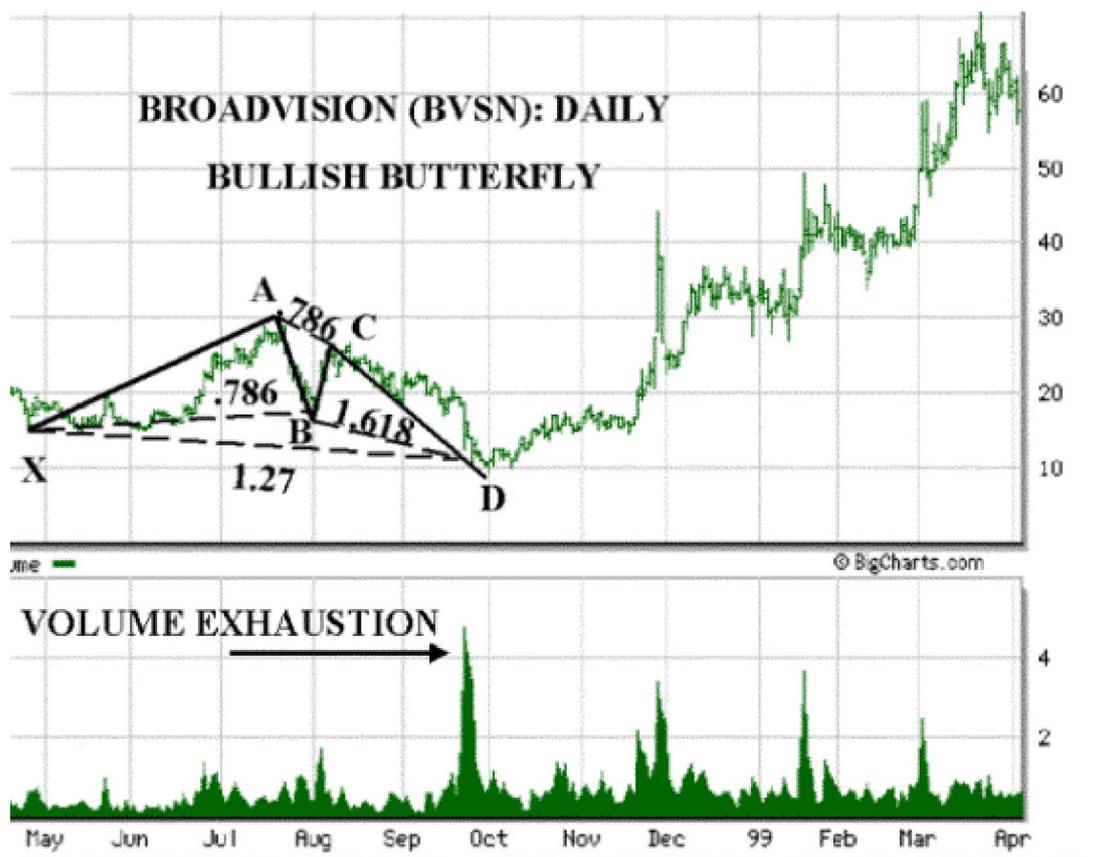
This pattern was a very ideal set-up because the potential reversal zone included several numbers just below 11. The 1.27 of XA was projected to complete at 10 3/4. This number was complemented by the 1.618 of BC at 10 15/16 and the 1.27 alternate AB=CD at 10 7/8. The convergence of these numbers indicated the general area for a potential buying opportunity. The extreme volume on the sell off complemented this area nicely. The stock hit the potential reversal zone and reversed a few days after the volume exhaustion.

This next chart of The Globe.com is a great bearish example of volume exhaustion coinciding with a harmonic set-up. In this example, the stock reversed almost exactly at the very significant 1.27 projection. The 1.27 was calculated at 42 5/16, and The Globe.com reversed at 42 3/4! This is truly amazing, especially since the stock rallied so sharply on this day. In fact, the stock was up nearly 15 points.
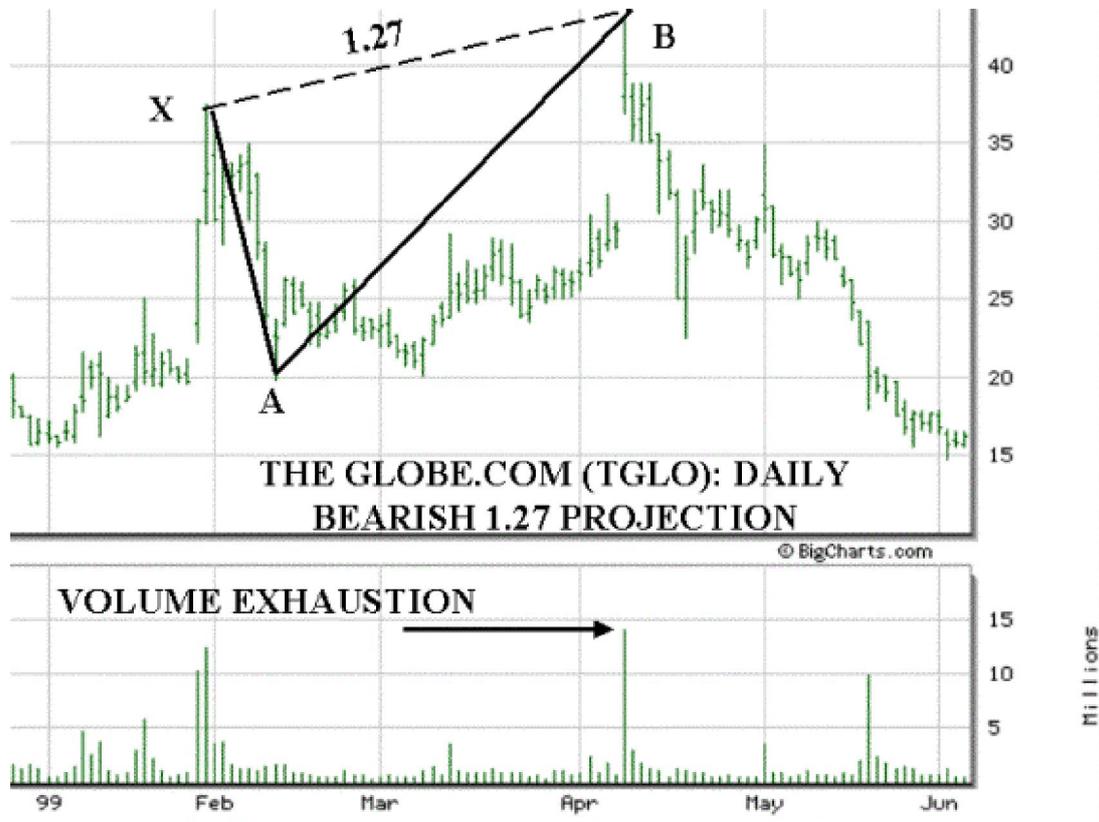
Despite the strong rally, the resistance of the 1.27 bearish projection and the extreme volume clearly indicated that the stock was extremely over-bought. In fact, the prior high at the end of January exhibited extreme volume as well.

Volume spikes frequently indicate a state of exhaustion. Although volume spikes will not appear in every set-up, such phenomenon complements a harmonic set-up very nicely. Utilizing this signal will help determine the validity of a potential reversal zone and provide greater assurance of a successful trade.

Education: Historical Studies

If there was ever a way to substantiate the value of Harmonic Analysis, these charts from the past provide valid proof that these methods have worked in the past and will continue to do so in the future. Other studies will be added on individual stocks and stock indices of historic harmonic price action.

Markets	Individual Stocks
Dow Jones Industrials	**Alcoa**
NASDAQ	**Ford**
SP 500	**J.P. Morgan**
	Johnson & Johnson
	Motorola
	Pepsi

Education: Historical Studies

Dow Industrials

1985-1999

The last 15 years has been quite a remarkable bull market. The long-term chart reveals the powerful up trend that has dominated the Dow Industrials. There are several notable aspects about this chart. The most interesting aspect of this chart is the change in trend angle that occurred in 1995. Clearly, the steady bull channel from the 1987 low changed dramatically. (See Dow 1994-1996) As this index continues to climb in the future, another consideration is the key long-term support area defined by the lower range of the channel. This channel is key to keep this bull-run intact. As long as the channel holds, the trend is still up.
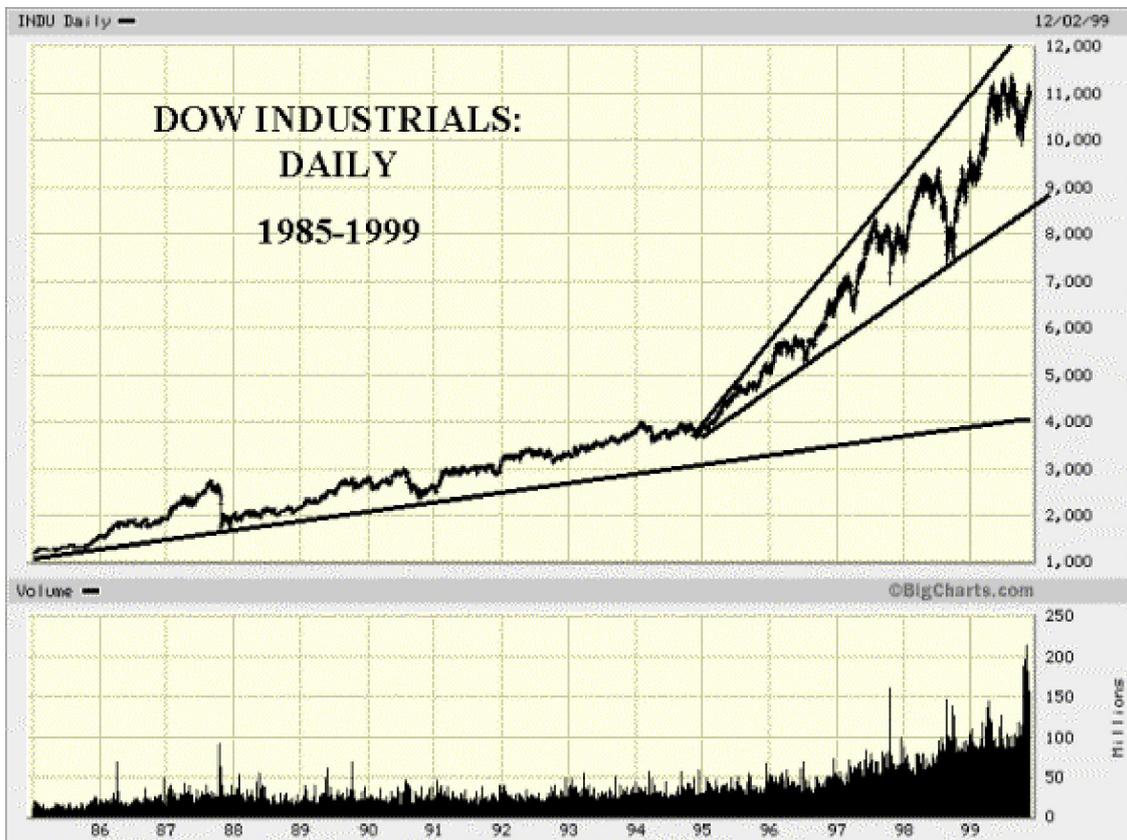
Although the long-term trend has been mostly in rally mode, the market has provided many instances where Fibonacci numbers and Price Patterns have defined critical turning points in the market.

1985-1987

The action during 1985 to 1987 was quite strong. During this time, the Dow rallied significantly with little pullbacks. In fact, the most severe retracement did not exceed 38.2%. In terms of Fibonacci percentages, this is quite small.   It was pretty much straight up the entire year!

In early 1986, the Industrials experienced some resistance. It formed a distinct bearish Three Drives pattern and pulled backed approximately 38.2% of the prior rally. The Three Drives pattern is a very powerful sell signal. This should have resulted in a nice retracement of the prior year's rally. However, the decline was quite negligible. The Industrials stabilized after the small decline and headed higher.

The most interesting aspect of this chart is the breakout that occurred in late 1986. It was a very sharp rally that blew through a prior resistance area as defined by the bearish Three Drives pattern. When a pattern like this is blown out, it suggests that the predominant trend is quite strong. In this case, The Dow rallied substantially in the months following this breakout.

1987-1989

The Dow Industrials completed a phenomenal run in August 1987 that resulted in

the crash that October. In fact, the index was over 40% from the beginning of the year to its August high. There were several interesting aspects in the price action of the Dow 30 during this time. Despite the extremely volatile price action, the Fibonacci numbers clearly quantified the price action. In the case of the 1987 top, the Dow formed a very distinct bearish AB=CD pattern. Each leg was approximately 500 points and formed over a four-month period.
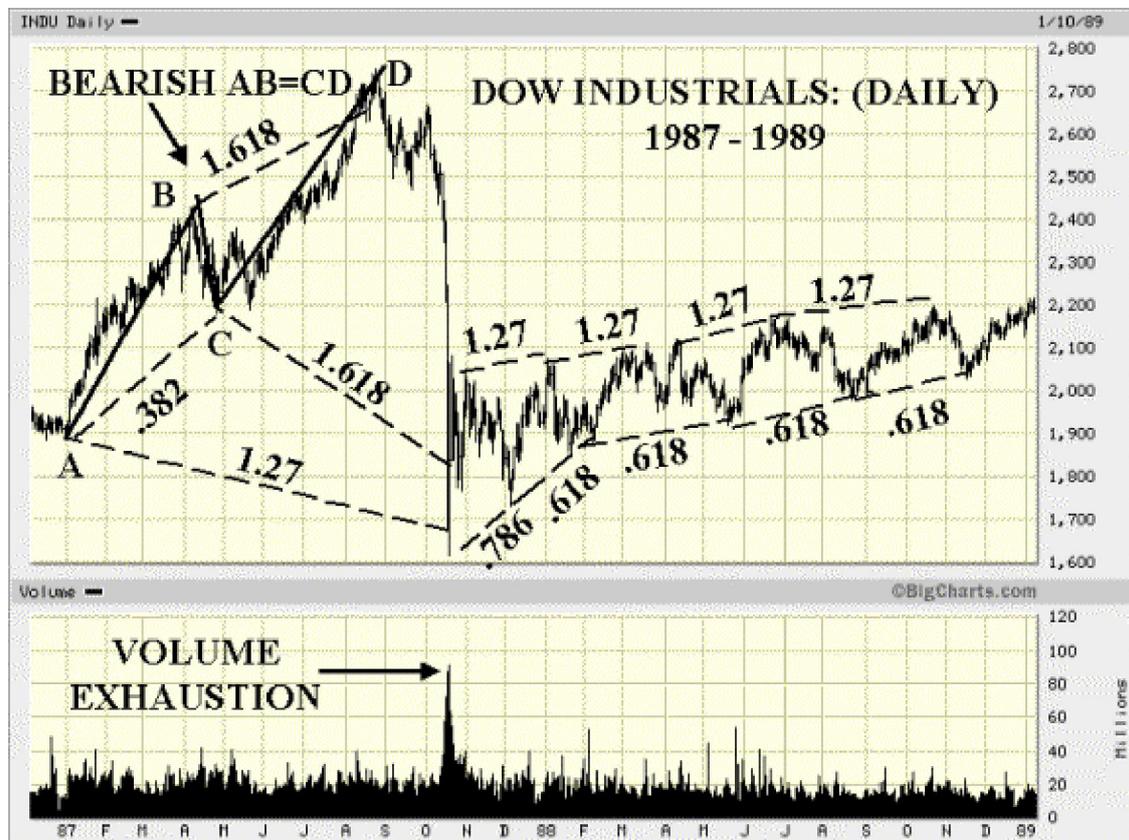
The crash that followed was quite severe and retraced the entire prior rally. The crash low was marked by two bullish Fibonacci projections – the 1.27 and the 1.618. These projections in combination with the clear volume exhaustion were good indications that the Dow Industrials found a bottom.

After the low was established in October 1987, the following rally was very interesting. The index retraced to either the .618 or .786 of the prior rally without breaking down. This price action was very significant in establishing a base for the next move to new highs.

1989-1992

After the Dow stabilized after the 1987 crash, it made another run to new highs. The index rallied steadily throughout 1989 and 1990 before topping out just above 3000. The short-term top in 1990 was marked by a clear bearish Butterfly that yielded a

sharp decline. The reversal that occurred after the completion of the pattern was quite sharp. The Dow Industrials lost 20% in three months.

Despite this decline, the index found support at two important Fibonacci calculations – the 1.27 of the bearish Butterfly and the .786 of a less critical low from the beginning of the year.
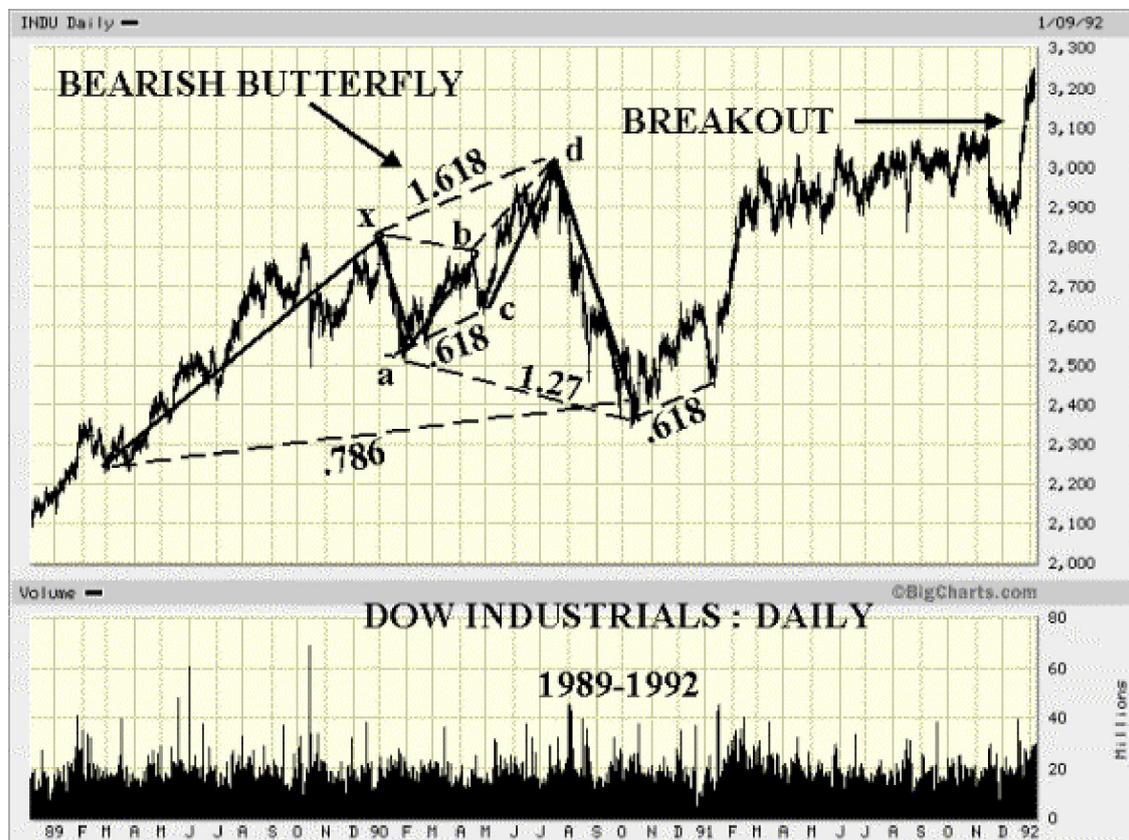
The most significant aspect of this chart is the breakout at the end of 1991 above the prior bearish Butterfly. This is a good example of the price action indicating strength in the predominant trend.

1992-1994

The Dow was quite strong throughout this time period. The clearest aspect of this chart is the strong up trend that existed. In 1993, the Dow continually found support at the .618 retracement of each prior rally. This price action is most associated with clear up trend channels.

DOW INDUSTRIALS : DAILY
1992-1994

BULLISH .618 CHANNEL
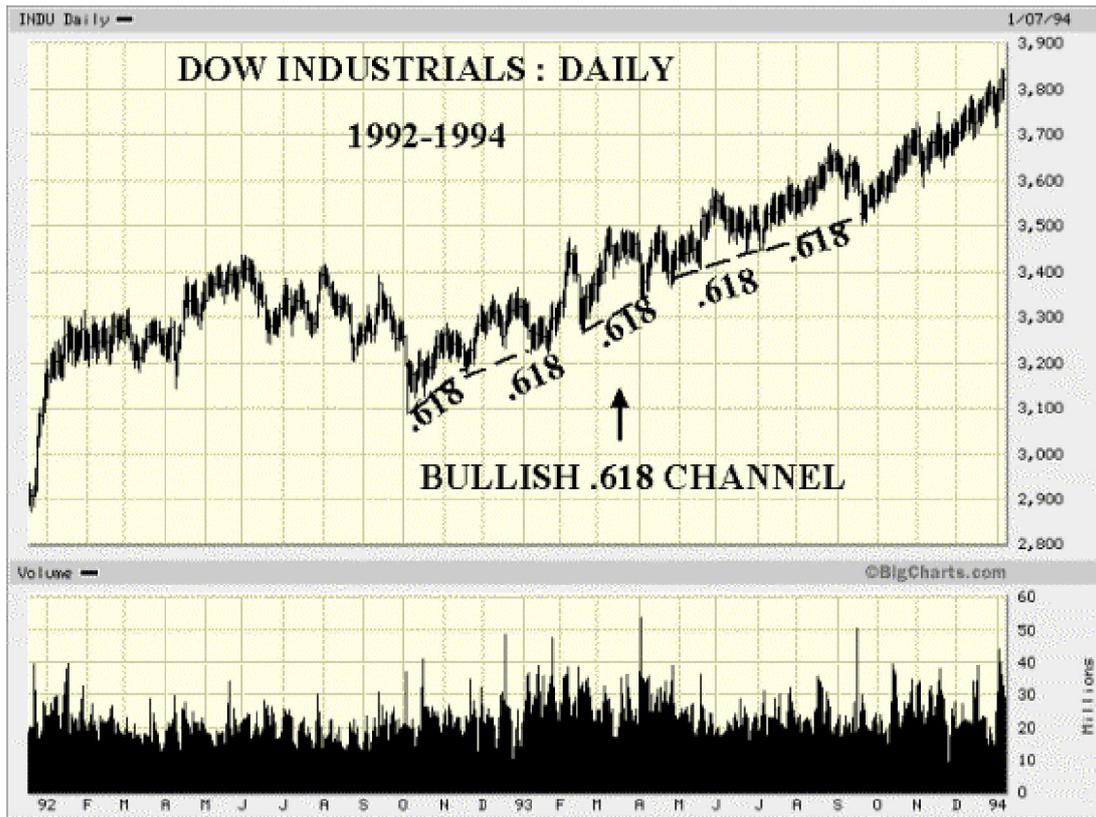
1994-1996

The Dow Industrials rallied sharply between 1994-1996. The index continually rallied above the potential completion of a rather large bearish Butterfly. In fact, the index rallied above these projections, never retracing at these critical turning points.

INDU Daily ▬
1/08/96

BEARISH BUTTERFLY BLOWNOUT!

BREAKOUT

1.618?

1.272?

D?

X

B

1.618

.786

.786

A

C

Volume ▬

©BigCharts.com

DOW INDUSTRIALS: DAILY

1994-1996

The price action preceding the 1995 rally did provide some indications of the impending up trend. During 1994, the Dow Industrials formed two very distinct Gartley patterns. The bearish Gartley was quite large, forming over an 8-month period that was clearly defined by the Fibonacci ratios. With such a fantastic pattern, the Dow should have tanked! But it didn't. It held this area in the upper-3000s and completed a bullish Gartley in late November 1994.
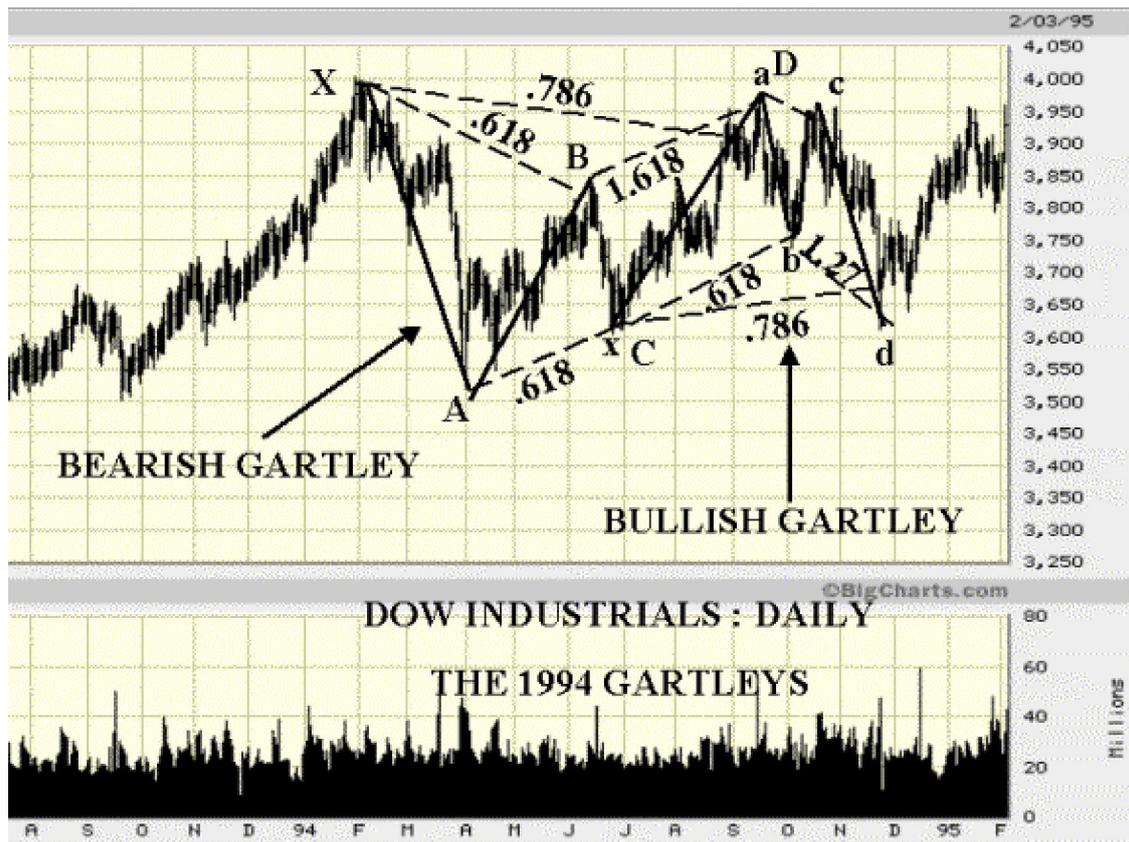
The most important aspect of this chart is the price action after the Dow completed these respective patterns. In the case of the bearish Gartley in early 1994, the Dow did decline. However, the index held up quite nicely. This pattern was quite clear. If this was going to be a strong sell signal, the reversal should have been very sharp, retracing most of that year's rally.

In contrast, the completion of the bullish Gartley resulted in a powerful rally. The index broke out into new highs within a few months after reversing. Once the index broke out, the rally in 1995 was absolutely awesome. The breakout was especially significant because it rallied above the resistance established by the prior bearish Gartley.

It is important to recognize the significance of a breakout above a prior bearish pattern. This price action indicated that the current bullish trend was quite strong.

1996-1998

This Dow chart is one of the most interesting time periods of recent times. Obviously, the Dow was in a fantastic up trend. But, the retracements of each rally reversed after hitting a progression of Fibonacci retracements. In 1997, the Dow rallied from its fall 1996 low and retraced .382 of that move before heading higher. In 1998, the Dow rallied from its spring 1997 low, and retraced .618 of that advance. In 1998, the

136

Dow retraced the rally from the fall 1997 low to the July 1998 high almost exactly to the .786 of that advance. After completing that low in October 1998, the Dow rallied sharply into new highs.
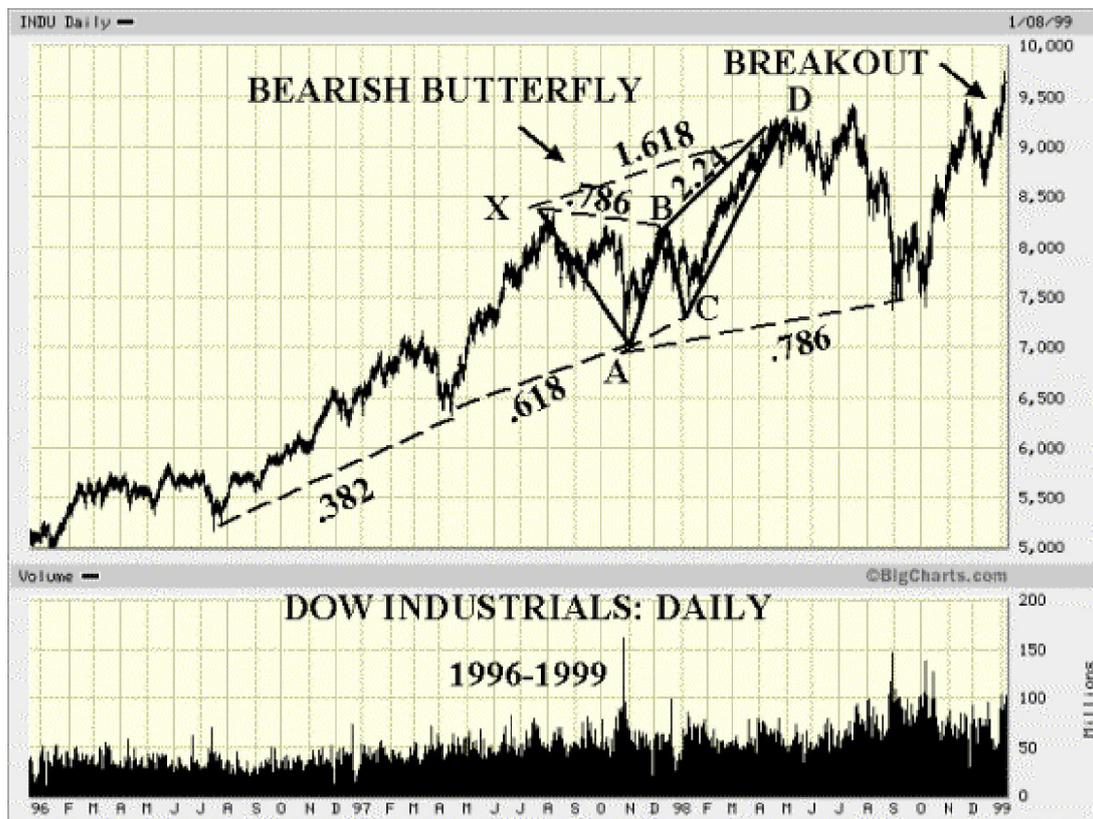
Such a progression of Fibonacci retracements suggests that the next rally will be quite strong. In a sense, this "growth spiral" from 1996 to 1998 has completed. A new "growth spiral" could be underway in which a similar progression of retracements could occur. The breakout to new highs does confirm this "Growth Spiral Theory." It will be interesting to see if phenomenon is repeated in the future.

Another interesting fact about the breakout is that it is above the prior bearish Butterfly, suggesting very strong price action. As the previous charts have shown, this situation has occurred several times. Each time the Dow Industrials rallied significantly to new highs.

Historical Studies: Dow Industrials Summary

The previous charts prove that Fibonacci numbers and price patterns indicate significant turning points for the Dow Industrials. There are several examples that possess distinct patterns, yielding excellent reversals. It is important to review these charts and compare these studies to current market conditions for the best analysis of probable future action.

Education: Historical Studies

NASDAQ Composite

1985-2000

The NASDAQ Composite chart is the most impressive chart of all of the indices. Despite its parabolic nature, the NASDAQ is extremely harmonic. Although the following long-term chart shows that the index has rallied immensely in the past several years, there have been many situations where the price patterns and Fibonacci numbers identified excellent opportunities.

The following charts of the NASDAQ examine the price action of the index in three-year increments. These charts clearly illustrate that this index has historically formed clear patterns, reversing ideally off various Fibonacci price levels. Furthermore, when compared with present market conditions, these techniques can accurately gauge significant turning points.

1985-1988

In the 18 months preceding the 1987 crash, the NASDAQ Composite nearly doubled. Although the time symmetry was not ideal, the index formed a clear bearish Three Drives pattern, completing at the 1.27 projection. The decline that followed retraced most of the prior year's rally within a very short period of time. In fact, the NASDAQ lost over a third of its value in a month. Despite this sell off, the index found support at two critical Fibonacci calculations, the clear .786 retracement and the 1.27 projection of the late 1986

low to its previous all-time high.

BEARISH THREE DRIVES →

NASDAQ COMPOSITE: DAILY
1985-1988
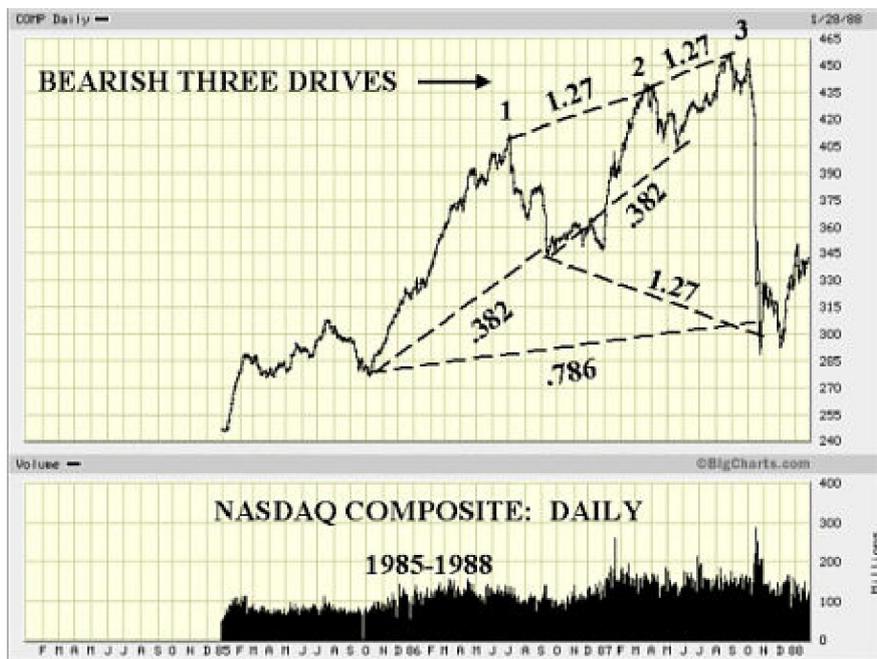
Although the bearish Three Drives pattern was not ideal, the 1.27 projection of the second top (2) signaled a potential reversal near 450. When clear patterns like this one form in the NASDAQ, it is important to respect their significance.

After the 1987 crash, the index found support at a convergence of Fibonacci price levels. The 0.786 retracement from the fall 1985 low to the August 1987 high was calculated near 315. This converged with the 1.27 projection from the fall 1986 low to the August 1987 high. In fact, the NASDAQ completed a nice double-bottom just below this area before beginning a new up trend.

1988-1991

This chart of the NASDAQ from 1988 to 1991 is extremely harmonic. The index formed several patterns and bounced off of Fibonacci numbers ideally.

The index formed a very nice bullish Gartley throughout the second half of 1988. The index rallied sharply after the completion of the pattern throughout 1989. The incredible aspect of this rally was the bearish Three Drives pattern that marked the top in the fall of 1989. After declining for the first few months of 1990, the index formed a clear bearish Butterfly pattern that converged with the 0.786 retracement from the prior high.
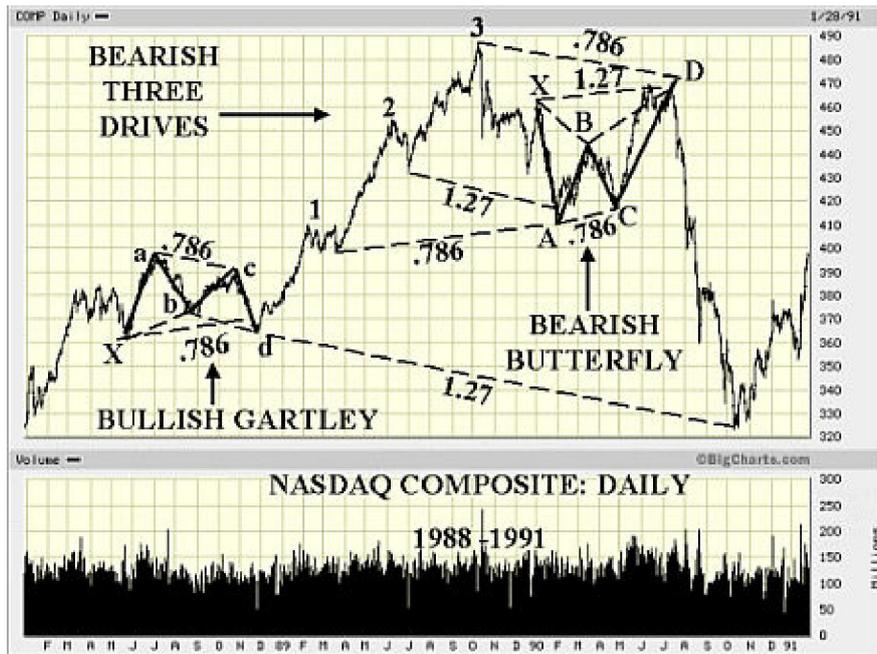
This convergence of a bearish Butterfly at the .786 retracement from the prior high defined a very critical area for the NASDAQ. The index could not rally through this resistance point and declined sharply in the fall of 1990. After the 1990 crash, the index found nice support at the 1.27 projection from a prior short-term low to

1991-1995

The trend for the NASDAQ was very bullish between 1991 to 1995. Although the NASDAQ corrected several times throughout this rally, the index never broke any significant prior lows. Also, each retracement bounced nicely off a Fibonacci calculation.

NASDAQ COMPOSITE: DAILY
1991 -1995
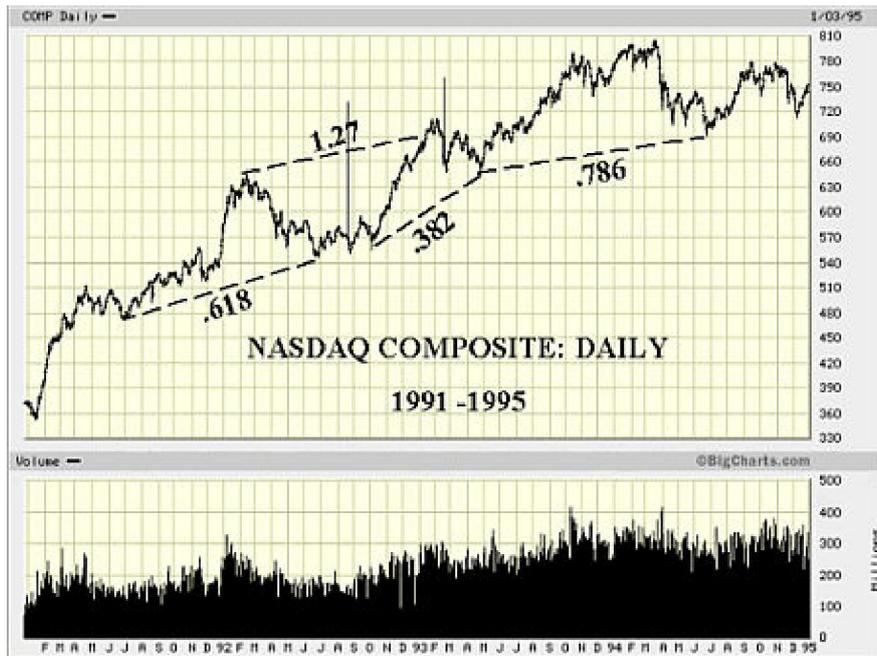
1995-1999

  The NASDAQ continued its impressive rally throughout 1995-1999. Each time the index retraced, it found excellent support at a Fibonacci retracement. In 1998, the NASDAQ formed a nice bearish Three Drives pattern that signaled a critical turning point for the index. Although the time symmetry between each drive was not ideal, the index formed three distinct thrusts that resulted in a sharp reversal.

NASDAQ COMPOSITE: DAILY
1995 –1999
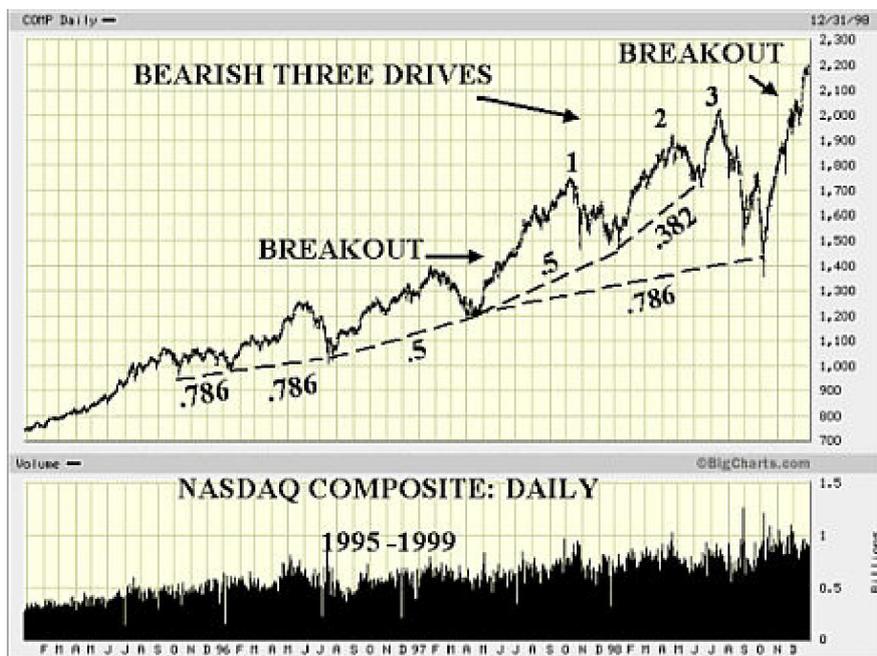
Although the index sold off sharply in the fall of 1998, it found support at a long-term channel line that converged with a prior .786. The correction was quite severe, as the NASDAQ lost approximately 30% of its value in a few months. Despite the decline, the index bounced back quickly. In fact, by the end of the year the NASDAQ recovered all that it lost. The index broke out above the prior resistance area, as defined by the bearish Three Drives pattern. The breakout above this prior pattern usually suggests that the predominant trend is very strong.

NASDAQ Composite Summary

These charts clearly show that price patterns and Fibonacci ratios can clearly define critical turning points. One of the most prevalent patterns, the bearish Three Drives, frequently indicates short-term tops in the NASDAQ. But, the trend for this index has been very bullish. In each case of the bearish Three Drives patterns, the corresponding breakout above the prior resistance area resulted in a huge rally. Therefore, it is important to respect the potential turning points, as defined by the patterns. But, it is even more important to respect the overall trend. And, the trend is up!

Education: Historical Studies

Standard & Poor's 500

1987-2000

The Standard and Poor's 500 chart is truly amazing. The long-term chart reveals quite a fantastic rally that has accelerated immensely since the beginning of 1995.

STANDARD & POOR'S 500:
DAILY

1987-2000

Although the trend for the market has been mostly up, the market has provided clear signs of critical turning points. As you review the following charts, it is important to notice the effectiveness of the patterns and Fibonacci numbers that clearly defined the reversal points in the index.

1987-1989

Like the rest of the other indices, the S&P 500 suffered through the crash of 1987. But, the index rebounded quite nicely from the October 1987 low.

STANDAR & POOR'S 500: DAILY
1987 - 1989
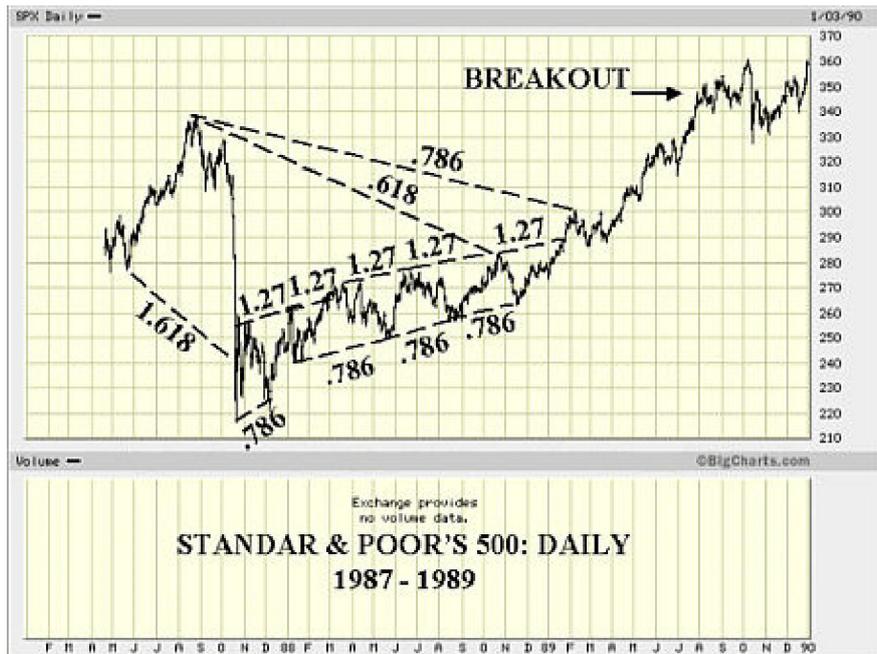
The important aspect of this chart was the bullish channel that formed throughout 1988. The index formed higher highs and higher lows, and broke through the critical 0.618 and 0.786 resistance levels without declining. The eventual breakout in the fall of 1989 was very significant in establishing a new rally.

1987-1993

This chart is an extended view of the recovery from the 1987 crash low. The S&P rallied steadily from that low. Although the index experienced some difficulty in the fall of 1990, it reversed at the 38.2% retracement of this rally. After the S&P stabilized in November 1991, it rallied to new highs by early 1991.

The 38.2% retracement is usually associated with a market that is experiencing extreme price action. After retracing 38.2% of an up move, the following rally is usually quite strong. This was the case with the S & P 500. The breakout in 1991 was very significant, especially since it bounced so sharply off the long-term 38.2% retracement. After rallying above the 1987 crash high, the S & P 500 never looked backed.

1993-1996

The S & P 500 really started to move between 1993 through 1995. The explosive rally throughout 1995 was truly astounding. The index rallied through two critical bearish projections – the 1.27 and 1.618 of a bearish Butterfly pattern. The S & P 500 held a sharp up trend channel and rallied convincingly throughout 1996.

SPX Daily —   1/03/96

BEARISH BUTTERFLY
BLOWNOUT!

BREAKOUT

1.618?
1.27?
1.618
D?

X
.786   B
A   .786   C

Volume —   ©BigCharts.com

Exchange provides
no volume data.

STANDARD & POOR'S : DAILY

1993-1996

F M A M J J A S O N D 94 F M A M J J A S O N D 95 F M A M J J A S O N D 96
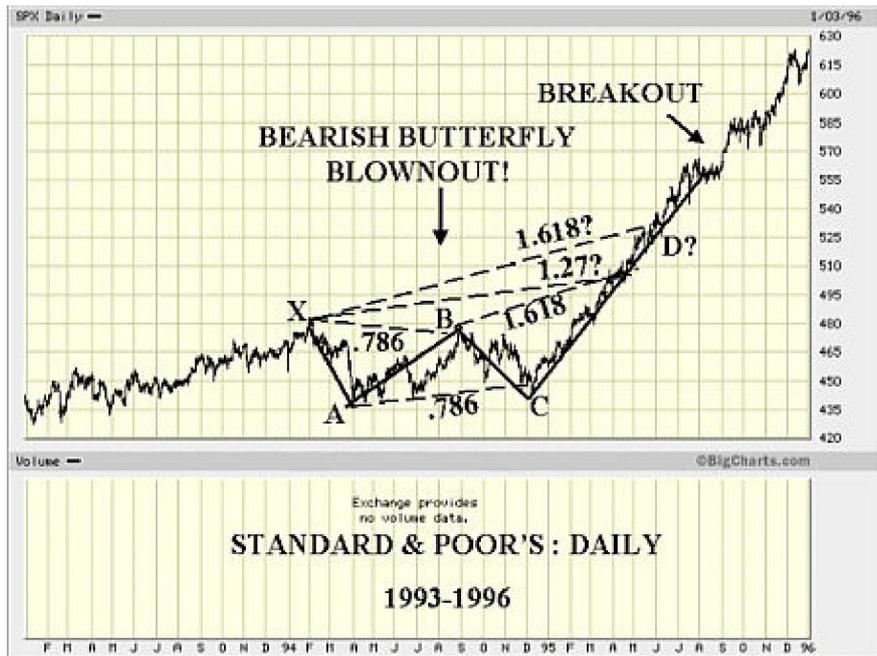
Before the S & P 500 broke out in 1995, the index formed some very interesting harmonic patterns that suggested a rally was about to begin. The following chart shows the price action for the S & P 500 during 1994.

1994

The index formed two Gartley patterns that were very distinct. The bearish Gartley completed in September and the index started to reverse. With such a clear bearish pattern, the reversal "should" have been severe. But, the S & P 500 declined only slightly. It was able to stabilize without suffering too much damage.

147

STANDARD AND POOR'S 500: DAILY

THE 1994 GARTLEYS
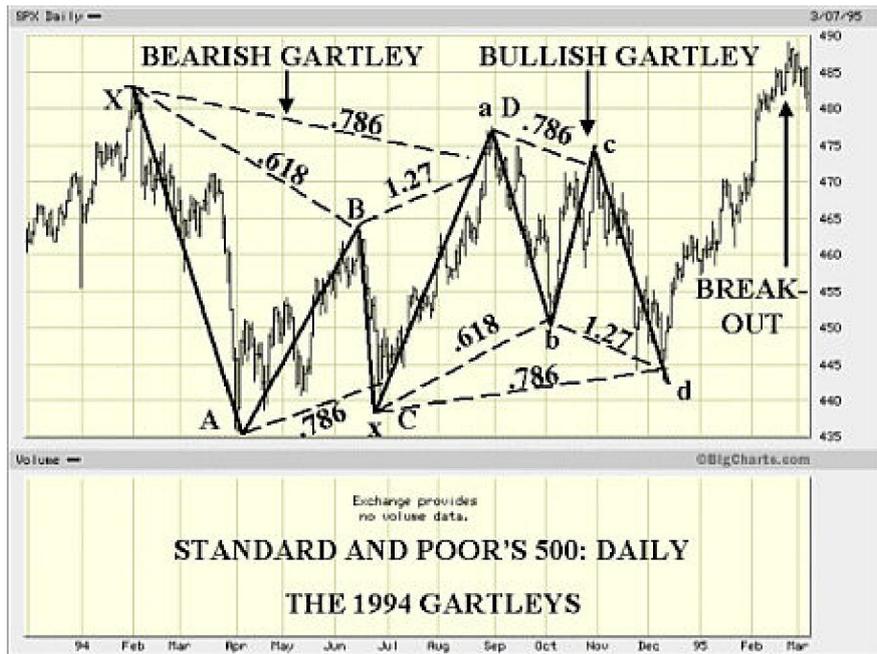
This situation is a great case of "the market is always right." With such a clear pattern, it would have been likely to assume that the impending correction could retrace a considerable portion of the prior rally. But, the index held firm. Furthermore, the following price action indicated that another rally was likely.

Over the latter part of 1994, the index formed a near perfect bullish Gartley. After reversing off the potential reversal zone in the beginning of December around 445, the index rallied sharply. Also, the following rally in 1995 was so powerful that it failed to retrace any significant part of the rally.

1996-1999

The S&P 500 continued its strong bullish trend from 1996 to 1999, as the index more than doubled in three years. Although the trend was up, each correction bounced off a Fibonacci retracement from a prior low to high with out breaking down. After each retracement, the corresponding breakout yielded a nice rally.

STANDARD & POOR'S 500

1996-1999
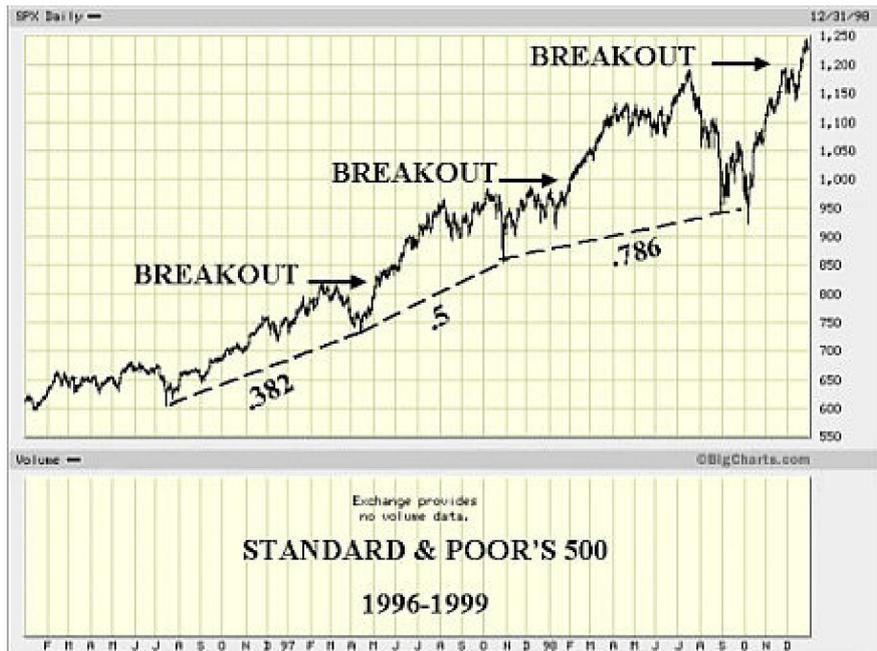
In such a strong up trend, it is important to respect the strength of the breakouts. After the S & P 500 endured its annual correction, it reversed off a Fibonacci retracement and it rallied significantly to new highs. On a side note, the correction of 1998 was the most severe retracement since 1990. The index quickly regained this deficit and has rallied to new highs. Such a rebound with a corresponding breakout suggests that the following action could be quite extreme on the up side.

Standard and Poor's 500 Summary

The S & P 500 has maintained a fantastic bullish trend over the past 15 years. The Fibonacci numbers and the price patterns have identified critical turning points in the index. It is important to respect these signals and be prepared for anything to happen. But, the trend has been very bullish these past few years and the breakouts throughout this rally have consistently yielded significant moves. It is always prudent to consider al possibilities. But, until the market provides bearish signals, the trend is still up.

Education: Historical Studies

Alcoa Aluminum (AA)

Alcoa Aluminum formed this beautiful bearish Butterfly pattern that completed in late 1976. The stock possessed several Fibonacci numbers at point D and reversed almost exactly at the 1.27 projection of the XA leg. This is a great example of a clear pattern defining an excellent selling opportunity no matter what year it is!
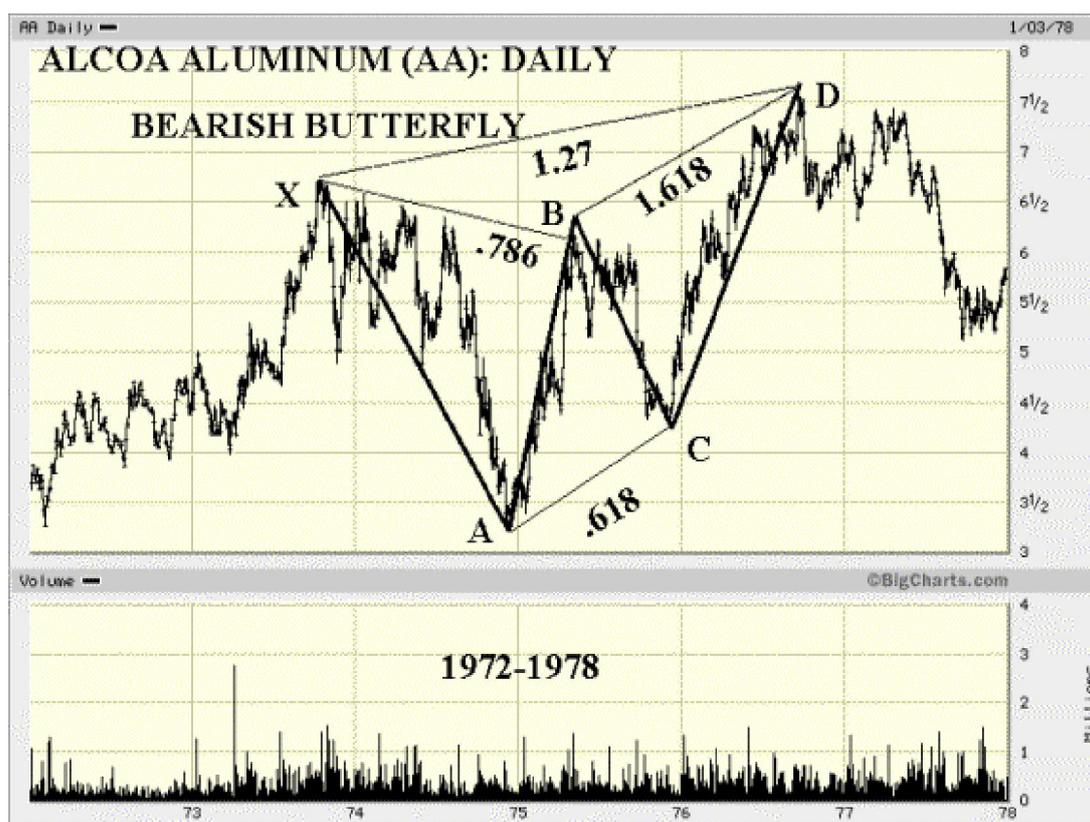
Education: Historical Studies

Ford (F)

Ford formed this beautiful bullish Three Drives pattern that completed in late 1981. The stock possessed three symmetrical thrusts that reversed at the 1.27 projection of the prior respective drive. This is a great example of a clear pattern defining an excellent buying opportunity no matter what decade it is!
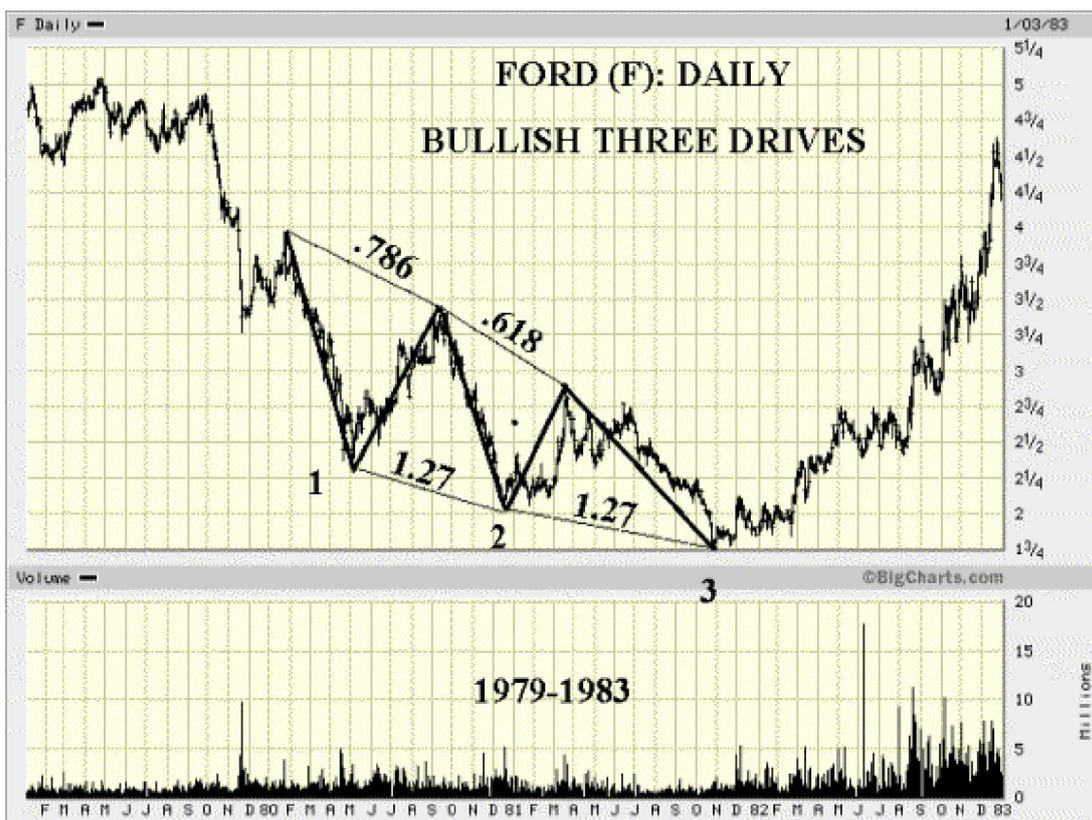
Education: Historical Studies

J.P. Morgan (JPM)

This chart of J.P. Morgan is a work of art! A perfect bullish Butterfly! The AB=CD was incredibly distinct and every point in the pattern bounced almost exactly off their respective Fibonacci numbers. A chart likes this is undeniable evidence of the effectiveness of patterns to identify critical turning points in stocks.
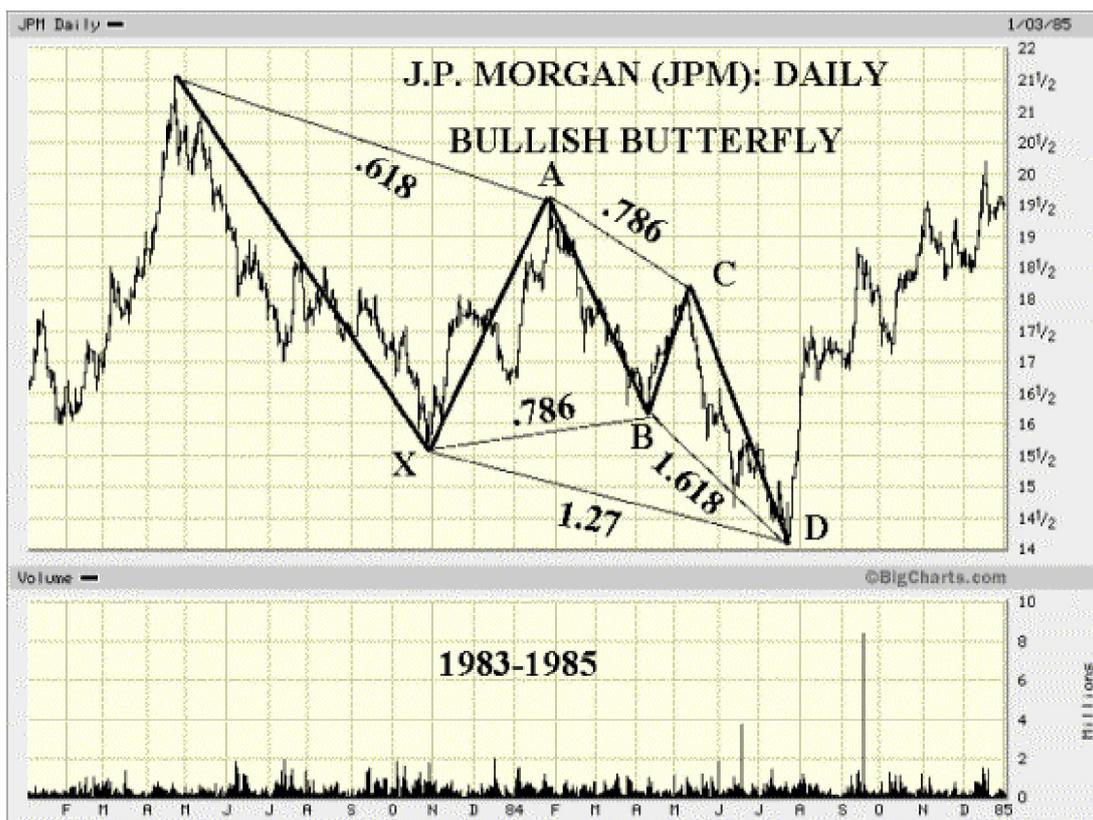
Education: Historical Studies

Johnson and Johnson (JNJ)

I saved this chart for last because it is the best of them all. The stock had two bullish Butterfly patterns which indicated a permanent low in the stock, which has never been violated and I doubt ever will!

JOHNSON AND JOHNSON (JNJ): DAILY
BULLISH BUTTERFLY
1974-1978
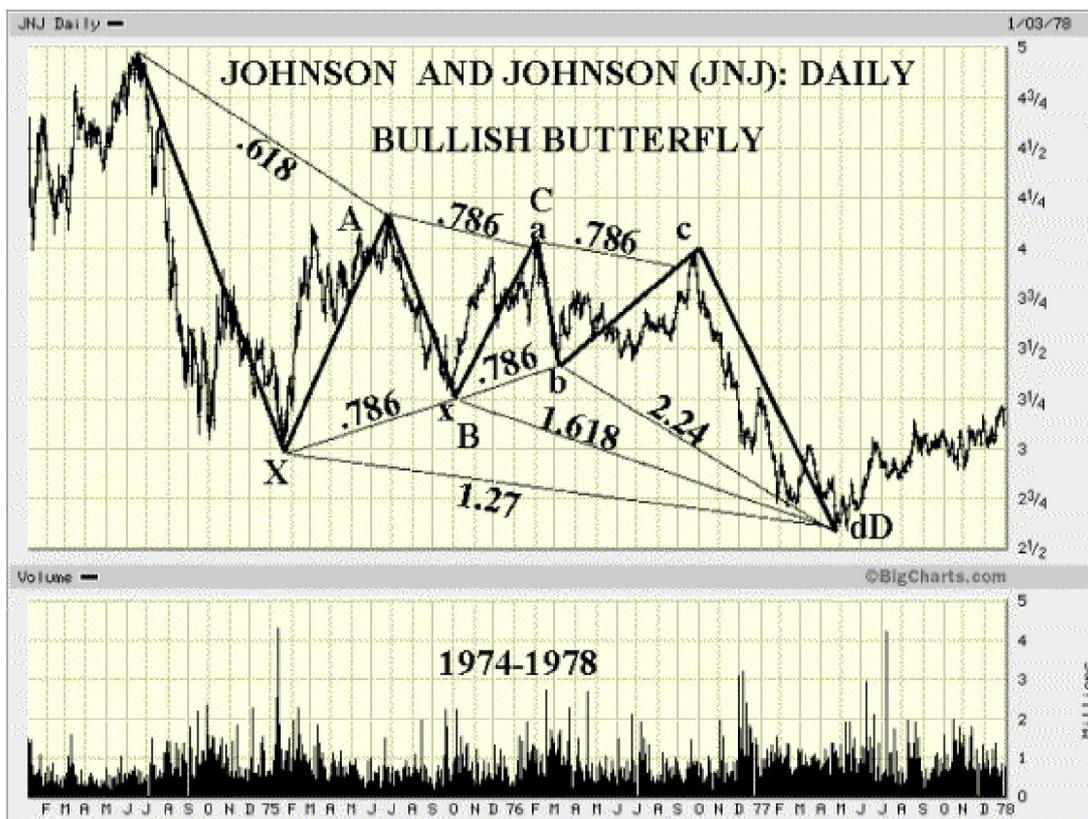
Education: Historical Studies

Motorola (MOT)

This chart of Motorola is a great bearish Gartley with a very distinct AB=CD.   A chart likes this is undeniable evidence of the effectiveness of patterns to identify critical turning points in stocks.
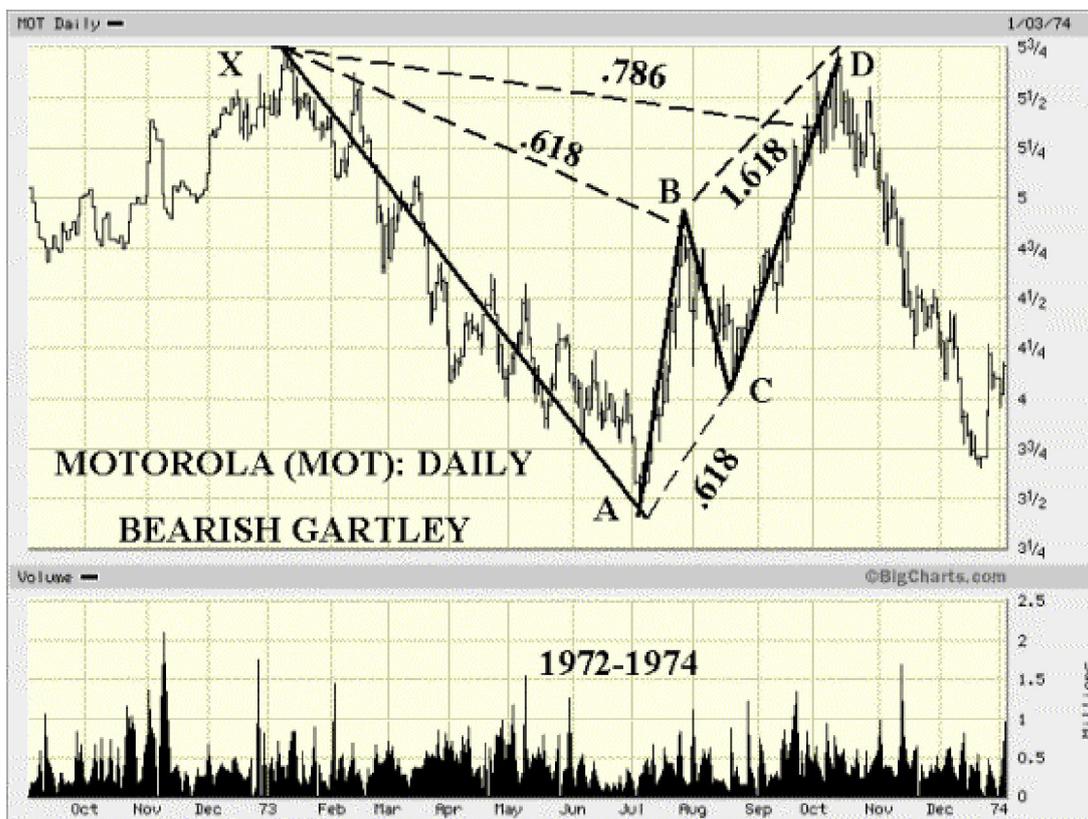
Education: Historical Studies

Pepsi (PEP)

I saved this chart for last because it is the best of them all. The stock had an incredible bearish Butterfly pattern that reversed right off the 1.618 projection of the XA leg.
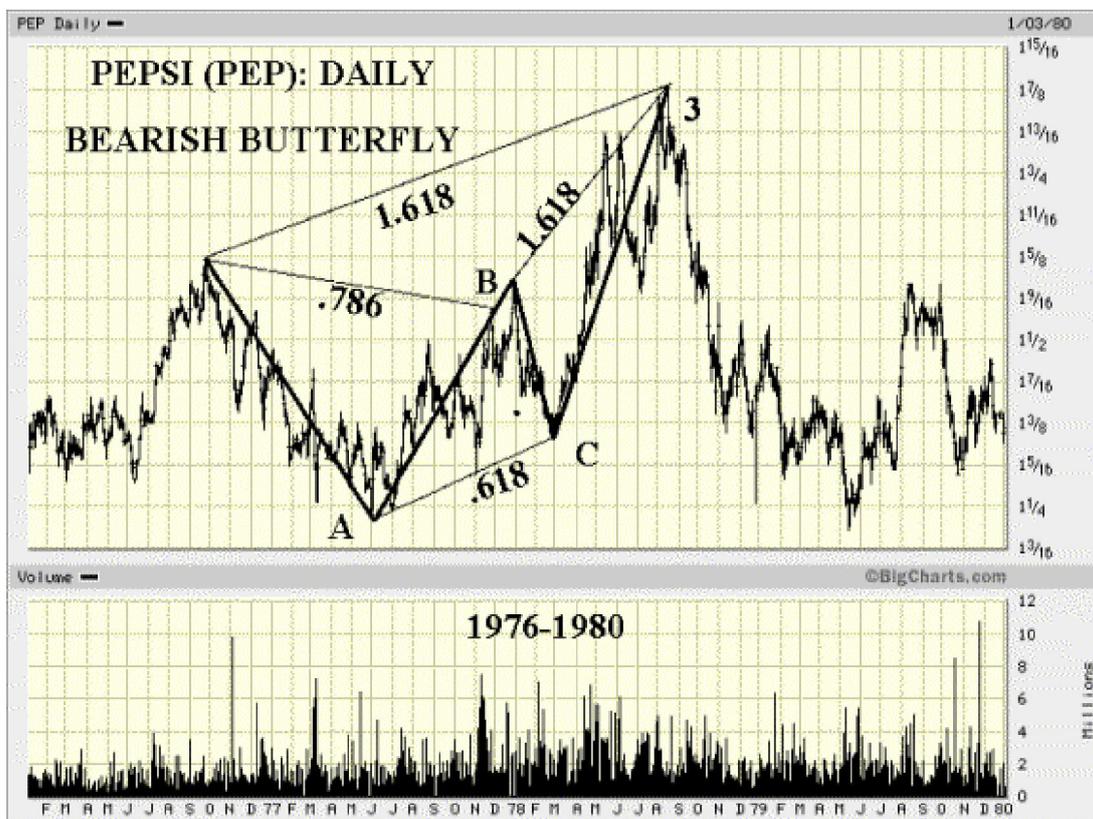
Education: Commentary

This section will include articles written by Scott Carney. Click on the title to link to the article. For articles posted on StockCharts.com Click Here.

Date Posted	Title	Comments
05/31/03	"Commenting on Commentary"	General comments on commentary.
01/31/02	"A More Active Approach"	Some thoughts regarding better execution strategies.
08/21/01	"Is Anybody Out There?"	The market is dragging but it can be a valuable experience.
07/16/01	"A Day in the Pit"	A unique harmonic experience on the floor of the New York Mercantile Exchange.
04/30/01	"Sleeper Stocks"	Don't ignore the old economy stocks for great position trades.
03/08/01	"20/20 Hindsight"	Trading in hindsight.
01/01/01	"Technique versus Technology"	Do you really need advanced trading software?

Education: Links

Website Links	Comments
Bloomberg	Good news resource.
CBS Marketwatch	General news source and market information.
CNBC	The greatest resource for contrarian trades!
Dow Theory Letters	Richard Russell's experienced Dow Theory analysis.
DynamicTraders.com	Robert Miner's excellent Elliot Wave analysis.
Financial Times Online	Financial Times Online.
I.P.O. Lockup	Information on lockup periods for I.P.O.s.
Intelligent Speculator	Excellent Chat rooms
Mark Douglas.com	Excellent trading psychology resource.
Market Detective.com	Interesting astro-technical cycle information.
MurphyMorris.com	Good technical information.
The Street.com	James Cramer's world of stocks.
TicketGas.com	Excellent commodity website.
TradersWorld	Technical trading magazine.
Stocks and Commodities Magazine	Excellent articles on trading.
Wall Street Journal Online	Wall Street Journal Online.
Yardeni.com	Great economic data.
Fibonacci Links:	**Comments**
Fibonacci and the Golden Mean	Fibonacci and the 0.618.
Fibonacci and Number Theorists	The mathematicians behind the number series.
Fibonacci and the Rabbit Sequence	Fibonacci numbers and the mathematics of rabbits.
Fibonacci Calculator	Calculate numbers in the series.
Fibonacci Mathematics	The math behind Fibonacci.
Fibonacci Numbers and Pi	Examines the relation between Fibonacci and Pi (3.14).
Fiboncci Puzzles	Puzzles that contain Fibonacci numbers.
Fibonacci Rectangles and Spirals	Fibonacci relationships in rectangles and spirals.
Fibonacci Series	Basic explanation of the series.
National Pi Day Homepage	Learn about Pi (3.14).
Pi the Movie	Excellent movie on Number theory and the market.
The Number Pi (3.14)	Origins and examples of Pi(3.14)
Who was Fibonnaci?	Fibonacci Biographical information.

Recommendations: Recommendations

The recommendations posted here represent a watch list for longer-term trades that range from several weeks to several months. Many of these stocks are posted well in advance of their price targets. Therefore, updates on these stocks will be sent out via the Email Advisory. Active long-term recommendations are posted in the Recommendations Tracker section. Closed positions will be moved to the Archive section. (Click the links under the "Stock" column to view to illustrated charts.)

Date	Stock	Position	Entry	Exit	Stop Loss	Comments
10/09	**Anhueser Busch (BUD)**	Buy	47	55.25	45	**10/09:** A Bullish Bat retesting support under $50.
10/09	**Pegasus Solutions (PEGS)**	Buy	12	18.50	10.30	**10/20: Executed 10/17.** **10/09:** A Bullish Gartley within an uptrend.
10/09	**Prudential (PRU)**	Short	39	33.30	41	**10/20: Executed 10/17.** **10/09:** A Bearish Butterfly that is 1 point away from the PRZ.
10/09	**Kohls (KSS)**	Buy	50	61.50	47.50	**10/09:** A Deep Bullish Crab that is retesting support at $50.
10/09	**Baker Hughes (BHI)**	Buy	28	34.50	25.50	**10/09:** A Bullish Gartley on the weekly chart.
10/09	**Johnson & Johnson (JNJ)**	Buy	45.50	54	42.75	**10/09:** A Bullish Gartley on the weekly chart.
07/31	**LatticeSemiconductor (LSCC)**	Buy	7.20	12.80	6	**10/20:** Original long position of 08/07 covered for a profit. Reentered long position on 09/23. **08/22: Executed 08/07.** **07/31:** A distinct Bullish Gartley with three numbers exactly at 7.15.
07/31	**Marriott (MAR)**	Short	43.60	37	45.20	**10/20:** The setup was blownout as the stock gapped past the entry for the short. Monitoring for possible reentry. **07/31:** A Bearish Bat on the weekly chart.
07/31	**KLA Tencor (KLAC)**	Short	65.50	56	69.50	**07/31:** A Bearish Bat on the weekly chart.
07/31	**Southwest (LUV)**	Short	20.50	14.50	22	**07/31:** A sharp Bearish Bat on the weekly chart.

07/31	**Federal Home Mtg. (FRE)**	**Buy**	**41**	**50**	**38.50**	**07/31:** A monster Bullish Bat on the weekly chart.
07/31	**Earthlink (ELNK)**	**Buy**	**6.50**	**13.75**	**5**	**07/31:** A retest of long-term support this Bullish Bat.
07/31	**Dress Barn (DBRN)**	**Buy**	**11.50**	**9.75**	**9.80**	**07/31:** A retest of long-term support above$10 with this Bullish Butterfly.
07/31	**Borland (BORL)**	**Buy**	**8.40**	**14**	**6.80**	**10/20:** Original long position of 08/07 covered for a profit. Reentered long position on 10/08. **08/22: Executed 08/07.** **07/31:** A retest of long-term support with this Bullish Bat.
07/31	**Biogen (BGEN)**	**Buy**	**30.80**	**39**	**29**	**07/31:** Another retest of long-term support at $30 with this Bullish Bat on the weekly chart.
06/05	**Genuine Parts (GPC)**	**Short**	**36**	**28.50**	**38.50**	**06/05:** A sharp Bearish Bat that is retesting the stock's all-time high.
04/28	**Waste Management (WMI)**	**Buy**	**16.75**	**23.25**	**14.50**	**04/28:** The stock needs some time but it is forming a large Bullish Gartley.
03/30	**Pepsi Bottling Group (PBG)**	**Buy**	**17.80**	**24.50**	**15.25**	**03/30:** A Bullish Gartley on the weekly and a Bullish Crab (not illustrated on the chart) in the BC leg that confirms the 18 area as critical support.

Email Advisory: Advisory Tracker

Last Updated November 18th, 2003

Date Opened	Stock	Trade	Entry	Exit	Stop Loss	Comments
11/17	General Electric (GE)	Buy	27.50	32.80	25.50	**11/18:** The long position was entered yesterday at 27.50.
11/12	Microsoft (MSFT)	Buy	25.50	31	23	**11/18:** The long position was reentered Thursday (11/12) at 25.50. **10/26:** Stopped out Friday at 27.20 for a 1.40 profit. Reenter long position at 25.50.
11/12	Coca-Cola (KO)	Short	47	41	47	**11/18:** Move the stop loss to breakeven (47) from 48.50. **11/13:** The short position was entered yesterday at 47.
11/07	Whole Foods Markets (WFMI)	Short	60.30	52.50	60.30	**11/18:** The short position was stopped out Friday (11/14) above the break-even trailing stop at 61.80 for a 1.50 loss. **11/13:** Move the stop loss to breakeven (60.30) from 62.75. **11/10:** The short position was entered Friday at 60.30.
11/03	Deere (DE)	Short	60.50	52	63.25	**11/18:** The long position was stopped out Friday (11/14) at 63.25 for a 2.75 loss. **11/04:** The short position was entered Monday at 60.50.
10/13	Express Scripts (ESRX)	Buy	58.50	67.50	56	**10/20:** The long position was stopped out Friday (10/17) at 56 for a 2.50 loss. **10/15:** The long position was entered Monday at 58.50. **10/10:** The long position was stopped out for 1.25 profit. Reenter at 58.50.
10/09	Caterpillar (CAT)	Short	76.20	68.50	72.20	**11/03:** The short position was stopped out Tuesday (10/28) at 72.20 for a 4 point profit.

						10/26: Move the trailing stop from breakeven (76.20) to 72.20, securing 4 points profit. **10/20:** Move the stop loss to breakeven (76.20) from 79.50. **10/10:** The short position was entered yesterday at 76.20.
10/08	**Praxair (PX)**	**Short**	66	57.50	68.50	**11/03:** The short position was stopped out Wednesday (10/29) at 68.50 for a 2 1/2 point loss. **10/10:** The short position was entered Wednesday at 66.
09/25	**The Limited (LTD)**	**Buy**	15.10	21	16.10	**10/26:** Move the trailing stop from breakeven (15.10) to 16.10, securing 1 point profit. **10/06:** Move the stop loss to breakeven (15.10) from 13.20. **09/29:** The long position was entered Thursday at 15.10.
09/09	**Newell-Rubbermaid (NWL)**	**Buy**	24.10	31	22	**10/06:** Reenter long at 19.45. **09/22:** Stopped out at 22 on Friday for a 2.10 loss. **09/10:** The long position was entered yesterday at 24.10.
09/09	**Costco (COST)**	**Buy**	30.90	38.50	30.90	**10/06:** Stopped out at breakeven on 9/30. Reenter long at 31. **09/22:** Move the stop loss to breakeven (30.90) from 29. **09/10:** The long position was entered yesterday at 30.90.
09/09	**Express Scripts (ESRX)**	**Buy**	58.25	67.50	59.50	**10/10:** The long position was stopped out for 1.25 profit. Reenter at 58.50. **09/30:** Move the stop loss from breakeven (58.25) to 59.50, securing 1.25 profit. **09/13:** Move the stop loss to breakeven (58.25) from 56. **09/10:** The long position was entered

						yesterday at 58.25.
09/03	Intuit (INTU)	Short	48.10	41	48.10	**09/17:** Stopped out at breakeven yesterday. **09/08:** Move the stop loss to breakeven (48.10) from 50.50. **09/04:** The short position was entered yesterday at 48.10.
08/22	Wrigley (WWY)	Buy	52.75	66.50	52.75	**10/26:** Move the trailing stop from breakeven (52.75) to 54.75, securing 2 points profit. **10/06:** Move the profit target from 60 to 66.50. **09/10:** Move the stop loss to breakeven (52.75) from 51. **08/25:** The long position was entered Friday at 52.75.
08/07	Internet Security Systems (ISSX)	Buy	10.90	15.50	12.75	**10/06:** REENTER LONG POSITION @ 12.50. **09/29:** Stopped out Thursday at 12.75 for a 1.85 profit. **09/10:** Move the trailing stop from breakeven (10.90) to 12.75, securing 1.85 profit. **08/13:** Move the stop loss to breakeven (10.90) from 9.25. **08/08:** The long position was entered yesterday at 10.90.
08/04	Microsoft (MSFT)	Buy	25.80	32.75	27.20	**10/26:** Stopped out Friday at 27.20 for a 1.40 profit. Reenter long position at 25.50. **10/06:** Move the trailing stop loss to 27.20 from breakeven (25.80), securing 1.40 profit **08/21:** Move the stop loss to breakeven (25.80) from 23. **08/05:** The long position was reentered

07/17	Baxter (BAX)	Buy	23	41.50	27.50	yesterday at 25.80. **07/07:** Reenter long position at 25.80.
						11/03: The long position was stopped out Thursday (10/30) at 27.50 for a 4.50 point profit. **09/17:** Move the profit target from 36 to 41.50. **08/31:** Move the stop loss from 26.50 to 27.50, securing 4 1/2 points profit. **08/05:** Move the profit target from 32.60 to 36. **07/29:** Move the stop loss from breakeven (23) to 26.50, securing 3 1/2 points profit. **07/23:** Move the stop loss to breakeven (23) from 20.50. **07/17:** The long position was reentered today at 23. **06/05:** Reenter the long position at 23.

Email Advisory: KO Bearish Gartley

Coca-Cola (KO) is testing the Potential Reversal Zone (PRZ) of a Bearish Gartley with a Potential Reversal Zone (PRZ) between 46.50-47.05. The entire PRZ was tested last week and the stock is consolidating in the low range of this resistance. I recommend shorting the stock in the PRZ today or tomorrow. The stop loss should be placed at 48.50, risking less than 2 points in the trade. This is a short-term trade with an initial profit objective of 41.

Good Trading,

Scott

Email Advisory: WFMI Bearish Bat

  Whole Foods Markets (WFMI) is testing the Potential Reversal Zone (PRZ) of a Bearish Bat with a Potential Reversal Zone (PRZ) between 58.15-60.35. I would look to short the stock in the PRZ above 60. The stop loss should be placed at 62.75, risking less than 3 points in the trade. This is a short-term trade with an initial profit objective of 52.50.

Good Trading,

Scott

The Harmonic Analyzer (TM) {EXE} : WFMI

Email Advisory: DE Bearish Crab

Deere (DE) is testing the Potential Reversal Zone (PRZ) of a Bearish Crab with a Potential Reversal Zone (PRZ) between 57.85-60.30 illustrated on the attached weekly chart. This is a similar set up to Caterpillar (CAT) from a few weeks ago. I would wait for the 1.618 at 60.30 to be tested before entering the short. I would look to short the stock above the PRZ between 60.30-60.80. The stop loss should be placed at 63.25, risking less than 3 points in the trade. This is a short-term trade with an initial profit objective of 52.

Good Trading,

Scott

Email Advisory: RTN Bullish Bat

Raytheon (RTN) is testing the Potential Reversal Zone (PRZ) of a Bullish Bat with three numbers between 25.40-27.50 illustrated on the attached weekly chart. I would look to buy the stock in the low range of the PRZ between 25.50-26. The stop loss should be placed at 23.75, risking approximately 2 points in the trade. This is a short-term trade with an initial profit objective of 31.50.

Good Trading,

Scott

Email Advisory: GE Bullish Bat

General Electric (GE) is approximately 1 point from the Potential Reversal Zone (PRZ) of a Bullish Bat with three numbers between 27.50-28. I would look to buy the stock in this PRZ below $28. The stop loss should be placed at 25.50, risking approximately 2 points in the trade. This is a short-term trade with an initial profit objective of 32.80.

Good Trading,

Scott

The Harmonic Analyzer (TM) : GE   Copyright © 2001-2003 HarmonicTrader.com, LLC. All Rights Reserved

Email Advisory: CAT Bearish Crab

  Caterpillar (CAT) is approximately 2 points away from completing a Bearish Crab with a Potential Reversal Zone (PRZ) just above $76. I would look to short the stock in this PRZ above $76. The stop loss should be placed at 79.50, risking approximately 3 points in the trade. This is a short-term trade with an initial profit objective of 68.50.

Good Trading,

Scott

Email Advisory: NWLDeep Bullish Crab

Sent 09/08/03
Newell-Rubbermaid (NWL) is reversing in a Potential Reversal Zone (PRZ) of a Deep Bullish Crab with three numbers between $24-25. NWL exceeded this PRZ, as the stock declined sharply on the initial test. I would look to buy the stock in this PRZ between 24-24.50 with the stop loss placed at 22, risking less than 2 1/2 points in the trade. This is a short-term trade with an initial profit objective of 31.   Good Trading, Scott

The Harmonic Analyzer (TM) : NWL

Email Advisory: BMC Bullish Gartley

Sent 09/29/03
BMC Software (BMC) is forming a <u>Bullish Gartley</u> with a Potential Reversal Zone (PRZ) possessing three numbers between 12.75-13.35. The stock is a 1/2 point away from the PRZ and I would look to buy it around $13. The stop loss placed at 11.50, risking less than 1 1/2 points in the trade. This is a short-term trade with an initial profit objective of 19.30.   Good Trading, Scott

Email Advisory: LTD Bullish Bat

171

The Limited (LTD) is forming a Bullish Bat with a Potential Reversal Zone (PRZ) possessing three numbers between 15.10-15.30. I would look to buy the stock in the low range of this PRZ with the stop loss placed at 13.20, risking less than 2 points in the trade. This is a short-term trade with an initial profit objective of 21.

Good Trading,

Scott

Email Advisory: ESRX Bullish Butterfly

Express Scripts (ESRX) is within 2 points of testing the Potential Reversal Zone (PRZ) of a Bullish Butterfly with three numbers between just under $60. I would look to buy the stock in this PRZ between 58-58.50 with the stop loss placed at 56, risking less than 2 1/2 points in the trade. This is a short-term trade with an initial profit objective of 67.50.

Good Trading,

Scott

The Harmonic Analyzer (TM) : ESRX

Email Advisory: VRTY Bullish Butterfly

Verity (VRTY) is retesting long-term support above $10. The stock has sold off recently and it is retesting the Potential Reversal Zone (PRZ) of a Bullish Butterfly with three numbers between 11.40 - 11.65. Verity is trading just above the PRZ currently. I would look to buy the stock in this range with the stop loss should be placed at 9.50, risking approximately 2 points in the trade. This is a short-term trade with an initial profit objective of 16.50.

Good Trading,

Scott

Email Advisory: INTU Bearish Bat

Sent 08/28/03
Intuit is rallying back to test resistance just under the $50 level. The stock is approaching the Potential Reversal Zone (PRZ) of a Bearish Bat with three numbers between 47.15 - 48.10. I would look to short the stock just above $48. The stop loss should be placed at 50.50, risking less than 2 1/2 points in the trade. This is a short-term trade with an initial profit objective of 41. Good Trading, Scott

The Harmonic Analyzer (TM) : INTU

Email Advisory: COST Bullish Bat

Sent 08/22/03

   Costco (COST) is consolidating in area of long-term support at $30. The stock is testing the Potential Reversal Zone (PRZ) of a Bullish Bat with three numbers in a general range between 29.25 - 32. The stock is testing the PRZ now. I would look to buy the stock in the low range of this PRZ between 30.50-31. The stop loss should be placed at 29, risking 2 1/2 points in the trade. This is a short-term trade with an initial profit objective of 38.50.

Good Trading,

Scott

The Harmonic Analyzer (TM) : COST

Email Advisory: WWY Bullish Gartley

Sent 08/21/03
Wrigley (WWY) is testing the Potential Reversal Zone (PRZ) of a [Bullish Gartley](#) with three numbers in a range between 52.75 - 53.35. The stock is testing the PRZ now. I would look to buy the stock in the low range of this PRZ under $53. The stop loss should be placed at 51, risking less than 2 points in the trade. This is a short-term trade with an initial profit objective of 60. Good Trading, Scott

The Harmonic Analyzer (TM) : WWY

Email Advisory: PX Short

Sent 08/04/03
Praxair (PX) is forming a Bearish Butterfly on the attached weekly chart with a Potential Reversal Zone (PRZ) with three numbers in a range between 64.60 - 66. The stock is testing the PRZ now. I would look to short the stock in the upper range of this PRZ between $65.75-66. The stop loss should be placed at 68.50, risking 2 1/2 points in the trade. This is a short-term trade with an initial profit objective of 57.50. Good Trading, Scott

The Harmonic Analyzer (TM) : PX

Email Advisory: ORCL Bullish Gartley

Oracle (ORCL) is retesting long-term support and forming a Bullish Gartley on the attached weekly chart. The setup possesses a Potential Reversal Zone (PRZ) with three numbers in a range between 10.85 -11.35. I would look to buy the stock in the low end of this PRZ under $11. The stop loss should be placed at 9.40, risking 1 1/2 points in the trade. This is a short-term trade with an initial profit objective of 15.60.

Good Trading,

Scott

Home: Trading Tactics

This section illustrates the concepts behind Harmonic Trading. These pages explain the process involved with trading and provides guidelines to help clarify any confusion before entering trades. It is recommended that all members review these links before executing any trades that are offered via the website.

Trading Tactics	Comments
Why Trading Tactics?	The need for Trading Tactics.
What is Harmonic Trading?	A list of requirements to check in preparation for a trade.
Trading Journal	A means of recording trades and comments.
The Trading Plan	The requirements for identifying a valid trade signal.
Trading Checklist	A simple check list to verify a trade signal.
Trading Psychology	General comments about the importance of the mental approach.
Trading Questionaire	A survey to review your personal beliefs towards trading.
The Trading Rules	Basic guidelines to consider.
A Losing Trade	Reviewing a losing trade.

The Three Steps of Trading	Comments
1. **Trade Identification**	Techniques to help identify a trade.
2. **Trade Execution**	Considerations throughout the execution process
3. **Trade Management**	Strategies to handle a trade after it has been executed.
• **Why Trade Management?**	The trade that made me design the system.
• **The Terms**	Understanding the terms of the system.
• **Bullish Setup**	Bullish illustration and example.
• **Bearish Setup**	Bearish illustration and example.

Home: Trading Tactics

Why Trading Tactics?

The key to successful trading requires thorough preparation. Investing the time to find Harmonic Trading opportunities is only half of the battle. The other part that can be easily overlooked is the handling of every

trade. Therefore, it is essential to create a set of rules in advance to resolve potential problems that may arise throughout the trading process.

   Trading Tactics are basic guidelines and strategies that optimize Harmonic Trading decisions. Trading Tactics provide rules for nearly every trading situation, attempting to maximize profits while limiting losses. Clearly, the Harmonic techniques provide an accurate and effective means to identify potential reversal points. However, each reversal is not the same. Hence, each monetary result will differ based upon two critical factors:

<p style="text-align:center">1. <strong style="color:red">THE MARKET'S REACTION to the harmonic area;</p>

<p style="text-align:center">2. <strong style="color:red">YOUR RESPONSE to the price action in the Potential Reversal Zone.</p>

   In this process, varying trading decisions must be continually considered to maximize the result of the position. Since the same patterns yield different results, it can be difficult to try to "outguess the market" and know which setups will work. However, if a consistent approach is maintained throughout the trading process, the actions taken in accordance with these rules usually work out to the greatest advantage in the long run.

   The guidelines in this section are the result of years of harmonic research. Although they may not work out in every situation, they are the best general rules to follow that will optimize the handling of harmonic trades.

Home: Trading Tactics

What is Harmonic Trading?

Harmonic trading is a methodology that utilizes the recognition of specific price

patterns and Fibonacci numbers to determine highly probable reversal points in stocks. This methodology assumes that trading patterns or cycles, like many patterns and cycles in life, repeat themselves. The key is to identify these patterns, and to enter or to exit a position based upon a high degree of probability that the same historic price action will occur. Although these patterns are not 100% accurate, these situations have been historically proven. If these set-ups are identified correctly, you can discover significant opportunities with a very limited risk.

One of the earliest references to harmonic trading was made by J.M. Hurst in his cycles course from the early 1970s. His *Principle of Harmonicity* states: "The periods of neighboring waves in price action tend to be related by a small whole number." (Hurst, J.M., J.M. Hurst Cycles Course, Greenville, S.C.: Traders Press, 1973.) The important concept to grasp is that price waves or distinct price moves are related to each other. Futhermore, Fibonacci numbers and price patterns manifest these relationships, and provide a means to determine where the turning points will occur.

When these turning points are identified correctly, trades are executed at a price level where the cycle is changing. Essentially, this type of trading is respecting the natural ebb and flow of buying and selling. In doing so, these trades are executed "in harmony" with the market. For example, when a stock is bought at this turning point, the majority of the selling that has driven the price down is very close to ending. Quite often, the harmonic techniques identify trades at or very close to the exact reversal point. When these trades yield valid reversals, you will realize the true cyclical nature of price action.

It is important to note that harmonic analysis works on any time frame - hourly, daily, weekly or monthly stock charts. I believe the clearest trade opportunities, or "set-ups," appear on daily charts for position or swing trades. However, hourly charts provide excellent set-ups for shorter-term or day trades. It is also amazing that these methods work on longer-term charts, as well. Weekly or monthly charts are excellent measures of historically critical areas for stocks.

Home: Trading Tactics

"Trade Journal"

It is very important to maintain a written journal to keep track of potential trade set-ups. A stock journal should include the type of pattern, the completion point of the AB=CD and the Fibonacci retracements within the reversal zone. Also, a written journal is helpful in recording your personal

thoughts regarding the relative price action within a reversal zone.

It is important, especially in the early stages of learning these techniques, to keep track of your thoughts. The thoughts and ideas that are generated during the trade execution process are your personal signals that help gauge the price action. It is important to record your feelings and expectations relative to the current price action.

The key to trade execution of harmonic set-ups still requires to properly gauge the price action within the reversal zone. Achieving the "feel for the numbers" requires an understanding of your own personal signals. Your stock journal will record your mental processes and trading behavior. It is only through such study that you will improve your executions and become a more successful trader.

I have included a sample of my own journal that shows how I approach trade set-ups. I line the various set-ups in "my sights" and wait for them to materialize. If they don't work out the way that I have projected, I move on to the next trade. If I do see a set-up that comes together, I gauge the price action. After the opportunity is over, I summarize the events and my response to the opportunity. If I accept a trade, I will record my thoughts and feelings throughout the entire experience until I am out.

8/13

UAL = AB=CD @ 71; 127 @ 69……CLOSED YESTERDAY SHORT OF 127 and warning sign = gap down on the open today below 69……wait for 1618 @ 63.25 for potential buy

AOL = mini-3 DRIVES OFF TOP COMPLETE RIGHT @ THE 618 – ALMOST EXACTLY!!!!!….MUST HOLD LOW FROM 8/5 OR THIS IS GOING TO GET WHACKED AGAIN

FDX = SELLING OFF INTO MAJOR 1618; THIS IS CLOSE TO A BUY!!!!!!!!! WAIT FOR AB=CD to complete around 50; a good set up though! Price action stabilizing! It's almost past the 1618, so I'm very close!

JPM = Critical Support Levels: @ 618/786 = 111.1875/104.6625

As you can see by my journal entries, I have identified several trade set-ups for potential opportunities. It is not uncommon for me to follow a stock for a week or two, especially when I am tracking price action after a nice harmonic set-up. I urge you to use a written journal religiously. I have learned a great deal about price action and harmonic set-ups. In addition, I have learned even more about myself, and my perception of these opportunities.

It is even more essential in the beginning stages of your study because each person's trade executions are unique. Although two people may utilize these harmonic methods and calculate the same potential

reversal zone, their execution prices will most likely be different. One person might take the trade, while the other avoids it. The difference lies within the perception of the market action within the reversal zone.

Over time, the stock journal will help you gauge your own personal signals to interpret the market action. In addition, you will develop a feel for what "should be happening." For example, let's say that you have identified a valid harmonic set-up with several numbers within a very tight zone. Specifically, you have identified a great bullish Butterfly pattern. You are looking to buy but the price action suggests an extreme move because of an extreme price range, tail close or gap. You might record in the journal that the pattern looks great but the price action at the reversal point is too strong or has a warning signal, so you avoid the trade. Also, you might record that an ideal reversal "should" bounce off this zone quickly and show strong signs, such as a positive close above the harmonic area. In this example, since the stock is not reversing the way it "should," you have not accepted the trade.

During this time, it is important to record the reasons why or why not you accepted the trade, and the emotions that were associated with your actions. Also, after the opportunity has abated, it is important to record how the trade turned out and how you responded to the experience. Recording these events helps develop your feel of how a stock should act. When you understand how a stock should act, your intuition for gauging price action increases. Furthermore, by developing your intuition, your executions will improve.

Although not all harmonic set-ups are ideal, developing certain standards of price action helps create a framework to gauge the reversal zone. A stock journal that records these experiences is the key to developing your intuition. Each person's response to price action is unique. So, it is imperative to learn the signals that you generate during the execution process to improve future trades.

Home: Trading Tactics

"Trading Plan"

Like any business, a successful trading venture requires a plan of action to define rules. that identify potential trading opportunities. This trading plan consists of a list of critical questions to ask in order to identify a trade setup. Although it seems rudimentary, this trading plan can help you avoid the mental confusion that can arise in trade executions.

1. Is there a pattern?
2. What is it?
3. Is there an AB=CD?
4. Where does it complete?
5. Are there 3 or more numbers converging in the potential reversal zone?
6. What are they?
7. What are the time cycles (symmetry) suggesting?
8. Are there any warning signs? (price gaps, wide ranges, tail closes)
9. At what point is the potential reversal zone no longer valid? (Stop Loss)
10. How much must I risk?
11. Am I willing to risk it?

Home: **Trading Tactics**

"The Trading Checklist"

STOCK: _____   **DATE:** _____

TRADE: Buy:_____ Short:_____

Is there a pattern?   Yes:___   No:_____

Is there an AB=CD?   Yes:___   No:_____

Where does it complete? _____

Are there 3 or more numbers converging in the potential reversal zone? Yes:_____   No: _____

What are they? _____
What are the time cycles (symmetry) suggesting? _____
Are there any warning signs? (Price Gaps, Wide Ranges, Tail Closes) Yes:_ No:_ _____
At what point is the potential reversal zone no longer valid? (Stop Loss) _____
How much must I risk? # of Shares _____ x Stop Loss Amount _____ = _____(Total Risk)
Am I willing to risk it? Yes:_ No:_____
Is the chart Prepared? Yes:___ No:_____
Profit Target? _____
Comments:

Home: Trading Tactics

"Trading Psychology"

There are numerous books on Trading Psychology that advise a variety of techniques to improve the mental aspects of trading. There are a few books on the Recommended Reading List that can help gain a clearer perspective on the markets. And, it is an important area of the market to study. But, I would like to offer a few ideas to improve your trading psychology.

Keep it simple. Although there is a definite advantage to learning as much as you can about the markets, over-analysis of potential opportunities can create confusion and second-guessing. It is important to incorporate only those techniques that have clearly proven themselves to be effective tools. Yes, certain indicators can be reliable but it is ridiculous to try to incorporate every technical measure when assessing a

trade.

Stick to a winning plan. They key ingredient in preventing this confusion is to create and adhere to a winning trading plan. Although I may consider extraneous variables when assessing a potential trade, Harmonic Trading techniques as defined in my Trading Plan are the fundamental basis for entering a position.

Full-time trading is not a full-time job. One of the most common reasons for lacking a clear mental perspective is the simple fact that many traders trade too much. W.D. Gann in several of his books discussed the mistakes inherent with over trading. Could you stop trading for more than a week? A month? A year even? Or do you *have* to trade? If you *have* to trade, you might as well go to Las Vegas because you have just entered the world of a gambling addict. It is important to place time and/or monetary limits that will force you to take a break after a certain period of time or profit level has been achieved.

Study the masters. In my desire to learn the most pertinent information on the market, I discovered many books that were more than 50 yeas old that contained incredible market insights that remain valid to this day. Today's "pop trading" books have been penned by high-profile market celebrities. Unfortunately, many of these people are not active traders. In fact, the first online trade show that I went to I met with several notable authors. It was amazing that many of these people were not active traders and many stated that they have not traded for years. I can not emphasize enough the importance of reading those who have or currently are active trades. Historical books by authors like W.D. Gann, J.M. Hurst and Jesse Livermore contain valueable insights to the markets based upon years of trading experience.

Review your work. The only way to overcome your trading errors is to study your trades. Although losses are apart of the business of trading, it essential to review those trades and the mistakes that caused the faulty judgment to prevent repeating the same mistakes. If you must pay tuition at the University of Wall Street to learn how to trade successfully, you have to do your homework and review your mistakes. Otherwise, you will be doomed to repeat them.

Home: Trading Tactics

"Trading Questionaire"

 This list of questions is an excellent means to review your overall trading approach. It is critical to outline your basic tenets regarding trading to gain a greater understanding of your trading.

1. Why do you want to trade?
2. When was the first time you realized you wanted to trade?   Why?
3. What was your first trade?
4. What was your last trade?

5. What was your best trade ever?

6. What was your worst?

7. What is your preferred time frame for trading? (Day/Position/Investor)

8. What is your greatest benefit of trading outside of the money?

9. What is your greatest fear associated with trading?

10. How do you know when to buy/short a stock?

11. How do you know when to cover that position?

12. What is your greatest strength in your trading?

13. What is your greatest weakness?

14. What areas of trading do you think you need to learn more about?

15. Do you review your past trades?

16. What do you expect to get out of trading? (List Three Accomplishments)

17. What will your trading be like within each of the following time periods?

- Six Months
- One Year
- Five Years
- Ten Years

Home: Trading Tactics

"Trading Rules"

Define the Stop Loss First: Quantifying the amount of risk in a trade is essential to limiting losses and preserving capital. It is essential to establish a point where the trade is no longer a valid opportunity, limit the mistake by exercising the stop loss and moving on to the next trade.

Prepare the Charts in Advance: Proper preparation of a trade is an essential aspect of a successful execution.   It is important to label the chart, know the critical harmonic numbers in the Potential Reversal Zone and understand how the stock should act after testing this area. Such preparation will improve trading decisions and create confidence in your ability to handle any situation.

Execute in the Potential Reversal Zone: The key to Harmonic Trading is to execute trades at the convergence of numbers (Potential Reversal Zone) and use a small stop loss limit to limit

mistakes. Although you may miss some opportunities, executing trades after the numbers have been tested can create larger than average losses, as many setups fail to yield significant bounces

No "Rolling Back" in to a Position: Once a trade has been closed, it must be let go. It can be detrimental to reenter a trade because

No Averaging Losing Trades: If you are in a losing position, it is critical NOT to add to the position. It compounds the mistake and usually ends up costs a great deal more than the initial mistake.

Never Let a Gain Become a Loss: Once a small profit has been achieved, it is essential to establish the price level where the position's profit is secured and a loss is averted.

$Ring the Register$:   This is a quote from Marty Schwartz's book, "Pit Bull." It is a nice catch phrase that emphasizes the importance of securing profits, regardless of how small in any uncertain market environment.

Let the Market Tell You When to Trade: Using the Harmonic techniques, there are specific rules that identify opportunities and indicate exit points for each trade. It is important to abide by these rules to guide trading behavior, as consistent trading actions will improve profit consistency.

Respect Harmonics! Don't ignore what the patterns and Fibonacci numbers indicate.

Review Your Trades: To improve trading skills and to prevent previous mistakes from being repeated, it is essential to review past trades.

Follow the Rules! Enough said!

Home: Trading Tactics

A Losing Trade

It is important to review all trades. Studying losing trades can reveal a great deal about your trading behavior and can improve future results.   The technique of executing a stop loss is straight forward, but it is important to review some of the mistakes that can arise in execution. One of the most important aspects to notice is how the stock acted after it broke beyond the Potential Reversal Zone.

This was a very clear pattern and seemed to bounce from one Fibonacci number to the

next. In fact, there was an excellent bearish AB=CD right at the top. The stock sold off and formed a nice bullish Gartley just under $40 a share.

CNET NETWORKS (CNET): DAILY
BULLISH GARTLEY
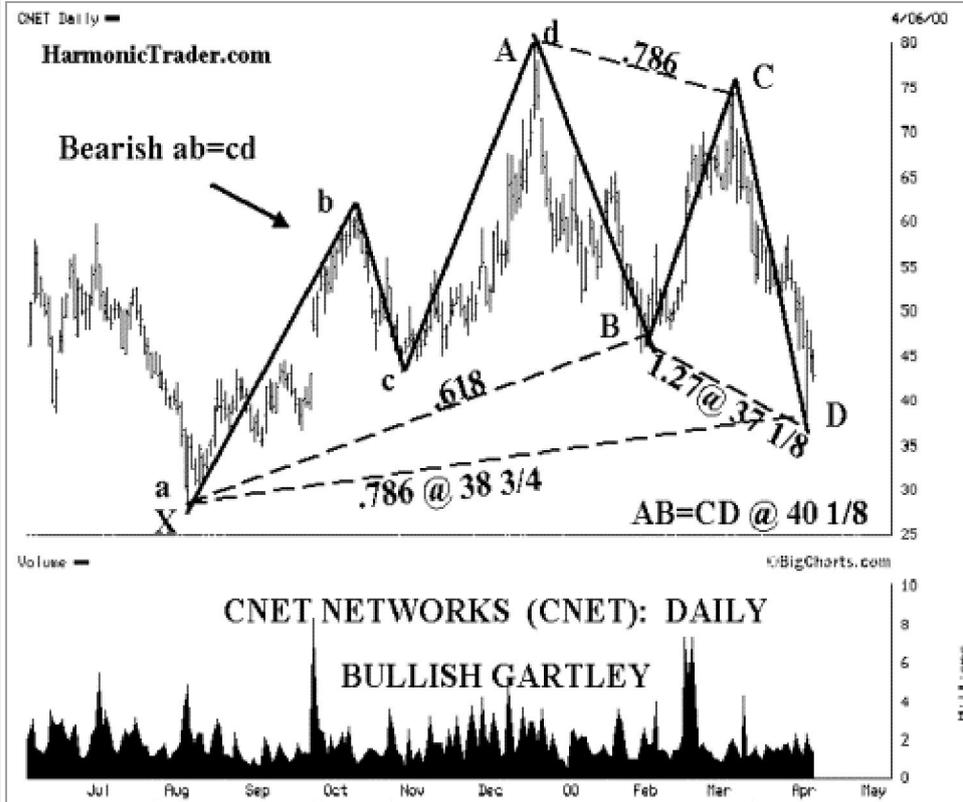
The only problem with this setup was the warning sign on the day it hit the Potential Reversal Zone. The stock dropped sharply, hit the PRZ and bounced significantly. The following intraday chart shows the price action in the Potential Reversal Zone.

CNET 5-Minute ▬   5:38 PM

CNET NETWORKS (CNET): 5-MIN
PRICE ACTION IN THE
POTENTIAL REVERSAL ZONE

AB=CD @ 40 1/8

.786XA @ 38 3/4

1.27BC @ 37 1/8

Volume ▬   ©BigCharts.com
                                                            HarmonicTrader.com
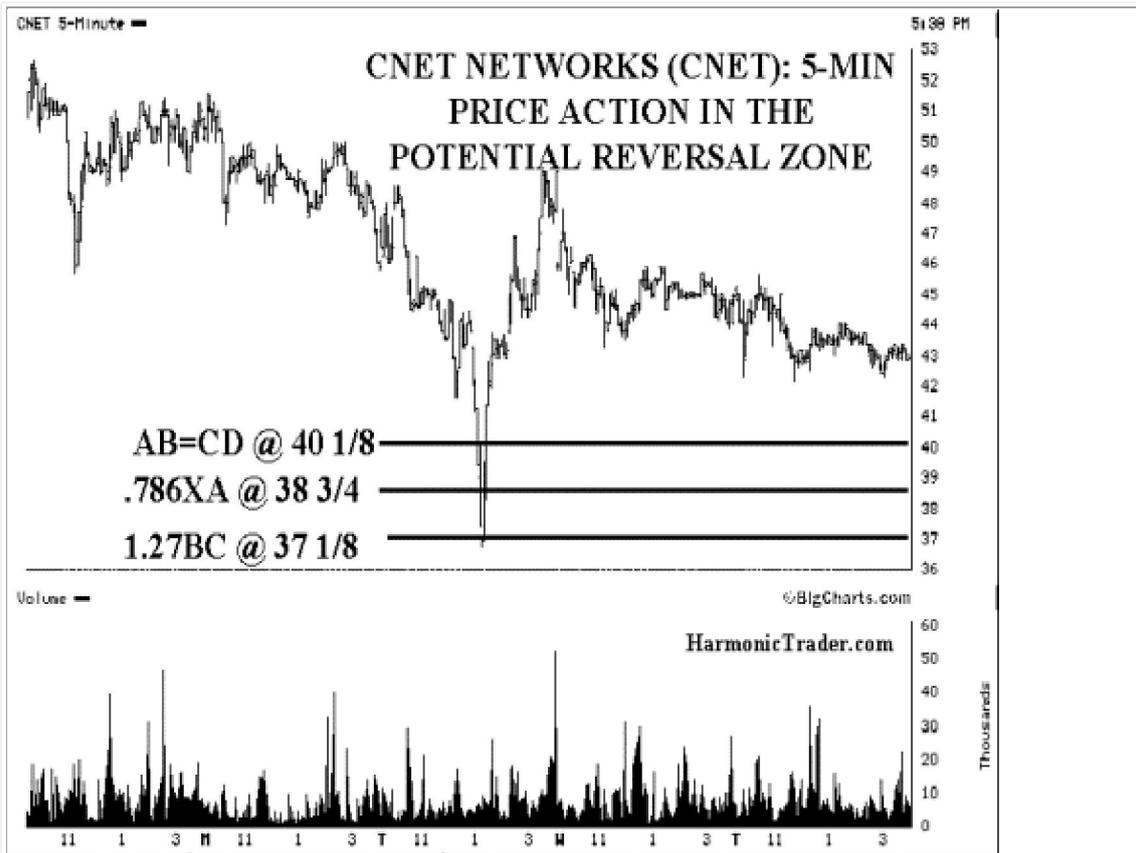
The stock was down over 10 points when it hit this area. Due to this extreme action, I decided not to pull the trigger and buy. I watched the setup closely and looked for a retracement off this low to take a long position.

Soon after the initial bounce, CNET formed a bullish Gartley on an intraday chart. There were three numbers between 38-40 that defined the PRZ. Since the daily chart was such a clear pattern and the stock bounced almost exactly off the area, I thought that CNET might bounce off a retracement off this low before heading higher. The following chart clearly shows the setup.

CNET NETWORKS
(CNET): 30-MINUTE
BULLISH BUTTERFLY

BUY 800 @ 39 7/16
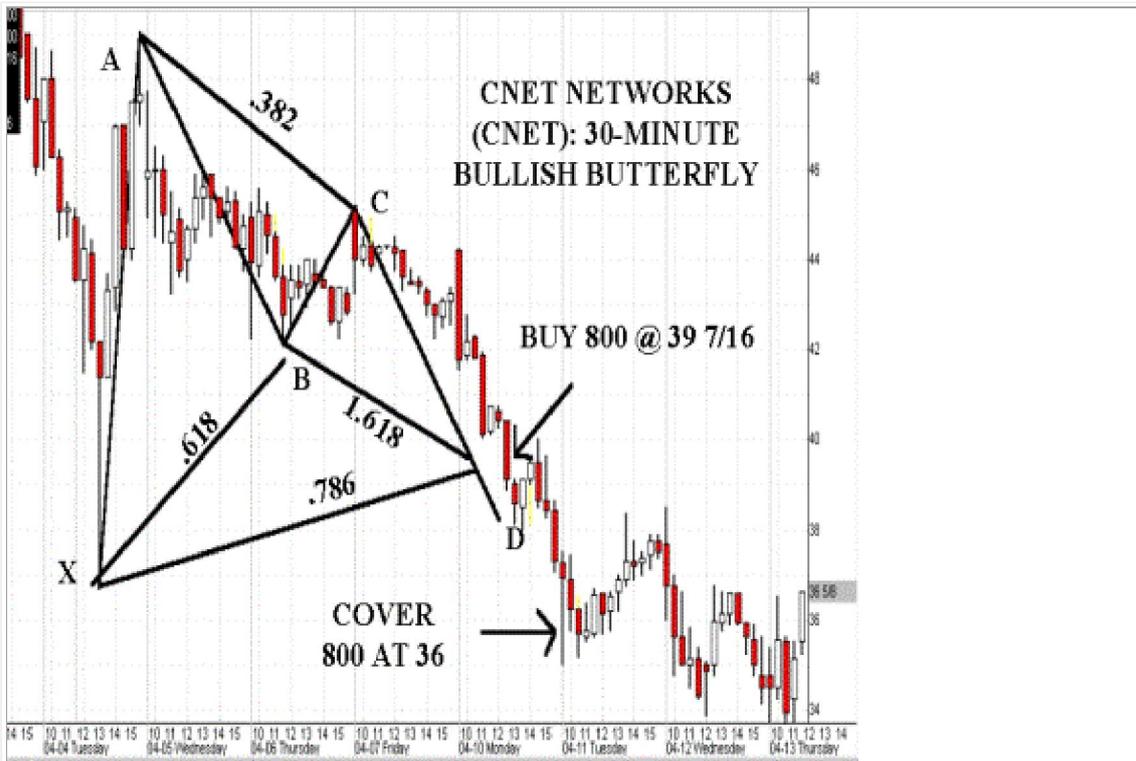
COVER
800 AT 36

I was looking to buy near the convergence of the .786 XA leg and the completion of the AB=CD. I bought 800 shares at 39 7/16 but the stock never turned. On the open of the next day of trading, CNET continued to slide and I covered my loss near the low for that day. Although the stock bounced after I covered, it quickly rolled over and sold off under $30 a share within the next few days. The following daily chart shows the price action in the days following the failure of the pattern.
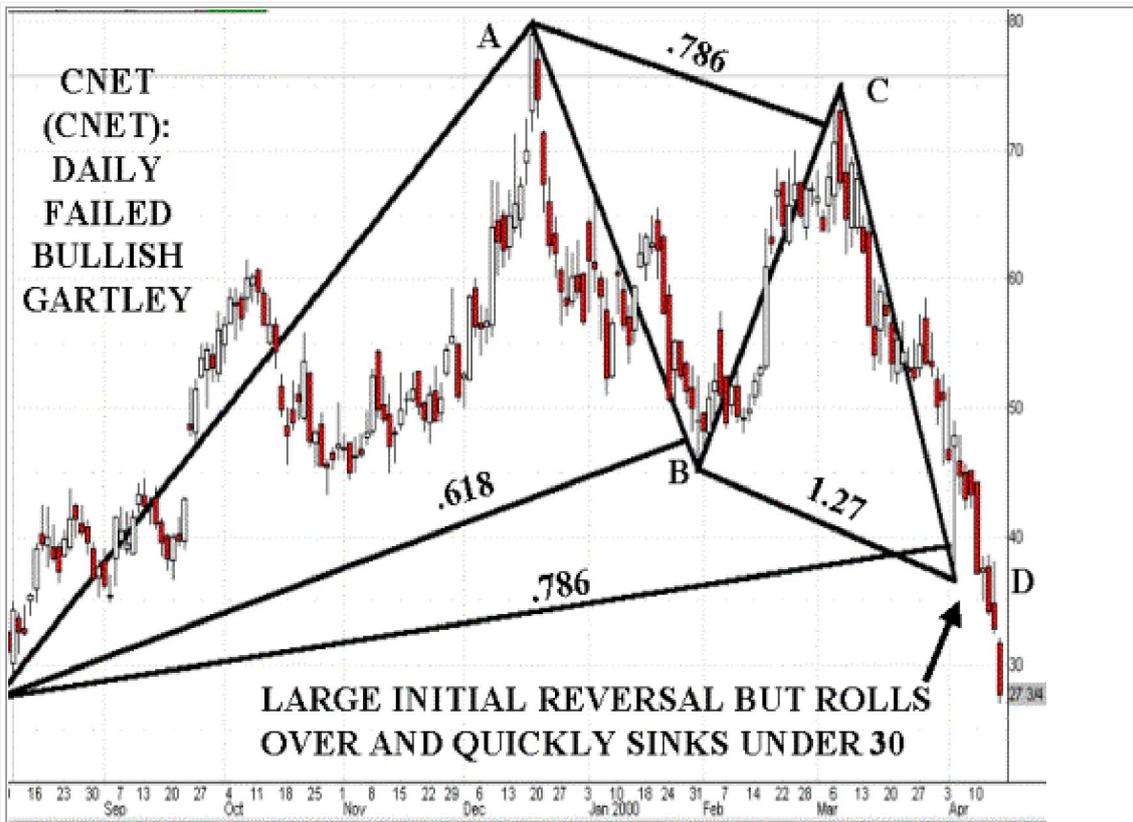
Mistakes and Lessons Learned

This trade was a valid setup. However, the severity of the selling and the lack of follow through after the initial bounce should have indicated weakness in the stock. Also, I was forced to cover my position lower than I wanted due to the extreme selling on the open. I took a larger than expected loss and I was frustrated by the fact that I covered near the low of the day. But, the breakdown past the PRZ did indicate longer-term weakness and I was happy to be out of the position, as I watched the stock sink into the 20s within the next several trading days.

I guess that I put too much faith in to the setup. I thought that such a clear pattern and the past harmonic price action would provide a longer-term move. It is amazing that the stock bounced almost exactly off the PRZ after being down so much in the day. Not to mention, the stock rallied over 10 points after hitting the harmonic area. These are difficult situations to gauge. But, I liked the Gartley that formed on the intraday chart, and I was willing to risk the amount in the setup.

Another problem with the setup was that I did not execute my trade when it first hit the PRZ. This is a critical aspect to the execution of successful harmonic setups. In my experience, the best opportunities occur when the stock hits the PRZ the first time. I have been burned on many trades trying to buy the initial retracement. Although I have made money on some of these trades, I prefer to execute trades on the first entry into the harmonic area. Executing trades after a stock has bounced off a PRZ has put me in situations where I am chasing a stock. Furthermore, when I don't execute in the Potential Reversal Zone, I frequently find myself risking a great deal more than I would have with the initial opportunity. These situations can be tough to handle and until you have the expertise to handle these scenarios, I suggest avoiding them.

These chart examples clearly illustrate the effectiveness of the harmonic identification and trade management techniques. It is important to review these examples and study your own past trades within this framework. In doing so, you will discover your mistakes, correct bad habits and improve your performance in future trades. If you want to be a better trader, you must be willing to review your past trades and constantly strive to learn more.

Home: Trading Tactics

Harmonic numbers are very peculiar because in a reversal zone that contains several harmonic calculations, it is difficult to know which point will end the trend. Although these rules are generalizations, I believe that there is a certain degree of weighting to the harmonic numbers when analyzing a potential trade.

Look for an area of convergence. History has proven that a convergence of Fibonacci numbers and specific price patterns provides a highly probable area for a reversal. When such a congregation of numbers occurs, it is possible to assess an optimal point for executing a trade, while defining a stop loss limit that is relatively small to the potential profit.

Look for where the greatest group of calculations converge. The key to utilizing these harmonic measures when analyzing a price chart is to determine the area where the greatest group of calculations converges. Fibonacci numbers are very peculiar because in a reversal zone that contains several harmonic calculations, it is difficult to know which point will end the trend.

The bigger the number the more significant of the harmonic area. This means that the Fibonacci number that is calculated from the largest price leg is usually the most significant, as an entry point for a trade in a reversal zone. Also, the bigger the pattern, the more significant the potential reversal. For example, a pattern that develops on a weekly chart will be more significant than a set-up on a daily basis. Also, if there is a smaller pattern within a larger pattern, the larger pattern usually will be more significant.

Look at the amount of numbers within the Potential Reversal Zone (PRZ). The more numbers that exist within a specific area will indicate the importance of that price level.

Look at the closest convergence of numbers within the Potential Reversal Zone. If the numbers are very close to each other within that area, the reversal zone should be considered even more harmonic. When a congregation of harmonic numbers is within a point or two, the area should be considered very significant. This an important guideline because a very harmonic area will indicate a great deal about a stock's direction. For example, if a potential reversal zone contains four or five numbers, the area should be considered very harmonic. If a stock reverses from this area, the potential reversal zone could be considered as an important turning point. But, if a stock does not reverse, it would indicate that the predominant trend is quite strong.

197

Home: Trading Tactics

"Trade Execution"

What a Stock "Should" Do .The critical factor in determining whether or not to execute involves an understanding of how a stock "should" act, after it has reversed off a harmonic area. Since a convergence of harmonic numbers defines a critical area for potential turning points, a stock that begins to bounce from that area should clearly continue in that direction.   In fact, in my research of harmonic price action, I have found that the stronger and quicker the reversal, the greater potential for a nice move. This is incredibly important because stocks that can reverse sharply off a Potential Reversal Zone provide clear direction for the future price action. A stock that reverses slightly and begins to roll over should signal that the P.R.Z. is not as strong as it may seem.

Reversal Possibilities: A stock can do one of three things:

1. Trades past the Potential Reversal Zone, into the Stop Loss Zone.
2. Reverse slightly off the PRZ and consolidate.
3. Reverse off the PRZ and provide a nice cushion within a relatively short period of time.

Let's consider the possibilities.

1. The stock moves into the Stop Loss Zone and requires that the loss be taken – next trade. Although this may not be the desired goal, stop losses are a part of the business of trading. The harmonic techniques provide high probability setups (more than 60-70% at a minimum). Therefore, it is important to remember that all setups are not going to work out. But, if this system is implemented effectively over the course of many trades, you will realize that the odds are stacked in your favor.
2. Harmonic setups frequently reverse off of Fibonacci retracements. However, all setups are not the same. In this case, when a stock rolls over and heads in the predominant trend, it is critical to secure the quick profit before the trade becomes a loss.
3. After a "profit cushion" has been achieved, the Trade Management techniques must be employed to maximize profits and effectively handle the position.

Home: Trading Tactics

"Trade Management"

Identifying harmonic patterns is not a difficult skill to master. After studying the various patterns and applying the Fibonacci ratios, the trade is usually quite clear. But, after you identify a trade, it must be handled properly to maximize profits and minimize losses. Although two harmonic trades may possess the same patterns with identical Fibonacci ratios, the outcomes can be completely different. Therefore, there are some simple guidelines to follow during the management stage of a trade after it has been executed.

Be prepared for anything. Although the clearest setups can indicate excellent trading opportunities, it does not relieve you of the responsibility of monitoring the trade. It is critical to examine the stock closely.

Losses are apart of the business. Although a majority of harmonic setups work out, when they are identified correctly, there are a percentage of trades that will fail. It is just a fact of the business of trading. The key is to cut the losses to a minimum and move on to the next trade.

Follow the trade management rules. The trade management rules are based upon years of harmonic research. Although they might not work out for the best in every trading decision, they are excellent general guidelines that will improve your trade management.

Respect the price bars at the harmonic levels. The most critical information in a harmonic setup lies in the price action at the convergence of numbers. It is essential to closely examine how a stock is acting when it hits a harmonic area. A stock that can show signs of a reversal in an area of harmonic convergence can indicate the validity of a setup. However, a stock that fails to reverse in this area indicates that the predominant trend is quite strong.

Look for continuation. After a stock has tested a harmonic area, it should clearly continue in that direction. Stocks that merely stall or fail to move convincingly in the reversal trend usually indicate a potential failure.

If in doubt, Get out! If you don't feel right about a trade or a position, close it out or don't take the trade. It is much safer to miss out on an opportunity than it is to anguish over a situation that is not inherently correct.

Home: Trading Tactics

"Why Trade Management?"

I want to review the trade that forced me to create this system because it was a real heartbreaker. It probably was one of the greatest moves that I've ever missed. The stock: Redhat – RHAT! I remember thinking before I entered this trade that the symbol alone was a sign of a bad trade – a dirty RHAT! I thought that it might be a loser, despite the overwhelming harmonics. The trade involved a nice bullish AB=CD at a critical .618 retracement. This stock was a recent Initial Public Offering (I.P.O.). As a side note, I follow I.P.O.s after they initially trade because these setups frequently provide very clear patterns in the days or weeks after they are released to the public. Despite my apprehension to the symbol, I placed my trade. I bought 1200 shares at 37 3/8. Within a day or two, the stock rallied vigorously. I was up over 8 points at the high and felt compelled to take my profits and run. I was very happy with this trade and I felt that this move would not continue much higher – was I ever wrong!

First, I want to show you the trade. It was a very harmonic setup with three numbers in the Potential Reversal Zone.
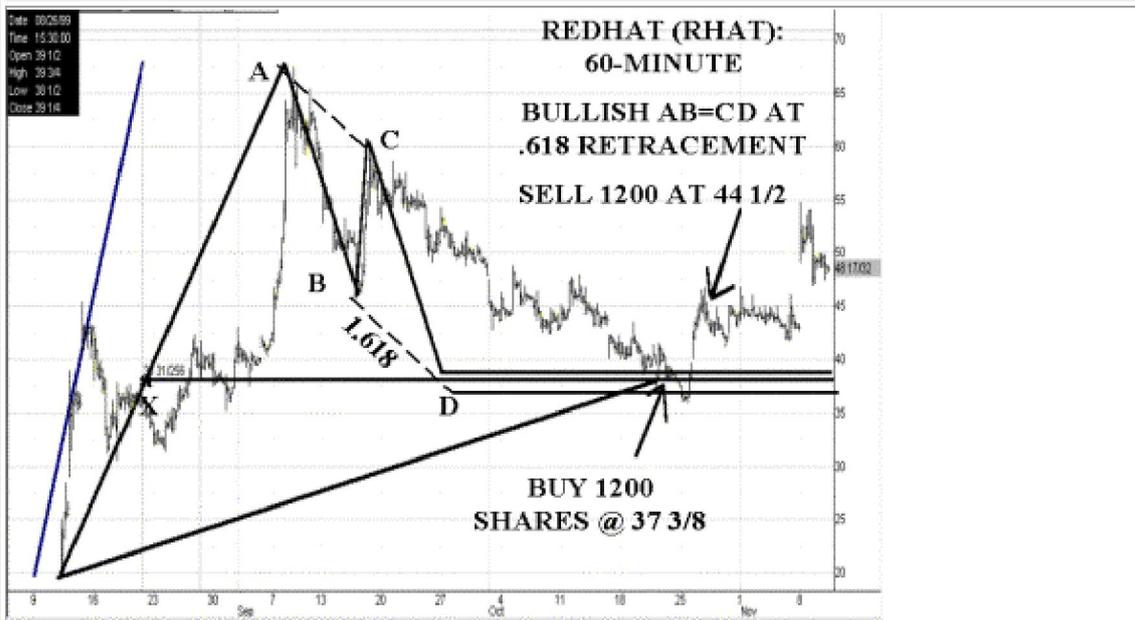
And now for the heartbreak:

REDHAT
(RHAT): DAILY

SELL 1200
AT 44 1/2

STOCK RALLIES
ANOTHER 100 POINTS
WITHIN A MONTH!

BUY 1200 SHARES @ 37 3/8

Yes, say it with me: "An easy hundred thousand left on the table!"
You can see why I felt compelled to develop a system that would
respond to market signals rather than emotional reactions.
Although I missed out on these profits, I was determined to learn
from this experience. If I was not going to directly profit from this
trade, I made it a point to learn from yet another tuition payment to
the University of NASD! It was the only way I could overcome
my anguish over missing a "lottery trade."

I learned several important factors from this trade that
helped me distinguish the big moves from the small bounces. I
noticed specific traits in the price action that led me to explore and
experiment with different ideas that effectively gauged the strength
of the reversal. Techniques such as trendlines, Fibonacci targets
and trailing stops are effective tools that can improve trading
decis6ions. Furthermore, these strategies create a system of rules
to help make the best decision in any market environment.

Although these rules are general guidelines and they are
not perfect (yet), it is a system that truly let's the market take you
out of the trade. Essentially, if you do not have rules to determine
the information that the market is providing, you are closing

positions based mostly on emotional decisions. Think about it – what was the last trade you closed out? Why? Was it because you didn't think the market would go completely your way? Were you burned by a previous trade that compelled you to take the quick profit or cut the loss small?

In the same sense that effective rules – the harmonic techniques – are used to identify trade opportunities, it is critical to have guidelines that define our behavior and gauge the price action after a trade has been executed. This strategy will define your actions in advance, enable you to respond to any situation and instill confidence in your positions.

Home: Trading Tactics

It is important to review these terms and compare them to the illustrations to understand clearly the concepts of this system

Potential Reversal Zone (P.R.Z.) The P.R.Z. is a specific area where harmonic patterns complete and Fibonacci projections converge. Identification of a valid P.R.Z. is dependent upon finding the clearest patterns that possess several Fibonacci in the same specific area. Also, it is important to remember that a P.R.Z. represents a significant "potential" reversal area and a violation of that area indicates that the primary trend is strong.

Initial Profit Objective (I.P.O.)   This is a percentage of a total position (usually ½) that aims to secure the most profit possible in the quickest period of time. The I.P.O. is usually defined by either a predetermined Fibonacci level. Most frequently, it is either a .382 or .618 retracement from the extreme points of the pattern. Also, it can be a trendline violation after these targets have been exceeded.

After a reversal has occurred and a small profit has been attained, it is critical to determine the areas where the first profit will be secured. The decision to take the first profits at the .382 vs. the .618 depends upon the price action at the .382. If this area is "blownout" by a price gap, extreme price range or tail close, I recommend using the .618 as the I.P.O. I try to secure my I.P.O. at one of these levels.

The blowout of these levels is dependent upon a continuation of the trend. If a stock reverses from the P.R.Z. and hits one of the I.P.O. levels but fails to clearly continue in that direction, it is important to secure the I.P.O. A lack of continuation in the price action is a sign of temporary exhaustion that must be respected. The I.P.O. secures a profit, ensuring a winning trade and creating a "comfort zone" for the other half of the position. The other advantage to splitting the position into two parts is that the other ½ can "ride for free." Since anything can happen in the market, the other ½ keeps us in the market until the price action signals it's time to cover. This is critical because it reduces the amount "left on the table." Also, this strategy shifts your trading behavior to respond to the market rather than your own emotions. Although the example of Redhat is an extraordinary case, it underscores the importance of letting the market take you out of the trade.

Profit Protection Zone (P.P.Z.) Although this is a bit more subjective in the management of a trade, it is a predetermined level (1/4 or 1/2 point) beyond the execution point after a small profit has been achieved that protects against a profit from becoming a loss. The P.P.Z. is critical because it enforces one of my most important rules:

"Never let a profit become a loss."

It is important to note that not all setups yield the same reversal. Some setups will bounce for a short period of time and then roll over, continuing in the predominant trend. These setups can provide a quick bounce and a small profit, as long as you establish the P.P.Z. Sometimes, I have been taken out of a position by the P.P.Z., only to have the stock resume its reversal. Although these are frustrating trades, the P.P.Z. will save you in the long run from pattern failures and ensure loss protection.

Stop Loss Zone (S.L.Z.)   The area beyond the Potential Reversal Zone that represents an invalid set-up. When a stock enters this area, it indicates that the Potential Reversal Zone is not an appropriate turning point, and requires that the position be covered and the loss to be taken.

The .382 Trailer   The .382 trailing stop is a technique that I developed after studying the Redhat trade closely. It is used after a profit has been attained in a position. The .382 is usually used for the second ½ of the position, after the I.P.O. has been executed. The .382 trailer is measured from the reversal point to the reversal extreme - high (bullish setup) or low (bearish setup). The .382 is significant because the strongest reversals will only retrace to this level before continuing in the trend of the reversal. Although stocks frequently retest this level, it is important to look for a break beyond this area. Therefore, your trailing stop will be executed upon a continuation past the .382 level.

Angle of Ascent/Descent   The angle of ascent/descent refers to the degree of the bounce after it has reversed off the setup. Although you don't need to specifically measure this angle, a valid reversal will provide a clear channel that defines the trend. A strong reversal will usually move in a 60 degree angle or greater. Although these measurements are somewhat subjective, the angle of ascent/descent will help determine the strength of the price move. Furthermore, a steep angle is effective in securing the I.P.O. when combined with a trend line. If a reversal moves sharply in the desired direction, a tight trend line is a good way to secure an I.P.O. on a sharp move. This is due to the fact that many "parabolic" reversals (greater than 75 degrees) are difficult to sustain and using trend lines to gauge the move can increase your profits in the I.P.O.

Home: Trading Tactics

Bullish Setup

In the bullish example, using a Gartley pattern, there are several key elements that ensure proper trade management. After a stock has entered the PRZ, the most critical aspect is to establish a "cushion" between your execution price and the current price. In an ideal reversal, the stock "should" sell off into or slightly past the PRZ and turn shortly thereafter.

**Bullish Trade Management Illustration**

INITIAL PROFIT
OBJECTIVE @
.382/.618: SELL 1/2

A

C

.786

.382 Trailer

B 1.27

.618

PPZ

.786

D PRZ

X

SLZ
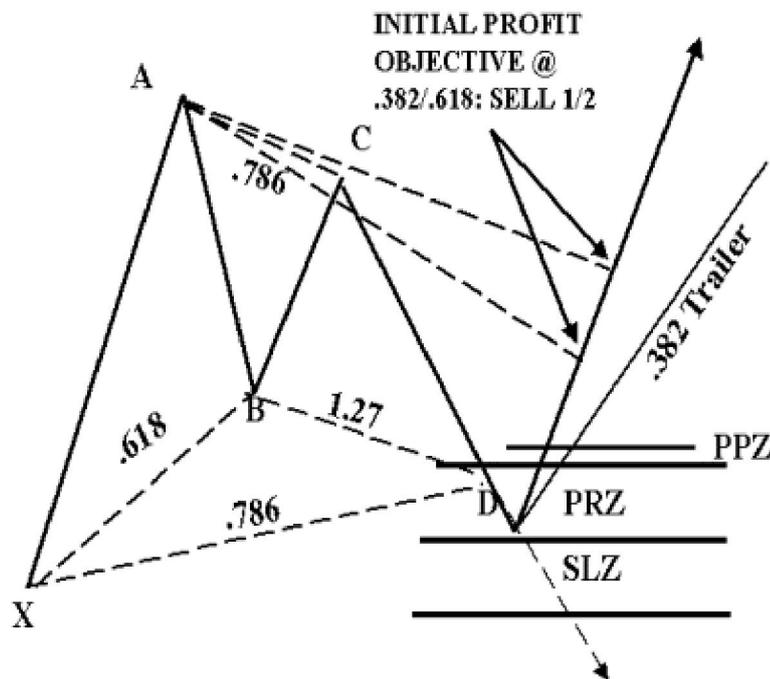
Trade Examples

The following examples demonstrate the management techniques. It is important

to note that I did not get the exact highs or lows but I let the market take me out of these trades.

Doubleclick (DCLK)

DOUBLECLICK (DCLK):
60-MINUTE
BULLISH BUTTERFLY
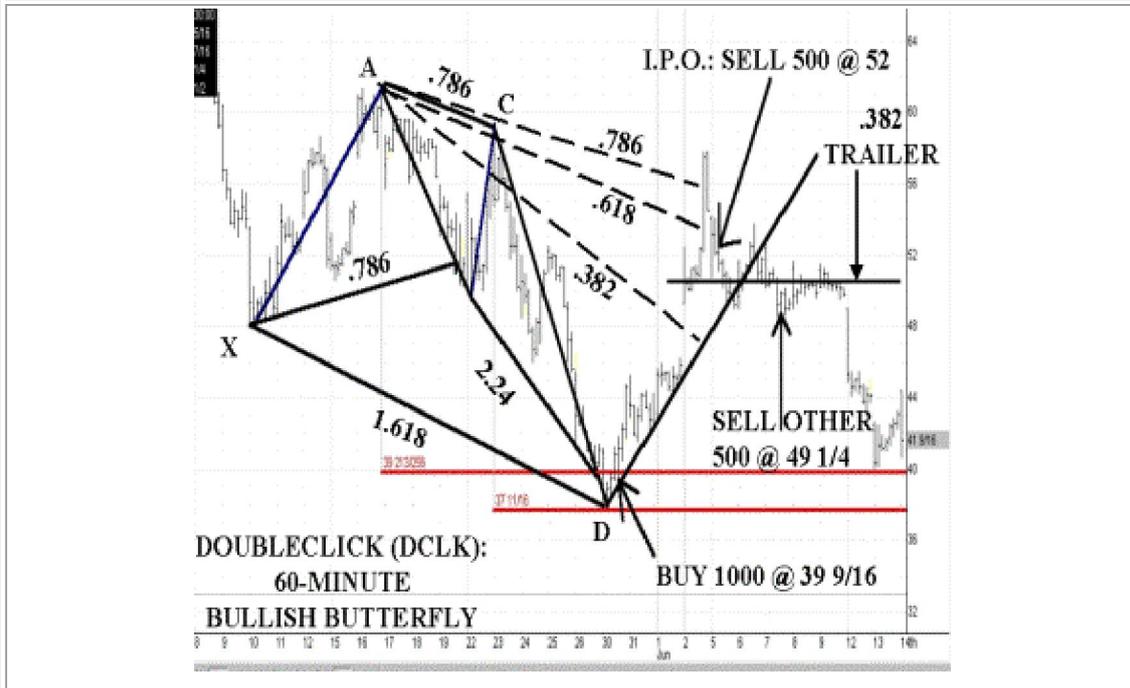
This is a great example because of the clear pattern, fantastic reversal and excellent harmonic price action. I bought a 1000 at 39 9/16 and caught a quick move on the upside. My first target at the .382 was blownout by the gap on the upside. The stock continued higher but reversed quickly after testing the .786 retracement off the pattern.

I took my I.P.O. after the stock rolled over and sold ½ just below the .618 retracement. I could have captured more of the I.P.O. but I though that such an explosive move would give me a greater profit. I let the other ½ ride and covered the position after the stock broke the uptrend line and broke down past the .382 trailer. Yes, the second ½ of the position was covered over 7 points below the high but this is the price you pay to let the market take you out of the trade. In the long run, this strategy will work in your favor – especially when those situations occur when the stock moves higher after a brief retracement. Next trade!

Lycos (LCOS)

This stock gave me another great move on the upside, as Lycos vaulted off the Potential Reversal Zone with a steep angle of ascent. I took my I.P.O. after the reversal at the .382. Although the stock headed much higher, I secured nearly 10 points in a short period of time. I covered the other ½ after the stock reversed sharply off the .786 retracement, broke the .382 trailer and the trend line.
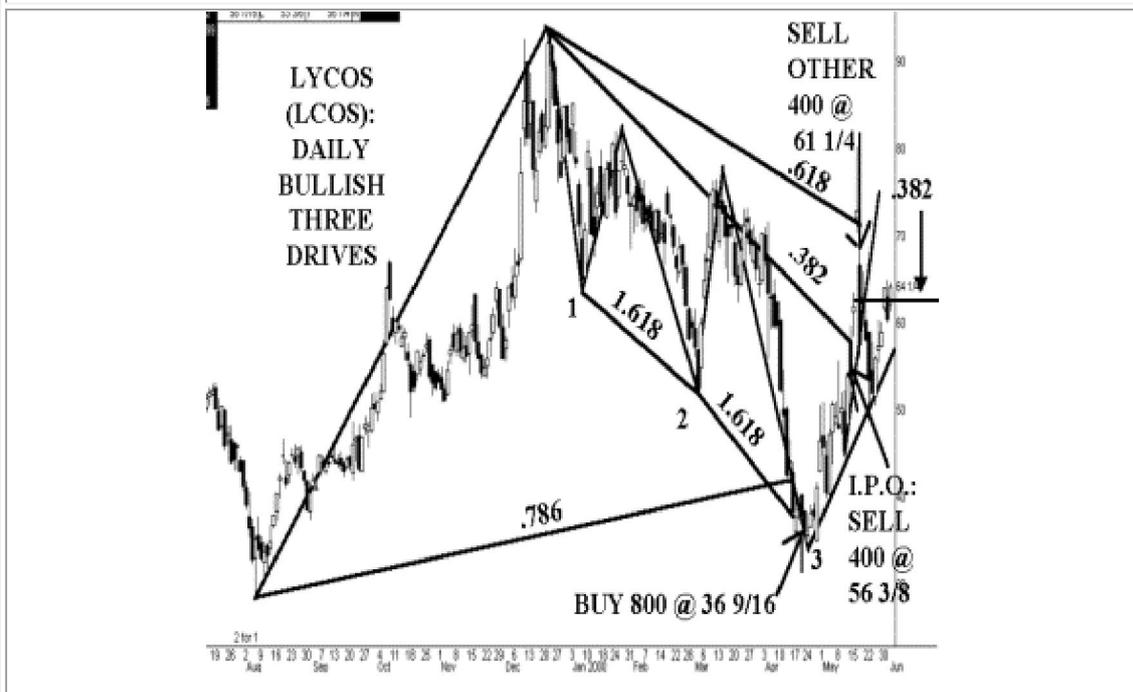
Again, I missed the high by several points but the price action was so severe that it would have been difficult to cover the other ½ at these prices. I was holding because the strength of the price action was indicating a potentially powerful move. Despite this perceived strength, the stock rolled over and I was out – after the market signaled its direction to me.

CMG Information Services (CMGI)

This setup was a clear bullish Butterfly with a very symmetrical AB=CD pattern. I was a bit late on the execution because I was waiting for the 1.27XA leg of the Butterfly just above 42 to buy the stock.

The stock reversed exactly at the completion point of the AB=CD at 43 1/8. I bought 1000 shares after the open the next trading day. Although I don't like to chase stocks, this was such a great setup that the gap up on the open and intraday bullish continuation signaled the stock's strength and validated the reversal.

CMG INFORMATION SERVICES: (CMGI): 60-MINUTE BULLISH BUTTERFLY

BUY 1000 @ 46 9/16

I.P.O. SELL 500 @ 55 7/8

SELL OTHER 500 @ 54 1/2

.382 TRAILER

The stock rallied vigorously, as it held a nice uptrend line with a steep angle of ascent. I was inclined to hold the position because of this strength. Unfortunately, the stock sold off dramatically on the day it broke the uptrend line. I was able to unload the I.P.O. only after the sharp decline. I held the other ½ but the stock continued to breakdown, as it clearly violated the .382 trailer.

It is important to note in all of these examples that I did not cover close to the highs but I let the market take me out of the trade. I definitely made mistakes in these trades by not covering the I.P.O. at a specific Fibonacci retracement. But, I respected the strong price action and used the trade management rules to keep me in the position until it was practically obvious that the trend had reversed.

Home: Frequently Asked Questions (FAQ)

What do I get with my membership? Your membership includes access to the website and the Email Advisory service. Also, your questions and comments are welcome regarding specific stock recommendations or Harmonic Trading.

Does HarmonicTrader.com actually trade their recommendations? HarmonicTrader.com trades almost every trade sent out on the **Recommendations** section and the Email Advisory. In an attempt to prove our results and assist website members, we are in the process of setting up an online account that is independently monitored that will show actual trades and performance. After certain legalities are resolved, this online account should be accessible within a few months. For now, all trades will be recorded and monitored on the website.

How can I learn more about Harmonic Trading? If you have not studied "The Harmonic Trader," it is strongly recommended. There are excellent book references on the **Recommended Reading List** that complement Harmonic Trading. In addition, HarmonicTrader.com will offer a live seminar series later in the year. If you have any questions, feel free to **Contact Us**.

What about the Email Advisory Service? The Email Advisory service is included with the membership and focuses on short-term position trades.

Can HarmonicTrader.com comment on requested stocks? Although we may not provide a thorough analysis on specific stocks, HarmonicTrader.com can answer basic questions regarding certain trade setups and offer insight regarding the harmonics of the opportunity.

Is there a software program available that would assist in this analysis? HarmonicTrader.com is currently working with a program developer to complete a Pattern Recognition software package. It is our desire to make a beta version available to the website members within the next few months. We will keep you posted.

How long does it take to learn these techniques? If you are new to Harmonic Analysis, it is recommended that you allow yourself several weeks of study before actively implementing these strategies into your trading. Although these techniques are easily comprehended, it does require some study to analyze actual trading situations and gain experience.

Does HarmonicTrader.com offer seminars? The new seminar series is currently being developed with plans for live trading seminars to be presented later in the year.
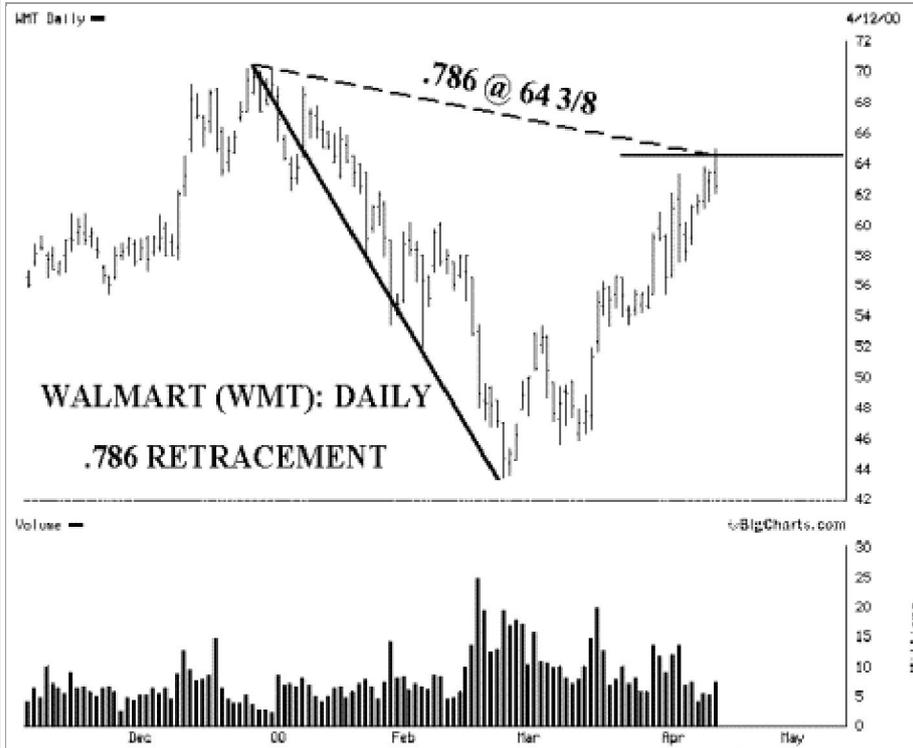
How much time do I need to follow the markets and the recommendations? The long-term recommendations are intended for those who desire to participate actively in the market without having to watch the markets all day, every day. So, these recommendations will require reviewing the market a few times a week. However, if you are an active trader watching the markets regularly, the Email Advisory trades will provide many more opportunities.

Does this analysis work with other markets? Harmonic Analysis does work with any market. We are expanding our coverage to include **Other Indices** and a **Sector Spotlight** to offer more trading opportunities in these markets. Although our particular focus will remain on stocks, the harmonic setups that occur in other areas of the market will illustrate that these methods can be applied to vehicles other than equities.

What other techniques work well with Harmonic Trading? Although HarmonicTrader.com does not "officially" use other indicators, such as moving averages or stochastics in our analysis, we do consider the state of the general markets seriously. Also, volume is frequently reviewed, as it can compliment harmonic trades and confirm reversal.
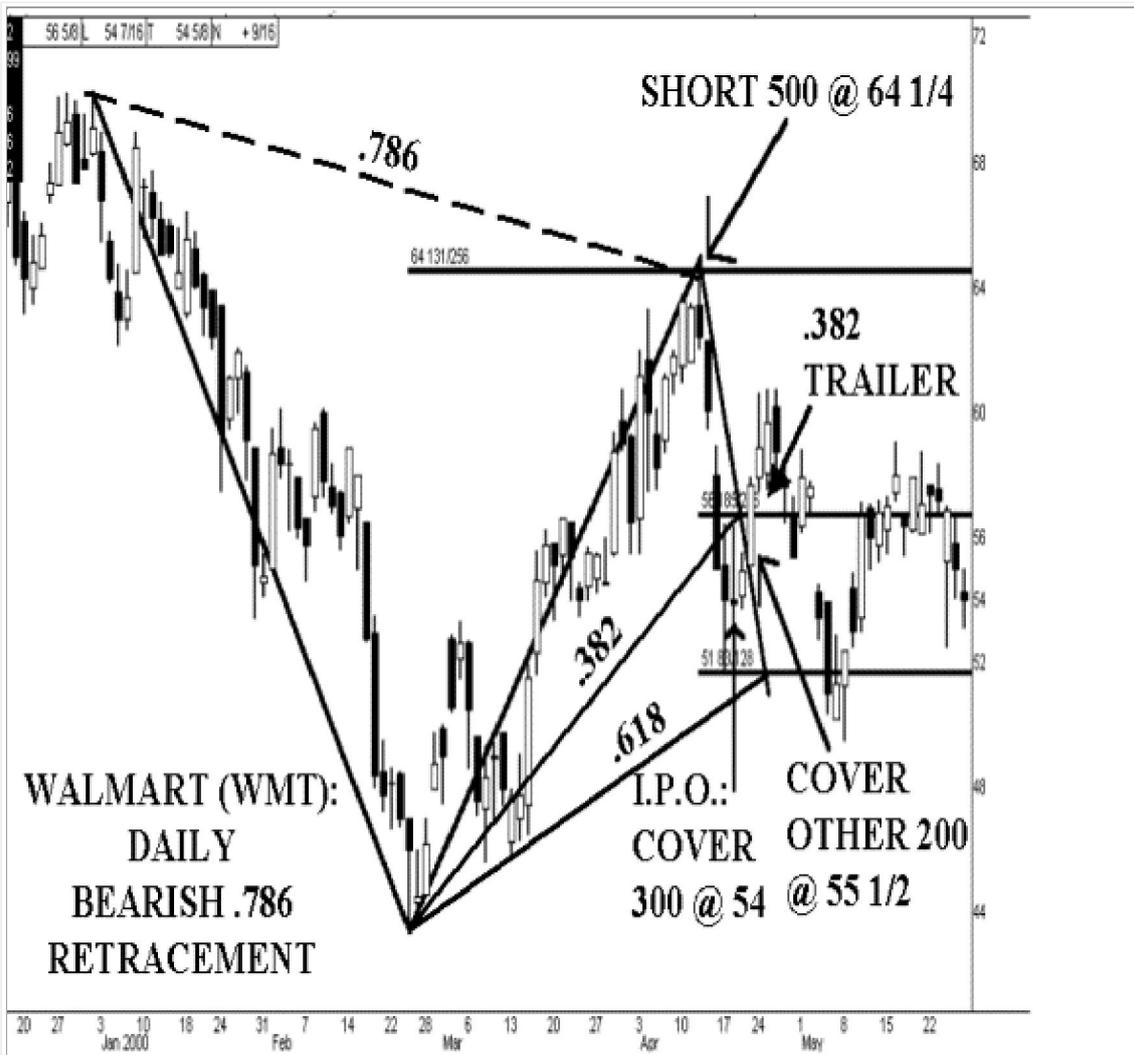
Home: Trading Tactics

Bearish Setup

The concepts are applied in the same manner as the bullish example. It is important to set the I.P.O., to establish the trend line (down) and to determine the angle of descent to gauge the price action. It has been my experience that declines off a bearish pattern can be quite sharp, only to retrace quickly. Therefore, it is important to watch the downtrend line and the .382 trailer to secure profits.

Bearish Trade Management Illustration

X

.786

.618

B   1.27

.786   C

A

SLZ

D   PRZ

PPZ

.382 Trailer

INITIAL PROFIT
OBJECTIVE @
.382/.618: SELL 1/2

Walmart (WMT)

This was a clear bearish retracement that formed a nice bearish reversal bar after

testing the .786. The setup was clearly indicating resistance in this area.

WMT Daily —   4/12/00

.786 @ 64 3/8

WALMART (WMT): DAILY

.786 RETRACEMENT

Volume —   ©BigCharts.com

Dec   00   Feb   Mar   Apr   May

Complementing this setup, there was a clear bearish AB=CD on the following intraday chart. Both of these charts indicated a great shorting area just above $64 a share.

WALMART (WMT): 5-MINUTE
.786 BEARISH RETRACEMENT

The setup was a valid opportunity and I shorted the stock at 64 ¼. Walmart finished the day with a bearish candlestick. The stock possessed a nice bearish continuation, as it followed through on the downside the next day after the reversal with a gap down on the open and closed near the low.

WALMART (WMT):
DAILY
BEARISH .786
RETRACEMENT

SHORT 500 @ 64 1/4

.786

.382
TRAILER

.382

.618

I.P.O.:
COVER
300 @ 54

COVER
OTHER 200
@ 55 1/2

Much to my delight, Walmart continued its bearish descent with an even stronger gap down on the open on the second day, as it completely blewout the first I.P.O. at the .382. I was also impressed with the angle of descent, as it clearly was steeper than 75%. With such strong bearish continuation, I looked at the .618 to cover 300 shares.

Walmart stabilized quickly and bounced shy of the .618 retracement. Due to the lack of follow through, I took the I.P.O. and sold 300 shares. The next day the stock gapped up on the open and rallied convincingly. Due to this strength, I did not even wait for the .382 trailer and sold the other ½ of the position.

Although the stock did roll over shortly after I closed my position and went lower, I secured a sizeable profit within a quick period of time. It can be frustrating to close a
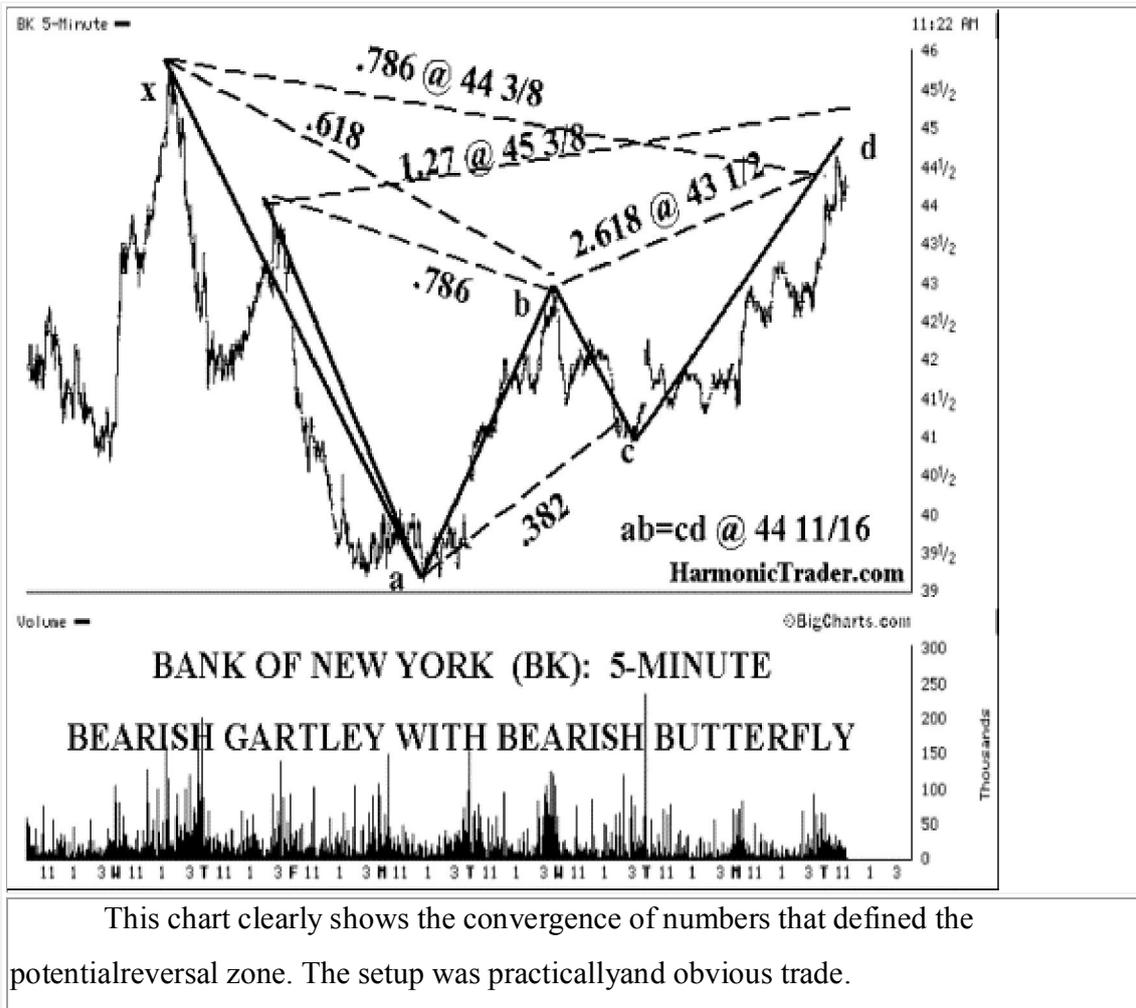
position, only to see the stock move back in the direction of your trade. But, you have to let these situations go. One of my rules that cost me the mot money was "Never roll back into a position." This prevents against second guessing the signals that the market is providing. Once you are out of a position, it is important to let it go and not get back in until another valid setup develops.

In Walmart's case, the stock could not sustain its steep angle of descent. The trend line violation was the clear indication that this decline was a sharp yet brief retracement rather than a prolonged sell off. Furthermore, the bullish continuation after the downtrend line was violated was another signal that the short-term selling was over.

Once the reversal was valid, the initial decline made it seem as if the stock could begin to make a big move to the downside. But, it is important to remember that "anything can happen in the stock market." Therefore, every setup must be gauged carefully, examining price action at the Fibonacci levels to effectively manage profitable trades.

Bank of New York (BK)

Bank of New York possessed two clear patterns – a bearish Gartley with a bearish Butterfly. The harmonic numbers indicated an excellent opportunity to short the stock.

BK 5-Minute ◼   11:22 AM

.786 @ 44 3/8

.618
1.27 @ 45 3/8
2.618 @ 43 1/2

.786

ab=cd @ 44 11/16
HarmonicTrader.com

.382

Volume ◼   ©BigCharts.com

BANK OF NEW YORK (BK): 5-MINUTE

BEARISH GARTLEY WITH BEARISH BUTTERFLY

This chart clearly shows the convergence of numbers that defined the potentialreversal zone. The setup was practicallyand obvious trade.

BANK OF NEW YORK (BK): 5-MINUTE

BEARISH GARTLEY WITH BEARISH BUTTERFLY

I shorted the stock at 44 7/8 after it started to roll over. Bank of New York quickly reversed and provided a nice profit cushion. This was another situation where the initial reversal was strong and possessed a steep angle of descent. In fact, the stock gapped through the I.P.O. at the .382 and declined to the .618. After hitting the .618, the stock could not continue lower so I covered ½ of the position.
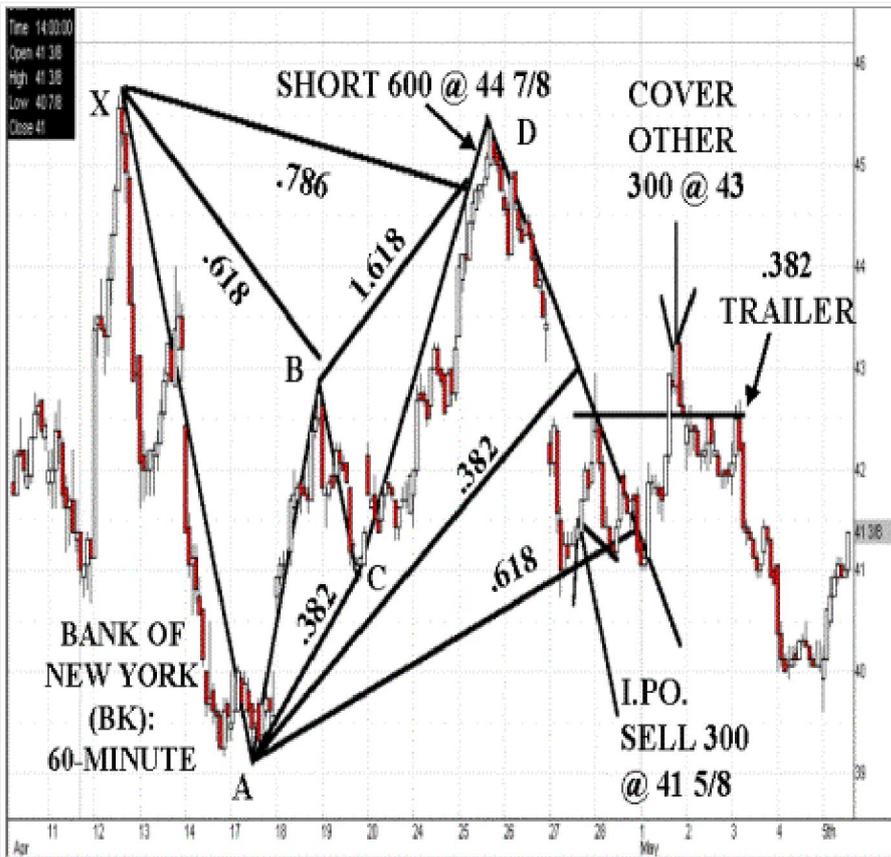
It is important to note that BK retraced to the .382 trailer and continued to head lower on the next leg down. This is a great example of the .382 not being violated. However, short after that first .382 retest, the stock headed higher, broke the trend line and the .382 trailer. I covered the other ½ on this breakdown.

This is another example of letting the market take me out of the trade. Although I did cover near a short-term high and the stock moved lower once again, I secured my profits and moved to the next trade. These situations are going to happen, where you close out your trade and it moves back in your favor. All I can say is that you have to let them go. I have lost a great deal of money trying to catch "that next move down," because I assumed that since I sold I would miss out on big profits. It wasn't until I was burned enough times that I fixed my bad habit and stuck to my rules.

Price Patterns

The following Harmonic Price Patterns are featured on HarmonicTrader.com. Click the links to view illustrations and to learn more about Harmonic Price Patterns.

The Bat Pattern

The Gartley Pattern

The Crab Pattern

The AB=CD Pattern

The Ideal Butterfly Pattern
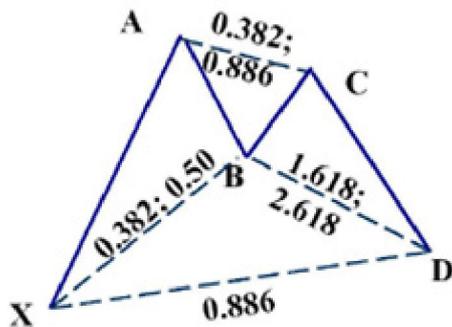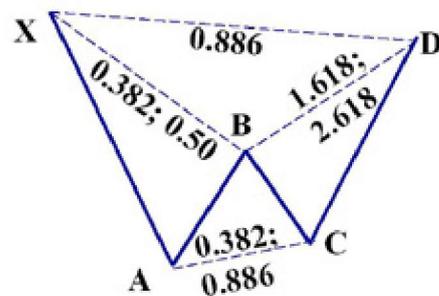
The Three Drives Pattern

# Price Patterns

The Bat Pattern

Bullish	Bearish

The Bat pattern is a precise harmonic pattern discovered by Scott Carney in 2001. The pattern incorporates the 0.886XA retracement, as the defining element in the Potential Reversal Zone (PRZ). The B point retracement must be less than a 0.618, preferably a 0.50 or 0.382 of the XA leg. The Bat utilizes a minimum 1.618BC projection. In addition, the AB=CD pattern within the Bat is extended and usually requires a 1.27AB=CD calculation. It is an incredibly accurate pattern and requires a smaller stop loss than most patterns.
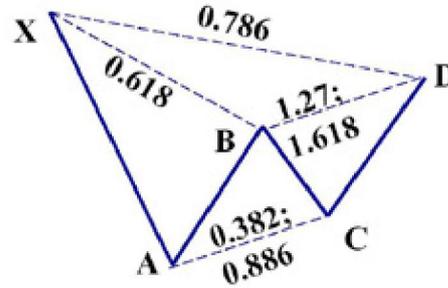
Price Patterns

## The Gartley Pattern
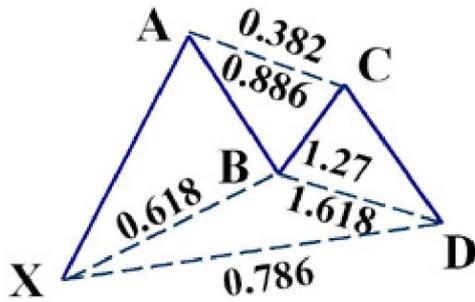
Bullish	Bearish

The Gartley pattern was outlined by H.M. Gartley in his book "Profits in the Stock Market," published in 1935. Although the pattern is named "The Gartley," the book did not discuss specific Fibonacci retracements! It was not until "The Harmonic Trader" was released that the specific retracements of the B point at a .618 and the D point at a .786 were assigned to the pattern. There are others who have assigned Fibonacci retracements to this framework. However, they use a variety of Fibonacci numbers at the B and D points. Despite these variations, the Fibonacci retracements that yield the most reliable reversals are the .618 at the B point and the .786 at the D point. Furthermore, the pattern should possess a distinct AB=CD pattern that converges in the same area as the 0.786 XA retracement and the BC projection (either 1.27 or 1.618). The most critical aspect of the Gartley is the B point retracement, which must be at a 0.618 of the XA leg.
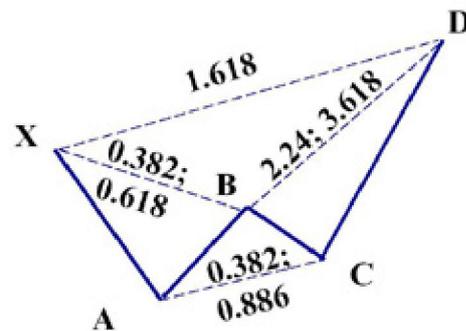
Price Patterns

The Crab Pattern
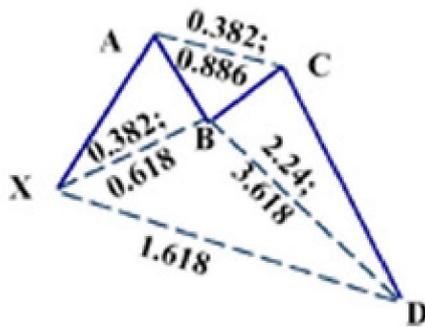

Bullish	Bearish

   The Crab is a Harmonic pattern discovered by Scott Carney in 2000. This pattern is one of the most precise of all the Harmonic patterns. The critical aspect of this pattern is the tight Potential Reversal Zone created by the 1.618 of the XA leg and an extreme (2.24, 2.618, 3.14, 3.618) projection of the BC leg. The pattern requires a very small stop loss and usually provides an almost exact reversal in the Potential Reversal Zone.
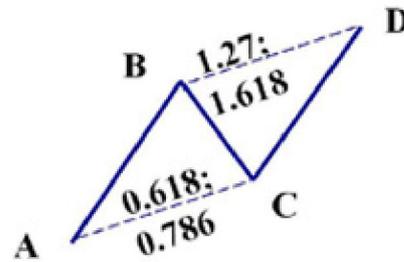
Price Patterns

The AB=CD Pattern
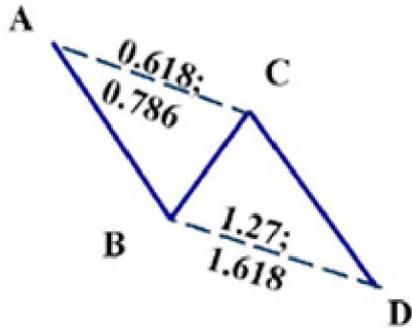
| Bullish	Bearish

  The AB=CD pattern is a price structure where each price leg is equivalent. The Fibonacci numbers in the pattern must occur at specific points. In an ideal AB=CD, the C point must retrace to either a 0.618 or 0.786. This retracement sets up the BC projection that should converge at the completion of the AB=CD and be either a 1.27 or 1.618. It is important to note that a .618 retracement at the C point will result in a 1.618 BC projection. A .786 retracement at the C point will result in a 1.27 projection. The most important consideration to remember is that the BC projection should converge closely with the completion of the AB=CD.
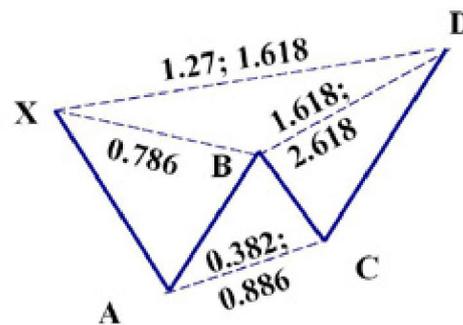
Price Patterns

The Ideal Butterfly Pattern
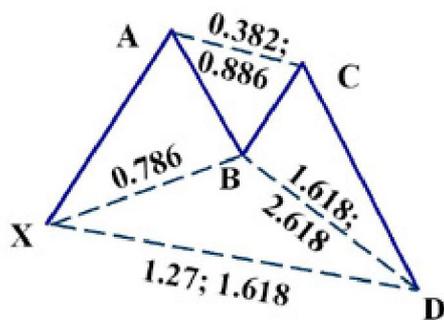

Bullish	Bearish

The structure of the Butterfly pattern was discovered by Bryce Gilmore and Larry Pesavento. In my experience, I believe an Ideal Butterfly Pattern, which requires specific Fibonacci in the structure - including a mandatory 0.786 retracement of the XA leg as the B point - offers more precise Potential Reversal Zones (PRZ).. Also, the Butterfly pattern must include an AB=CD pattern to be a valid signal. Frequently, the AB=CD pattern will possess an extended CD leg that is 1.27 or 1.618 of the AB leg. Although this is an important requirement for a valid trade signal, the most critical number in the pattern is the 1.27 XA leg. The XA calculation is usually complemented by an extreme (2.00, 2.24, 2.618) BC projection. These numbers create a specific Potential Reversal Zone (PRZ) that can yield powerful reversals, especially when the pattern is in all-time (new highs/new lows) price levels.
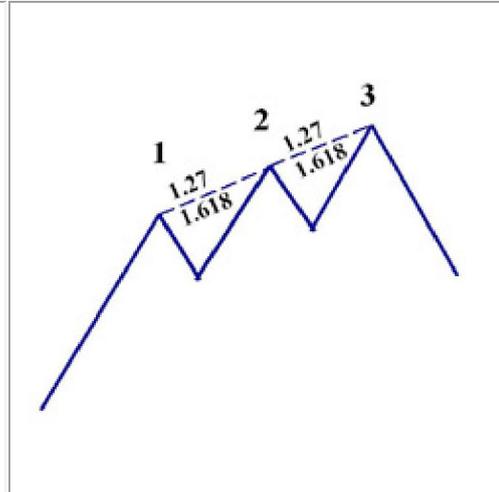
Price Patterns

The Three Drives Pattern
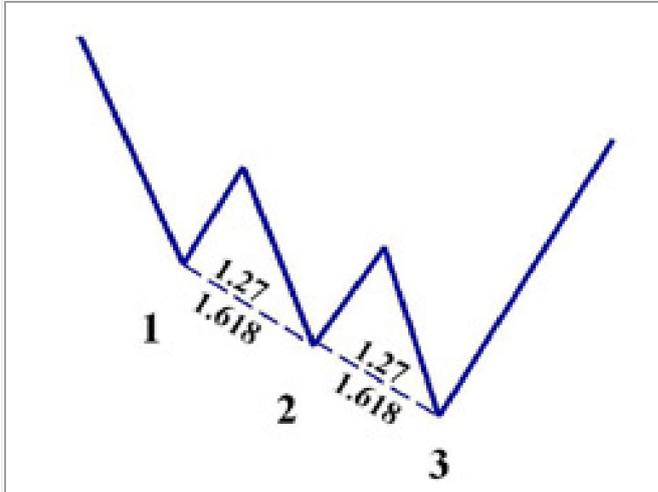
Bullish	Bearish

Although it was not specifically identified, one of the first references to a Three Drives pattern was outlined in Robert Prechter's book, "Elliot Wave Principle." He described the general nature of price action that possessed either a three-wave or a five-wave structure. Adapted from this principle, symmetrical price movements that possess identical Fibonacci projections in a 5- wave price structure constitute a Three Drives pattern. The critical aspect of this pattern is that each drive completes at either a 1.27 or a 1.618.   Also, the price legs should possess clear symmetry with each drive forming over equivalent time periods.

Fibonacci Ratios

Origin of the Fibonacci Number Sequence

- Fibonacci numbers are based upon the Fibonacci sequence discovered by Leonardo de Fibonacci de Pisa (b.1170-d.1240). His most famous work, the Liber Abaci (Book of the Abacus), was one of the earliest Latin accounts of the Hindu-Arabic number system. In this work, he developed the Fibonacci number sequence, which is historically the earliest recursive series known to date.

- The series was devised as the solution to a problem about rabbits. The problem is: If a newborn pair of rabbits requires one month to mature and at the end of the second month and every month thereafter reproduce itself, how many pairs will one have at the end of n months? The answer is: u_n. This answer is based upon the equation: $u_{n+1} = u_n + u_{n-1}$.

- Although this equation might seem complex, it is actually quite simple. The sequence of the Fibonacci numbers is as follows:

    0, 1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89,144, 233, 377 ...... up to infinity

- Starting with zero and adding one begins the series. The calculation takes the sum of the two numbers and adds it to the second number in the addition. The sequence requires a minimum of eight calculations.

    0+1=1)...(1=1=2)...(1+2=3)...(2+3=5)...(3+5=8)...
    (5+8=13)…(8+13=21)…(13+21=34)

- After the eighth sequence of calculations, there are constant relationships that can be derived from the series. For example, if you divide the former number by the latter, it yields .618.

    34/55 = 0.618181 ~ .618

    55/89 = 0.618181 ~ 0.618

    And, if you divide the latter number by the former, it yields 1.618.

    144/89 = 1.617977 ~ 1.618

$$233/144 = 1.618055 \sim 1.618$$

- The 0.618 and the 1.618 are two of the four Fibonacci-related numbers that I use to consider price action harmonic. The other two numbers that are derived from the series, the 0.786 and 1.27, are the square root of the 0.618 and the 1.618, respectively.

- These four numbers have been found to exist in many natural and man-made phenomena. The .618 and the 1.618 constants from the series are found in the Great Pyramids. Comparing the height to 1/2 its base derives these relationships.
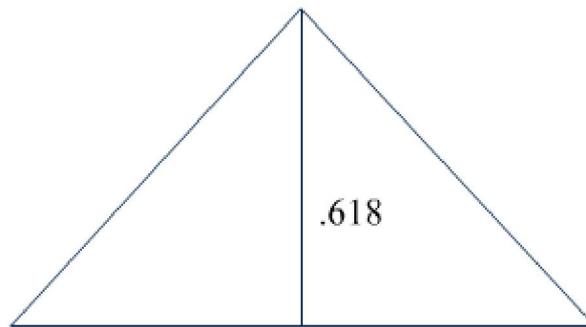
- Fibonacci's additive series is based upon the equation:

Phi + 1 = Phi squared

Base = 2.00

Half Base = 1.00

Height = .618

Slope = 1.618

- Not only do these constant numeric relationships occur in the Fibonacci series, there are also universal examples that exhibit this phenomenon. For example, Venus takes 225 days to complete a revolution around the sun. As we all know, the Earth requires 365 days to complete one revolution. If you divide 225 by 365, the result is approximately .618 of a year. (225/365 = .6164 ~ .618) That's amazing!

Fibonacci Ratios

Fibonacci Number Derivations
The Fibonacci numbers utilized in Harmonic Trading are directly or indirectly derived from the primary ratios 0.618 and 1.618 from the Fibonacci sequence. Although other technicians may utilize different percentage ratios, the following list comprises the only ratios that determine precise Harmonic patterns.
Primary Ratios: 0.618 & 1.618 (From the **Fibonacci Number Sequence**).

Primary Derived Ratios:

- 0.786 = square root of the 0.618
- 0.886 = fourth root of the 0.618
- 1.13 = inverse of the 0.886 (1/0.886)
- 1.27 = inverse of the 0.786 (1/0.786)

Complimentary Derived Ratios: 0.382, 0.50, 1.41, 2.0, 2.24, 2.618, 3.14, 3.618

Home: Mini-Room

Today's comments focus on the Standard and Poor's 500 Mini (ES03Z) and the NASDAQ 100 Mini (NQ03Z). (Click the links to view all charts.)

Standard and Poor's 500 Mini (ES03Z):   The ES reversed sharply from Friday's resistance. As I said in that report, "I would look to sell the ES on this retest in the 1061 area for a correction of yesterday's rally back to the 1053 level." The ES has tanked!   For today's immediate action, the ES is off 6. There is not much in this area from a harmonic pattern perspective. After Friday's action, the ES needs time to consolidate. I would watch the 1039 area for the completion of a Bullish AB=CD. However, due to the lack of concrete pattern structures, I am going to step aside and let the ES work out Friday's action.

NASDAQ 100 Mini (NQ03Z):   The NQ is a different story. The NQ possesses several patterns that outline the action for today and the week First up, this Bullish AB=CD from last week's peak completes at 1388. I believe this setup can offer a 10-12 point move back to retest the 1400 level for an intraday long position. However, the recent breakdown has triggered this Bullish Crab that does not complete until 1372. In addition, this Bearish Crab suggests even further downside as it does not complete until 1360. For today's immediate action, the NQ is off 11. I expect the NQ to try to test the Bullish AB=CD at 1388 early. I would look to buy the NQ on this retest in the 1388 area for a move back to 1400. However, if the NQ violates this 1390 support sharply, I would step aside and wait for the Bullish Crab to complete.

Home: **Mini-Room**

Today's comments focus on the Standard and Poor's 500 Mini (ES03Z) and the NASDAQ 100 Mini (NQ03Z). (Click the links to view all charts.)

Standard and Poor's 500 Mini (ES03Z): The ES is sitting in an unusual area. Since forming a double top at 1064, the ES has provided little in the form of patterns. As I said in yesterday's report, "This Bullish Bat structure (updated) does not pose any significant set up until the low 1020 area. I would again step aside on the ES today until the pattern picture becomes clearer." Although the pattern structure still favors Bullish Bat, the ES has found support in the 1032-1035 area this week. Outlined in Tuesday's report and on this 60-minute chart, the ES has bounced from the recent 0.618 retracement and the short-term 1.27 projection at 1035. This chart of price action at these numbers shows that the ES is trying to hold this area, despite exceeding the ideal target area. For today's immediate action, the ES is off 4. From a short term-perspective, the ES is still oversold. I expect the ES to try to retest the PRZ after the opening. I would look to buy the ES after a reversal from the retest of the PRZ of the Fibonacci numbers in the 1033-1035 area for a move back to 1043, retesting yesterday's highs. However, if this support is violated on a sharp intraday sell-off, I would step-aside and wait for the Bullish Bat to complete.

NASDAQ 100 Mini (NQ03Z): The NQ is retesting the substantial Bullish Bat at 1360 (updated) outlined in Monday's report. After completing this short-term Bullish Crab, the NQ bounced for a third time in three days off this Bat PRZ in the premarket. For today's immediate action, the NQ is off 6 1/2. I expect the NQ to try to retest the PRZ after the opening. I would look to buy the NQ after a reversal from this retest in the 1360-1365 area for a move back to 1380, retesting yesterday's highs.

The Harmonic Analyzer (TM) {EXE} : NQ_Z3-60MIN   Copyright © 2001-2003 HarmonicTrader.com, LLC. All Rights Reserved

The Harmonic Analyzer (TM) {EXE} : NQ_Z3-30MIN   Copyright © 2001-2003 HarmonicTrader.com, LLC. All Rights Reserved

Short Term Bullish Crab

1.27AB=CD @ $1,378.745

1.618BC @ $1,372.027

0.886XA @ $1,360.154

D

18 Nov   19 Nov   20 Nov

The Harmonic Analyzer (TM) {EXE} : NQ_Z3-60MIN   Copyright © 2001-2003 HarmonicTrader.com, LLC. All Rights Reserved

PRZ CRAB

Education: Recommended Reading List

To continue your study in related technical fields, the following books are excellent resources that complement Harmonic Trading.

Cootner, Paul H., *The Random Character of Stock Market Prices,* Massachusetts: M.I.T. Press, 1964.

Douglas, Mark, *The Disciplined Trader: Developing Winning Attitudes*, N.Y. Institute of Finance, 1990.

Gann, W.D., *45 Years in Wall Street*, Pomeroy, Washington: Lambert-Gann Publishing, 1949.

Gann, W.D., *How to Make Profits in Commodities*, Pomeroy, Washington: Lambert-Gann, 1941.

Gann, W.D., *Truth of the Stock Tape*, Pomeroy, Washington: Lambert-Gann Publishing, 1923.

Gann, W.D., *The Tunnel Thru the Air*, Pomeroy, Washington: Lambert-Gann Publishing, 1927.

Garret, William, *Investing for Profit with Torque Analysis of Stock Market Cycles*, Ruff Pub., 1935.

Gartley, H.M., *Profits in the Stock Market*, WA: Lambert-Gann, 1935.

Gilmore, Bryce T., *Geometry of Markets*, Melbourne, Australia: Bryce Gilmore & Asso., Pty. Ltd., 1989.

Hurst, J.M., *The Profit Magic of Stock Transaction Timing*, New York, New York: Prentice Hall, 1970.

Hurst, J.M., *J.M. Hurst Cycles Course*, Greenville, South Carolina: Traders Press, 1973.

Lefevre, Edwin, *Reminiscences of a Stock Operator*, Greenville, South Carolina; Traders Press, 1985.

McMillian, Lawrence G., *McMillian on Options*, New York, New York: John Wiley & Sons, 1996.

Minor, Robert, *Dynamic Trading*, Tucson, Arizona: Dynamic Traders Group, 1995.

Murphy, John, *Technical Analysis of the Futures Markets*, N.Y. N.Y.: New York Institute of Finance, 1986.

Nison, Steve, *Japanese Candlestick Charting Techniques*, N.Y. N.Y.: New York Institute of Finance, 1991.

Pesavento, Larry, *Fibonacci Ratios with Pattern Recognition*, Greenville, S.C.: Traders Press, 1997

Prechter, Robert, *Elliot Wave Principle*, Gainesville, Georgia: New Classics Library, 1978.

Schwartz, Martin, *Pit Bull*, New York: New York Institute of Finance, 1997.

Soros, George, *The Alchemy of Finance*, New York, New York: John Wiley & Sons, 1987

Warren, Ted, *How to Make the Stock Market Make Money for You*, 1966.

Williams, David, *Astro-Economics*, Saint Paul, Minnesota: Llewellyn Publications, 1959.