THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION NEWSLETTER

MAY 1993

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Monthly Meetings

In Sydney

Time: 5.30 for 6.00 pm
Day: 3rd Monday of each month Feb. to Nov.
Location: Level 1, Jean Garling Room,
State Library of NSW,
Macquarie Street, Sydney, NSW
Info: Charles Balas (02) 522 5220

In Melbourne

Time: 5.30 for 6.00 pm
Day: 3rd Wednesday of each month Feb. to Nov.
Location: Level 27,
367 Collins St, Melbourne, Victoria
Info: Paul Simmons (03) 593 1434

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President's Address

Silver shines again !

After the recent lows for this metal, silver has rallied over 20% to outrun gold as the trading metal of the 90's. While gold only managed a 10% rally from its lows, silver has gained over 80c an ounce from its lows made in Feb. 1991 and 1992 at around US$3.50/ounce. These price lows coincide with Gann's major cycle of 60 years from the lows at the pits of the depression in London in 1932 when the gold/silver ratio peaked at almost 150:1, and made cyclical lows in New York a year later.

The highest ratio since has been the 1991 low of silver at 99.9:1. In ancient Mesopotamia the ratio was 5:1 and between 1670 B.C. and 1453 A.D. the gold/silver ratio fluctuated between 9:1 and 18:1. For the next 400 years the ratio never dropped below 10:1 and encountered resistance at 15:1.

It pays to keep your silver charts up to date.

Once again Mr Kerry Packer has shown his stripes as a truly professional trader in his campaign with Westpac. The price bottomed at the fibbonaci retracement of the major range just before the campaign began. Timing is the key, congratulations Mr Packer.

N.B. The following chart from ProTrader shows the current state of affairs of Westpac.

All the best,
Charles Balas
President.

PETER PONTIKIS ON MARKETS

Peter Pontikis addressed the February 1993 meeting of the ATAA in Sydney. The following report of his presentation has been prepared by Colin Nicholson.

SYDNEY HOUSE PRICES

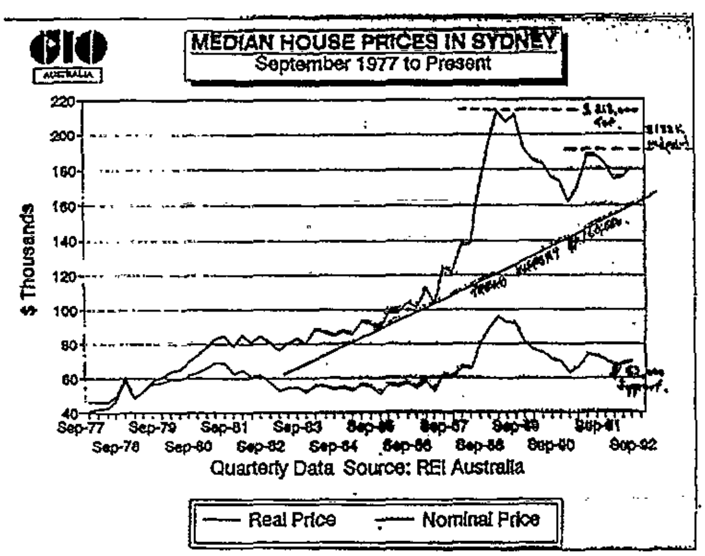
Peter began by referring to his article titled "Charting Sydney House Prices" on page 34 of the January 1993 ATAA Newsletter. Shortly after sending the article off to the editor, he noticed an item on the front page of the Sydney Morning Herald's Real Estate section. The headline was: "Boom Times in Vendors Getting What They Ask For". This suggests a bullish slant on things.

However, believe it or not, but when he looked further down the same page, he found two other articles, with headlines as follows: "Jump in Prices Failed to Eventuate" and "Conditions Good, but Confidence Low".

This was shown to demonstrate the kind of market that we are all faced with. Financial information services leave a lot to be desired, if that is what they come up with on a Saturday morning. On the same page we get a bullish headline, a bearish headline and also a mixed headline.

Peter believes very much in what David Fuller says in that there is only one thing we can really refer to and that is price. Price is what Peter looks at most. He has started with real estate, because it is the only market to which he has an extensive exposure, through ownership of his family home.

The following chart shows Sydney house prices:

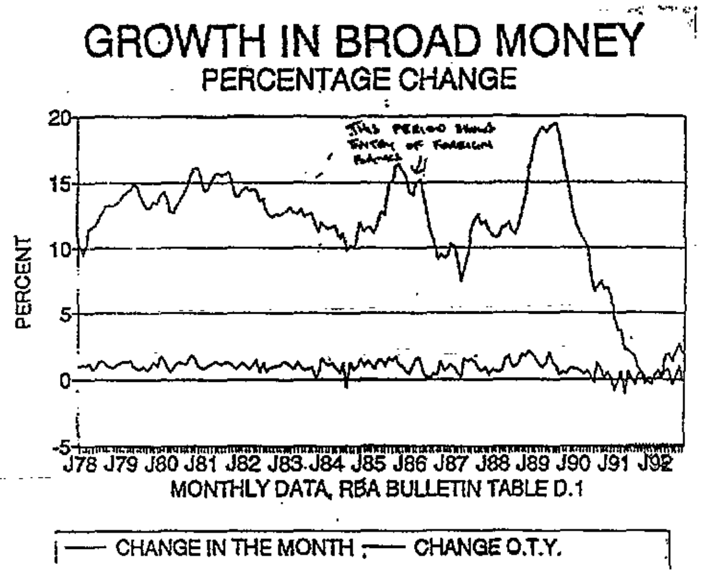


We have to appreciate that the chart uses an index and some fairly rudimentary trend, resistance and support lines.

The chart shows some significant appreciation in the 1980's, rising to a peak in 1989. Following that, prices fell back about 25% So, when you hear people (who David Fuller calls "captive market participants") tell you that you always make money in real estate, we just have to look at the chart to tell that they are wrong.

The chart shows that the decline bottomed out in 1990. Since then, we see what, in Peter's opinion, is some sort of bear market rally. All he is seeing is consolidation in the lower half of the range. It is certainly keeping above the trend support, but the dramatic pullback has not really been made good yet.

It must be asked whether this means that we start selling houses? Not exactly. You will hear a lot of stuff about how it will always go up. But, this is something Peter would refer us all to:



We all know that, in markets, it is ultimately money that pushes prices around. If we look at the growth of money supply in the Australian economy and concentrate on what has happened in the recent past, we see a small rally. We should not think this is the start of a new bull run. It is only one or two percent, if not negative growth at one point.

If you mentally superimpose the two charts, you can see that the peak in the growth in the money supply coincides with the peak in the price of the financial asset called real estate.

So, in this sort of market we are looking at growth rates for money supply of close to zero for the foreseeable future. So when an organisation (that Peter declined to name) says that real estate will rise by 25%, we should ask the very good question: "Where is the money coming from?" It is not going to come from the general sector growth. So it would have to come from another sector of the economy. It certainly won't come from the unemployed or from new immigrants, on whom we are cutting back.

Peter emphasised the view that most of the people writing about a particular market have a vested interest in talking it up. There is only one market which Peter knows about personally that he can make a lot of money out of talking to bears and that is the currency markets, because it doesn't matter if it goes up or down. But in all the other markets, including stock markets, the general bias of advice and everything you will hear tends towards prices inflating or going up.

Peter referred the meeting to an article in the December 1992 issue of the Australian Accountant at page 43 by Nick

Ursem titled *"The Housing Riddle"*. Those interested in this market should look out this article.

Nick is almost the only bear on the real estate market that you will find in the financial press. He points to the period 1926 to 1949 when the prices of Sydney houses went sideways. There is nothing to say that it can't happen again. We have been conditioned in our thinking by the massive bull market since the second world war. However, if we go back in history, we notice that prices and activity go in 50 to 54 year cycles.

Peter suggests that we are entering a deflationary cycle. The money supply growth rates that we were seeing since the 1980's suggest that the nominal value of prices as opposed to the real value of things will go sideways, if not downward for a while.

We do have cycle precedents. Peter teaches Australian Financial History at TAFE and it is surprising the parallels we have currently with the 1890's recession, which peaked in 1888 and went sideways for about sixteen years. Australia's national income peaked in 1888 and did not pass that level until 1904. In the 1890's depression, sixty five banks went out of business permanently. In the current era of bail-outs and mergers, a variation could be bank mergers.

CURRENCY MARKETS

By way of introduction, Peter explained that he is the technical analyst for the currency desk in a bank dealing room. He charts for the first two hours of each day. His objective is to try to keep some sort of perspective on things. So, he starts with the big picture and, from that wide focus, narrow in to the exact time frame required for trading.

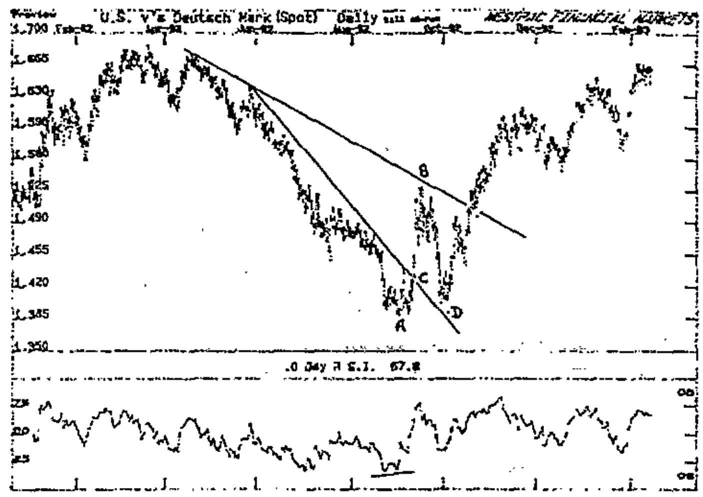
Some of you may say that he is going to be using a lot of rudimentary techniques, with no big secrets. He will be just using the basic divergence strategies that you might know in your mathematical models, or ordinary charting, call it what you will. It has to be simple because, unfortunately he has to sell his advice to users, including the general public, dealers and so on. As an aside, Peter finds that the general public are more receptive to his techniques than are dealers inside the bank. Dealers tend to have a certain vanity in that, because they are close to the Reuters screen, they somehow think they know more than the other guy.

The factor that has really dominated the currency markets since the ERM collapse in September 1992 has been the strength in the US dollar. In layman's terms it was all over the newspapers, but in technical terms, what we saw was actually several versions of divergence.

The US dollar against the German mark is used as the measure of the US dollar against the world's currencies. It is not perfect, but it will do for our purposes.

On the daily chart of the US dollar against the German mark shown below, divergence suggested that the dollar was approaching a bottom at A, in August/September 1992. This was precisely at the time of the ERM crisis. We then had a run towards the top side around B in September. At that point we again had divergence on a short term basis (not evident on this chart).

So we had to balance two types of divergence. We had divergence at A on both a daily and weekly basis (see the next 2 charts) and within two weeks we had bearish divergence in



the short term. So a decision had to be made as to what Peter would say to his dealers.

He turned his advice around and at B was telling the dealers to sell after a very good rally, but emphasised that they would get a dip in the dollar, which would be an opportunity to buy. Notice the subtleties of language. Some of the younger dealers do not always understand it.

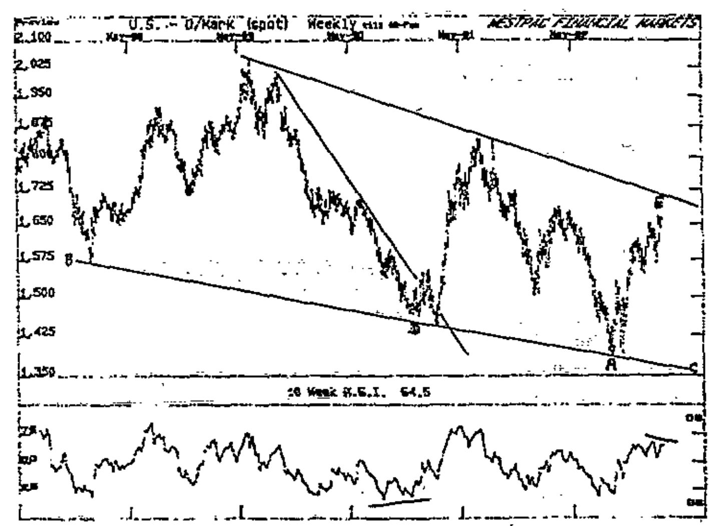
Lo and behold we then got a very traumatic dip, that actually exceeded Peter's objectives, but the point was that it afforded a second chance to buy for the bull run.

For those of you who like drawing trend lines, you can see the symmetry of the market which is sometimes frightening. If you do not believe in the mathematical approach, they gave you the signals. It broke at C, so you would go long. Then it sells off at the higher trend line at B. It then tries to retest the broken trend line at D and resumes the upward move.

Now look at the weekly chart:

Note that you are looking at a semi-log chart.

First of all, notice the bullish divergence mentioned above at A.



What made Peter decide that he was looking at a bigger run than usual? The key point was that it had returned to a very old trend line B-C. Most people tend to forget these trend lines. The guys in the dealing room certainly do. They then wonder why things move more quickly than they expect.

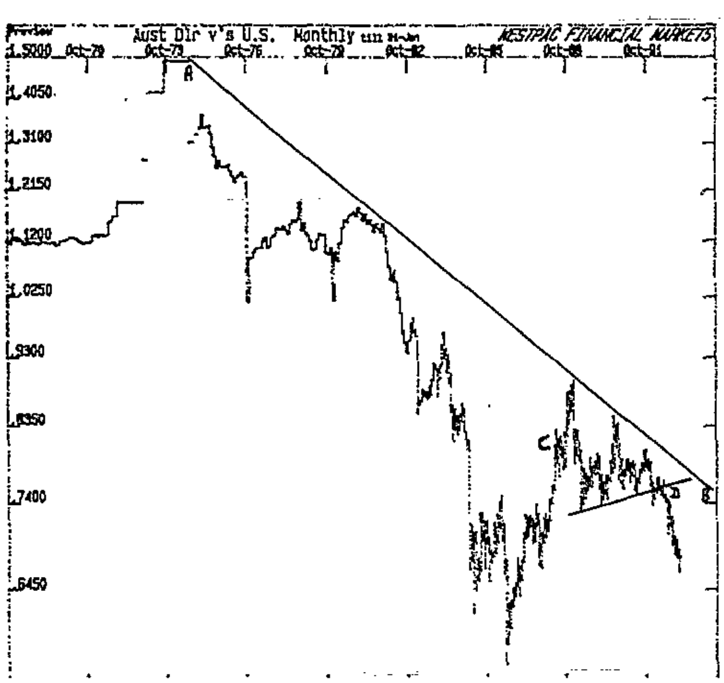
Now look back to 1990 at D. There we saw the same story before. So what are we now seeing at the present? The same story again at E. Is the dollar going higher, through the trend line at E? *Could it be that everyone loves President Clinton?*

Peter believes that he can predict the sort of rationalising the press is going to start printing in a couple of month's time. They will write of uncertainty regarding Clinton's policies, whether they will be effective. It will more than likely coincide with a period of consolidation in the dollar/mark. Then it will break up, because this whole formation is bullish. The dollar/Swiss franc has broken up, it is just that the dollar/mark is yet to confirm.

It was noted that Peter's view is at odds with that of David Fuller, whose recommendation was to stand aside.

Next, Peter took a look at the Australian dollar, which everyone in Australia seems to think the world is focusing on. Peter observed here that in his travels across the world, he finds that everyone is intensely pessimistic about their own economy and they seem to think quite vainly that the whole world is focused on it. He would argue that it is not the case.

This is a twenty five year monthly chart of the Australian dollar against the US dollar. It is a semi log chart:

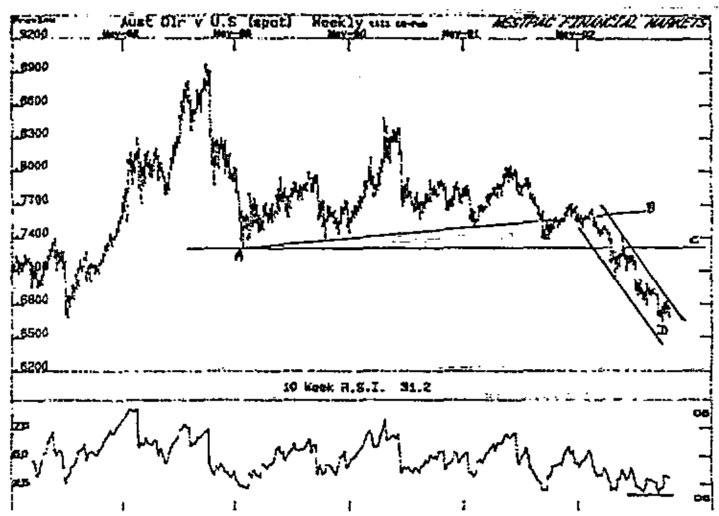


Peter observed at the outset, that it was so predictable and boring a chart. We see a traditional down trend line A-B. Also a period of consolidation at C-D over about three years following our bull market of 1987-88. Since then it broke down in August 1992 at D.

Peter was overseas at the time, but had left his dealers with the prediction that, if it broke below .7290, it would be a very big sell and, as we can see, it was. The question is how far will it go? Some people are predicting new lows.

Peter did not offer a view, explaining that it is really only necessary to get the direction right to make money. The real problem, in his mind, is how to set the stop losses. You don't have to be a genius to know where it is going, just make sure your prudential stop losses are in place.

The weekly chart shows a more narrow focus:



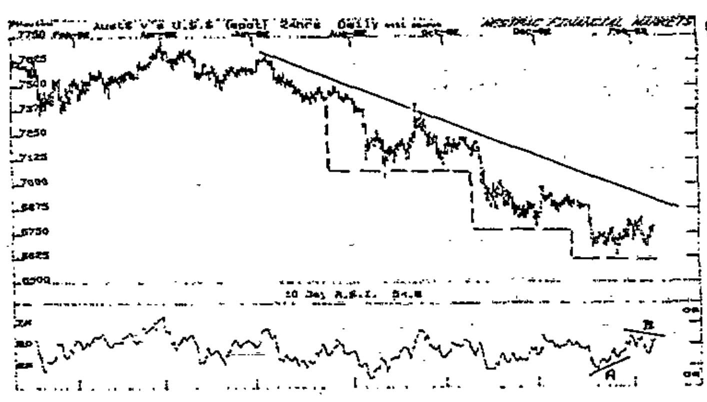
The 1989 to 1992 consolidation area shows the same sort of formation as the monthly chart. Some people will say that the break of trend line A-B was the trigger. Others will say horizontally at C. Peter tends to be very conservative, since his job is to make money for the bank, not lose it.

So, that started the bear trend. When saying that there is an Australian dollar bear trend, just remember that we also have a US dollar bull trend as we examined above. So the over-focus on the Australian dollar is not sensible. On this chart, people are saying that the Australian dollar is not worth the paper it is written on, yet we have seen it actually strengthen on the cross rates since September 1992, especially against the European currencies, though not so against the Japanese Yen, which has its own reasons.

So, we have our newspapers saying that so-called informed people are telling us that the Australian dollar is a weak currency. Peter would argue that, in the current environment, it is probably the third best performing currency over the last six months. It is just that, when we measure ourselves against the best currencies, of course we are going to look worse off. Remember that, when we talk about currencies, we are not looking at prices, but at ratios. Ratios of attractiveness, so to speak.

Peter made the point that there was some weekly bullish divergence for the Australian dollar at D, which he is still thinking about, because the chart has given some false divergences in the recent past. So, he is not keen to commit money to it at the present time.

Next, Peter looked at the daily chart:



The daily chart shows bullish divergence at A, which suggests that the bear trend in the Australian dollar may have at least stalled for an appreciable period of time. For those who like trend lines, the line cuts in at around .6860. Note also that there was a day with key reversal characteristics six days before the end of the chart, based on the New York High-Low-Close. However, it cannot be called a key reversal day as it is in the direction of the prevailing trend.

The presence of this reversal day in terms of the short term counter-trend and the existence of bearish divergence at B suggests that the Australian dollar is still weak. Also because, in the very recent action, it made a new high and did not maintain it. Peter would place his stop loss somewhere between .6830 and .6860. His general conclusion was that he was still bearish in the absence of enough indicators telling him it had turned yet. In terms of David Fuller's analysis of bear trends, this chart is going quite well in a nice step pattern. The recent action indicates that there is some buying pressure there and that has to be dissipated before we see more lows on the Australian dollar.

As an aside, Peter commented that a lot of people from the bank's customer base always ask for forecasts. From his perspective, Peter does not give out anything for more than three months, because it is irresponsible in the currency markets. It would be equivalent to him saying that he knows what is going to happen to the world over the next three months. He understands Elliot Wave and the other long term people, but his personal view is that it is not responsible to tell people managing funds to rely on just technicals. There are things which go beyond just technicals. "I hate to say the word fundamentals".

There are dumb fundamentals, what they call funnymentals, and then there is cash and assets. That is what, to Peter, are fundamentals. They are what can move price. Who has got the money in the economy at the moment? Peter believes it is the Taiwanese, the Chinese and the Japanese. They are the ones determining the trends.

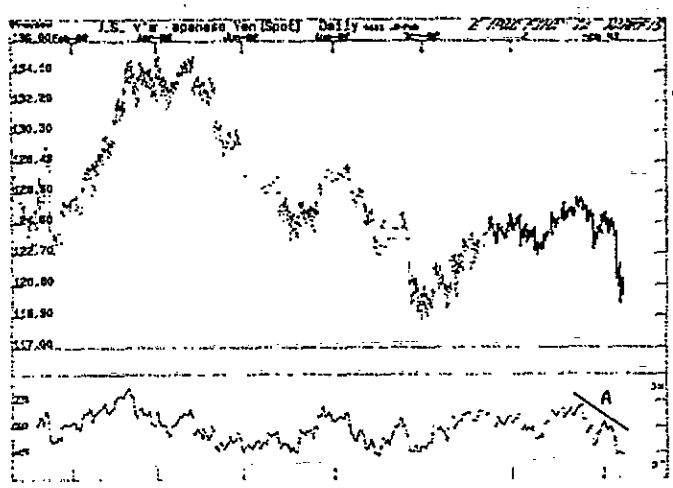
At this point, there was comment from Will Slatyer that he is calling a rally to 70 cents, followed by a run down to 60 based on a combination of short term daily indicators. The time frame seen was by the end of March for the rally to 70.

Peter agreed that this was possible and was the reason for placing his stop loss at .6860. There will usually be a "rush of bullets" once a trend line is broken. Then it tops out and drops again. In other words, a lot of "technical" buying once the trend line is breached. This will not be the right reason for buying. There are a lot of chartists in these markets, especially in the Asian time zone. The banks in Hong Kong, Tokyo and Singapore have basically charting models. They are all tracing the price action on their Reuters screens and on their charts. So what happens is that the buying is all triggered at the same time and you get sudden spurts, which are quite traumatic if you get caught on the wrong side.

Thus, this will not be buying for the right reason, because it will not be fund managers buying and holding. It is actually just dealers buying for a quick return.

This scenario is consistent with whipsawing price action and could coincide with a technical rally on the Australian dollar, followed by the US dollar taking off again, with the dealers forced to sell the Australian dollar again, because the US dollar bull market is in play again.

Now, a quick look at the US dollar/Japanese Yen chart:

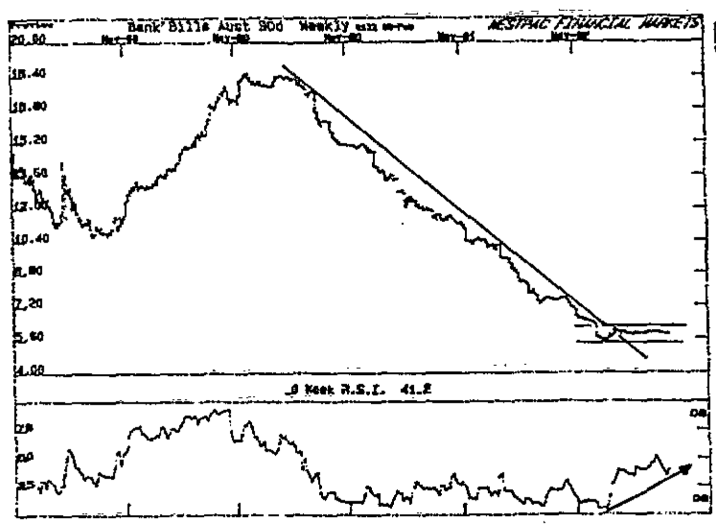


The same sort of picture is evident here. Continuing divergences at A made the recent collapse of the dollar/yen so predictable.

Dawn Bolton Smith commented from the audience that it was also a nice call from David Fuller. To which Peter added that David always throws in a bit of fundamentals and had commented that the Japanese had a lot of money, their surpluses are just becoming obscene. So, how can you get a bullish US dollar against the yen?

However, Peter says the Europeans were a different story and that is the trouble with the markets now. You can not think in terms of the US dollar being a reserve currency. You have the reserves of the Japanese, the Chinese and the Germans, sufficient to make you think that cross plays are probably the cleaner plays now.

INTEREST RATES

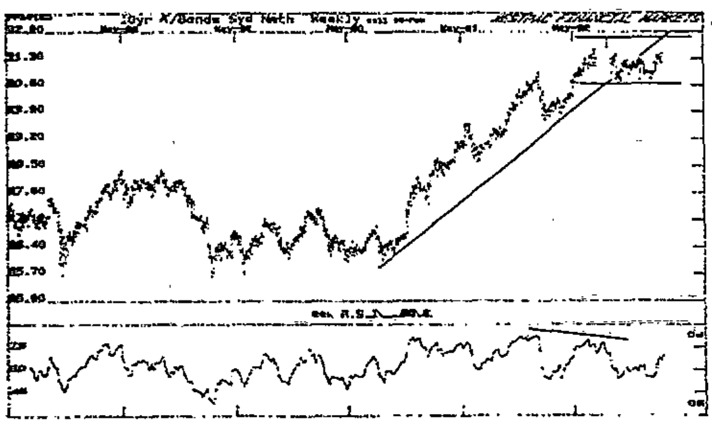


Beautiful market isn't it? It just went one way. Peter was currently umming and erring on this one. In August last year, we saw prices which we have not seen again so far. Prices have gone sideways for eight months. That is the longest consolidation seen in this bull market. If you like drawing trend lines, the trend is broken.

Since August last year, the consolidation has been in the upper half of the range. There has not even been a retest of the lows. Peter declared himself to be a bear globally on interest rates. David Fuller talked in Sydney (see last newsletter) about the global bond market rally. You will hear politicians taking credit for their domestic market interest rate bull markets. However, Peter would argue that interest rates are falling globally, so that a lot of it is due not so much to good work as good luck.

We have seen the German, Japanese and US bonds rally. Peter argues that the Australian bond market broke down from the global commonality, that David Fuller talks about, last August. It has been the first bond market in the world that has broken down from its rally trend lines, which makes him instantly suspicious, because it is sometimes the more volatile market that gives the lead. Maybe Australia is showing the way.

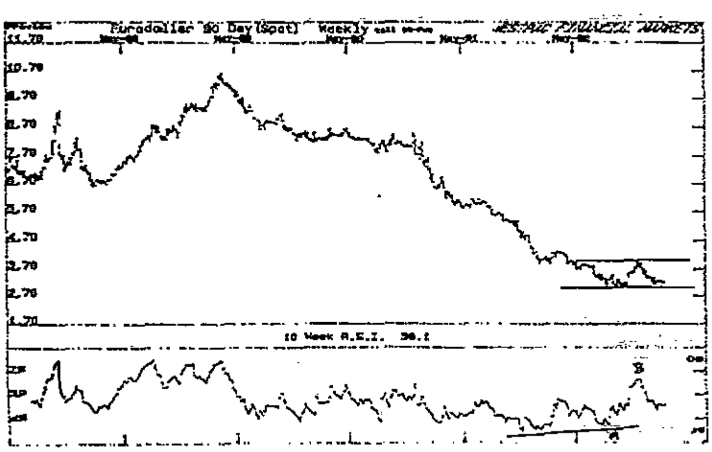
Thus, Peter is very suspicious that, if the bank bill rates break higher, then the bull market is well and truly over. He is not suggesting that it will go back up to 16 to 18%, but he thinks the magnitude will be something in the order of a thirty percent retracement at best, given his view of money supply. Suffice to say that most of the money on the interest rate bull market has been made. What you are seeing is the inter bank boys playing amongst themselves. There is no clear direction. Just to confirm, we should look at the weekly ten year bond chart:



This is where Peter diverges from the David Fuller theory: maybe interest rates will start to rise sooner rather than later.

Look first at the trend line, which is broken and then bonds have gone sideways. There are bearish divergences and a definite loss of momentum. If you are a borrower, it is a great time to lock in rates. If you are a lender, go for the short end.

Now for the Eurodollar:



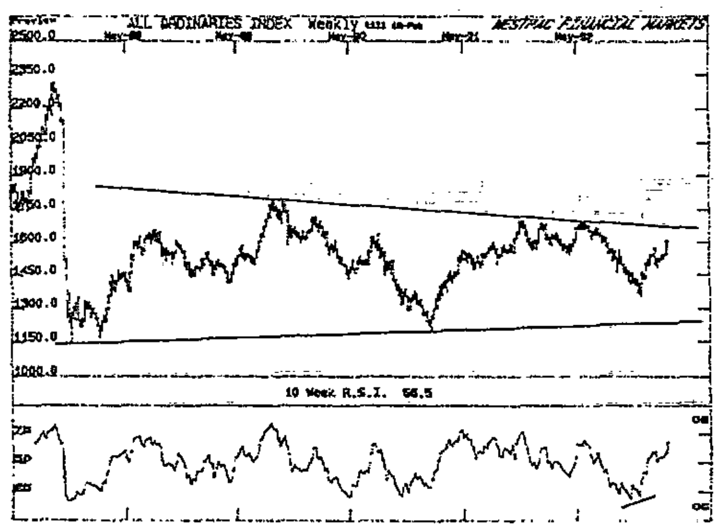
This is why Peter is of this view, because in the most liquid futures market in the world, which also happens to be the market for US interest rates, we are seeing a traditional bullish divergence at A with a definite stalling in US interest rates. You will probably read euphoria in the markets there, about Eurodollar interest rates making new lows, but they have not even come within cooee. The futures market may be running ahead, but this is the physical market and the physical market has not been taken any higher.

We know from our analysis of RSI, that when the RSI shoots up from an oversold condition to an overbought condition, as a range play it gives off a great signal, but of itself, it suggests caution with an end to the trend somewhere there in the wings. As you can see at B, this is the strongest pull back we have seen in Eurodollars since the trend began, which is more cause for suspicion. So it is all warning us of an approaching bottom. Why this would be the case, Peter confesses that he really can't tell. All he can say is that this is the demand for money in the US. Lenders are saying they refuse to take anything less than 3% for any long period of time. You take that at the short end and start looking at the blow-offs that are occurring across the range of currencies and interest rates. You notice the euphoria in sterling interest rates. They have got so carried away, they are expecting to see interest rate cuts on a weekly basis. Really, it is almost irresponsible.

As an aside, Peter admitted that he did not have the time to give these markets the analysis due to them. However, he pointed out that he is a glutton for price action. When all else fails, even when the mathematical models fail, just look at price action, because ultimately, that is what you trade. You don't trade your models, you trade your price action.

AUSTRALIAN STOCK MARKET

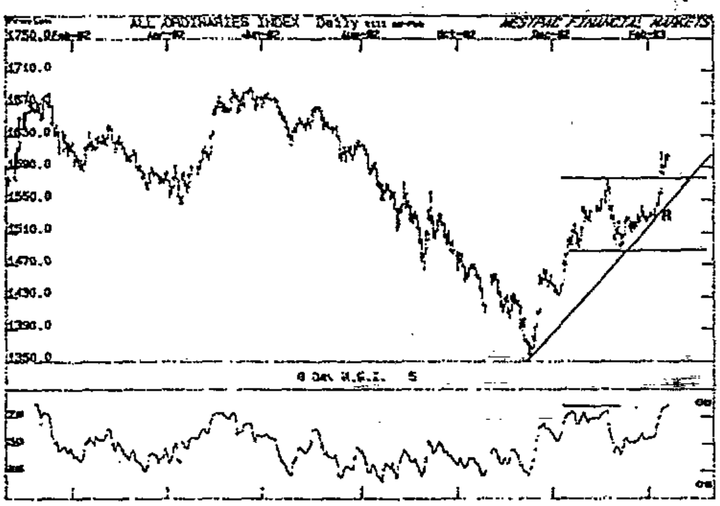
You have probably read in the newspapers about new highs in the All Ordinaries. This is hardly the case. This is an All Ordinaries weekly chart:



As you can see, the usual divergence has followed and we are approaching the top side of the channel. The question is: do you want to hold your long position when it gets there, or do you want to take profits there? This comes down, not so much to questions of prediction as to questions of trading style. This is what Peter is: he is very much a risk manager. He would put out recommendations to sell at the channel top and buy the break, preferably into a new high. Notice the risk margin on the break: not much capital will be at risk. That is why he loves stop losses.

This is all about how much risk you are willing to take. How strong is your prediction about how long this run will last. When things start to go too well his way, Peter starts to get cautious. It stops him making the absolute maximum from any move, but it certainly stops the heart ache of the pullback. But, there you go, it is a trending market, unlike what is happening in other places.

Now on a daily basis:

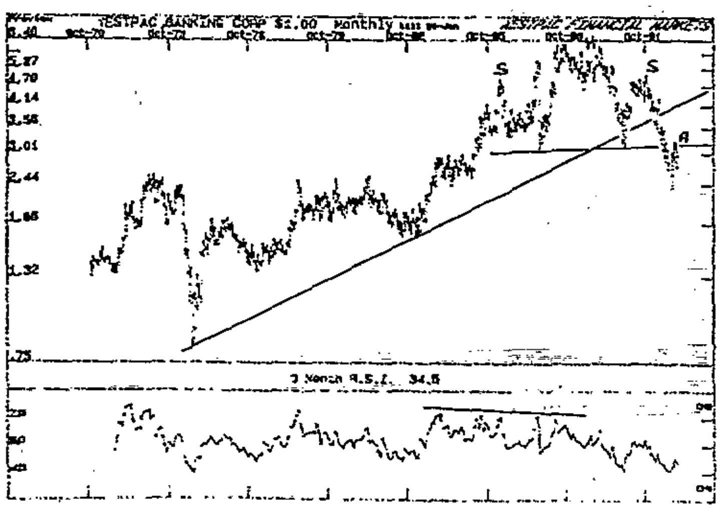


We are going further and further into overbought, but we are not diverging yet. So that is why Peter would reduce his exposure, but let the remaining 25% or so run. It is going our way. If you were a follower of stop losses, your stop loss would be somewhere around A, which also happens to be somewhere around the middle of the last congestion range. So, you would pitch it somewhere around 1525.

Peter pointed out that he had not spent a lot of time analysing this market and is doing it off the top of his head. It gives you the first steps in analysing it. If we had a lot more time, we would go through a whole range of indicators that we like. Not too many of them though, or we will get confused.

WESTPAC

Finally, a look at the bank's share price:



The monthly chart shows a very long term head and shoulders top and also a break of the long term trend line.

Zoran Gayer commented from the audience that ANZ also demonstrated a head and shoulders top of this size as well.

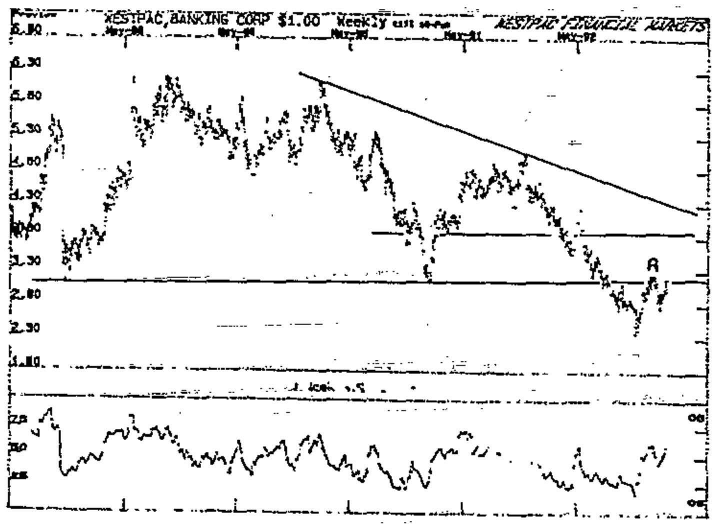
Peter commented that this was not the most perfect formation. People will say that there is no pronounced head, there is no shoulders. They forget the whole meaning that when you have a head and shoulders, the important thing is the neckline. The break of the neckline worked so well (at A) as to be unnerving.

Peter believes that this chart, measured from the head and shoulders, suggests that we are looking at an objective of about 170.

Notice that people will refuse to believe this and for sheer vanity's sake, will just hold their Westpac shares until they come good: they will always come good in the long term. That is ok, what they are saying is that the short term trading gains and losses they will give to the next guy. That is a decision they have made.

Another way of looking at this is to discount the opportunity loss from holding Westpac shares and it may end up being 170. This is purely from a bearish perspective. You can take all bearish stocks this way: take the opportunity loss of the cash you put down and it may equate to the target price quicker than people think.

Peter also discussed these points with reference to the weekly chart:



Ivan Krastins asked from the audience where Peter would change his view on direction, as apart from where he would place his stop loss.

From the audience, Zoran Gayer suggested drawing a trend line across the tops. While Peter agreed that this was the traditional way, he felt that it would almost really be too late and was the lazy way of doing it. He felt it would depend upon what you were looking for.

While admitting that he had not looked at this closely, Peter would go for a break out above the little congestion area at A. That would suggest to him that you were probably going to see a significant period of consolidation, as apart from a new bull market. However, he qualified this by needing to do more analysis, particularly looking at fibonacci numbers, which he does use.

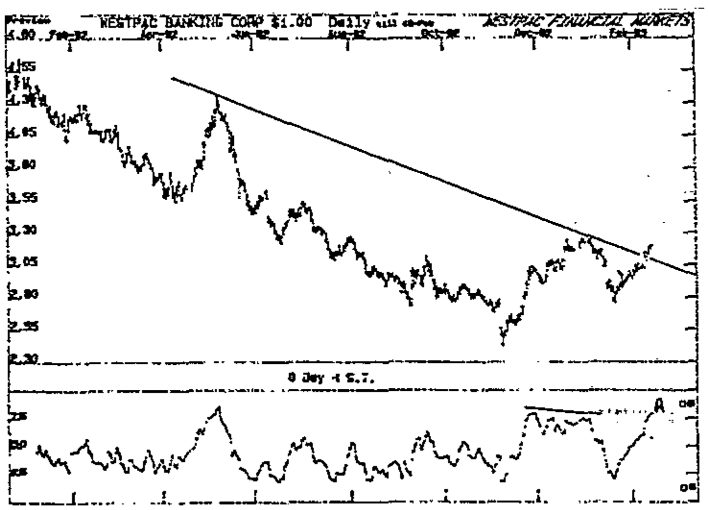
As an aside, Peter commented that a number of people in the audience are in love with fibonacci numbers. However, in currency markets, Peter has found that fibonacci levels are great to talk about, usually in hindsight. He has seen too many people sell at fibonacci levels and the price just keeps going up. For Peter, it is a level to take profits at, because it is a great comfort level to focus on, but it is certainly not a level to open up trades at.

From the audience, Dawn Bolton Smith pointed out that she always says that Fibonacci throws out a lifeline. Peter agreed. It is a great place to actually take profits, or to cut a losing position.

So, on the weekly chart, the neckline has been tested once and was currently being tested again.

Dawn then asked Peter if he watched the weekly bank index. Peter said that he did not look at the minor indexes, because we only have about three or four significant bank stocks in Australia. He tends to focus where there are liquid markets and he does not regard the Australian stock market as that liquid. He is used to trading futures and currency markets, in and out on very fine prices. He is actually quite impressed with people who put money down in the Australian stock market, because he is horrified by it. A lot of his calls are not that good in the stock market, so we should take this section of his presentation with a grain of salt.

However, following on from Ivan's question, here is something to focus on:



What does this tell us? The RSI has gone even higher than the previous level at A. Are we looking at a significant rally, which may take it up to very high levels on the back of the bank merger talk, which may last a year or two, and then down again?

We have to understand that Peter's whole prognosis for the next ten years is extremely pessimistic. To the extent that he believes in Elliot Wave, he believes that we are entering some very interesting times. We are seeing some massive transfers of wealth from Europe and the Americas to Asia, which the newspapers will not catch up with until about the year 2005. He sees Australia benefiting from this through the trickle down effect. He sees himself taking a very long term view by living in Australia!

BOLLINGER BANDS

A MESSAGE FROM JOHN BOLLINGER, FNN

Trading bands are simply mirror images of an average shifted up and down on the screen by some given percentage. It was immediately apparent to me these bands were extremely useful, but there were several drawbacks.

First, you had to empirically determine what the proper band width was for the price series under study. Also, you couldn't easily vary the widths of the bands to suit changing market conditions. Despite these problems, trading bands were and are a very useful concept. The task I set for myself was to improve generic trading bands. The result, after a long period of research, is Bollinger Bands.

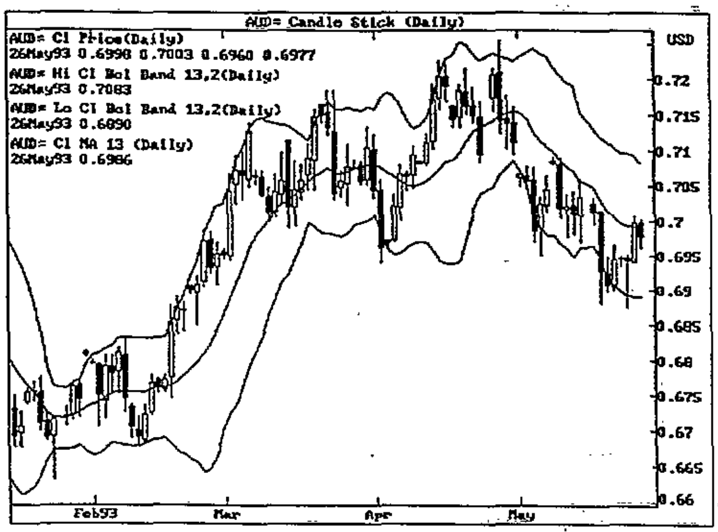
Bollinger Bands eliminate both of the above problems. First, the band width is determined by the volatility of the underlying data series. Second, the band width varies over time as the volatility of the data series varies. See the note below for a technical explanation of how this is done.

In order to use Bollinger Bands, first you must graph a data series on your screen. The second step is to choose an arithmetic average and plot it. For stocks and the stock market as a whole, I suggest you start with a 20 day moving average. You will see a pair of lines drawn across the screen, one above and one below the moving average. These are Bollinger Bands. The bands can be drawn at virtually any distance from the average you choose. However, the 2 sigma (Ed Note: standard deviations) bands obtained by answering 2 to the prompt (Ed. Note: this refers to the prompts in Computrac software) are the most useful by far.

There are several different approaches to using these bands. The following are several examples. (All examples assume a 20 day simple average and 2 sigma Bollinger Bands).

1. The upper bands may be thought of as resistance zones and the lower bands may be thought of as support zones.

2. Moves beyond the bands can be thought of as "thrust" or "power" moves and therefore likely to continue. A corollary of this is that tops or bottoms are very unlikely to be made outside of the bands.



3. The ability of a data series to stay at the upper (or lower) band for an extended period of time can be viewed as a demonstration of strength (or weakness).

4. When descending (ascending) from the upper (lower) band, the average often provides support (resistance).

5. During a primary move up (down), minor corrections can be expected to stop at the average and major corrections at the lower (upper) band.

6. The market can be thought of as overbought (oversold) in the region of the upper (lower) band.

7. The bands encompass an area that under "normal" circumstances should contain 95% of all trading activity. The confidence in this assumption can be shown to reach statistically highly significant levels for averages of 30 periods or greater.

8. Last, and perhaps most important, the bands are extraordinarily useful when combined with several other technical indicators. For example, a second push to the upper band accompanied by a lower reading on a stochastic or RSI than the reading obtained on the first push (a divergence) could be an important clue to a top.

I have highlighted some of the uses of this new analytical tool. I hope you find it to be as useful as I have. Should you wish more information or if you would like a complimentary copy of my newsletter, contact me at the following address:

John Bollinger's Capital Growth Letter
P. O. Box 3358
Manhatten Beach, CA 90266

NOTE: Bollinger Bands refer to bands drawn above and below a simple moving average whose distance is two standard deviations (sigmas) from the average. For each point on the average, the standard deviation of the data (the number of data points used equals the length of the average) is calculated. This number determines the distance of the bands from the average. As a moving average moves foward in time, so does the standard deviation calculation for Bollinger Bands. Thus it may be thought of as a moving standard deviation of the same length as the average.

FIBONACCI ROCKS THE AUSSIE

"Is there a very old Italian Running the AUD/USD?" 1.5.93

Examine the evidence for yourselves.

The Fibonacci series of numbers is that in which consecutive numbers tend to relate to each other by the ratio of 0.618 (the Greeks called 1.618 Phi or the Golden Mean, Fibonacci dressed it up for Western consumption). The next number of the series is the addition of the previous two. The first numbers of the series are:

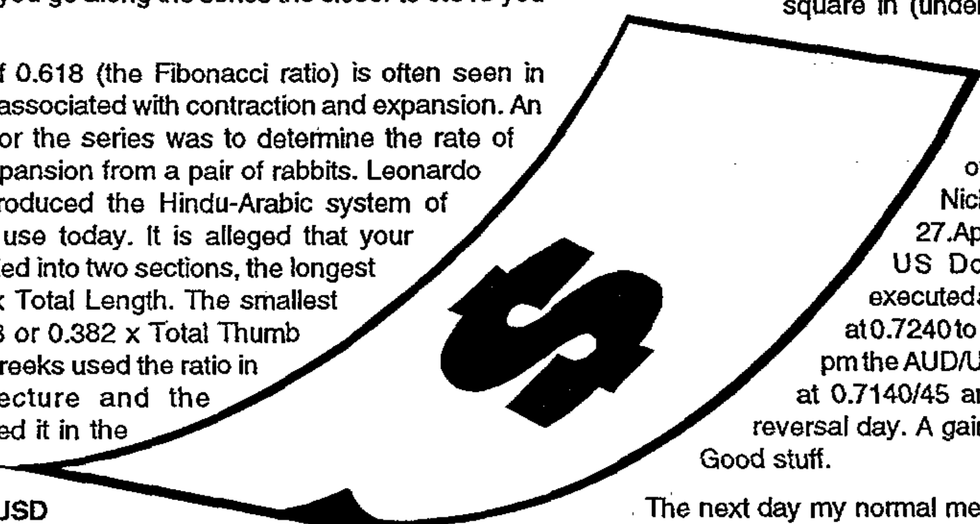
1, 1, 2, 3, 5, 8, 13, 21, 34, 55, 89, 144, 233, 377, etc

The ratio of 3/5 = 0.6, 5/8 = 0.625 (Mr Gann's Retracement)

The ratio of 8/13 = 0.615, 13/21 = 0.619, 21/34 = 0.618

The further you go along the series the closer to 0.618 you get.

The ratio of 0.618 (the Fibonacci ratio) is often seen in nature and is associated with contraction and expansion. An ancient use for the series was to determine the rate of population expansion from a pair of rabbits. Leonardo Fibonacci introduced the Hindu-Arabic system of numbers we use today. It is alleged that your thumb is divided into two sections, the longest being 0.618 x Total Length. The smallest being 1-0.618 or 0.382 x Total Thumb length. The Greeks used the ratio in their architecture and the Egyptians used it in the pyramids.



THE AUD/USD

The AUD/USD is still in yearly downtrend. The last swing low was on 0.6635 on 21.Jan.93. As a matter of interest this was the exact low (0.6635) reached in October 1987 (Crash Low) before the AUD/USD entered its last major bull run to 0.8967 in February 1989. The AUD had rallied from the July 1986 0.5725 low to 0.7379 before falling to 0.6635.

Since then it has rallied strongly to just below the bottom of its 5 year consolidation range at 0.7260 on 27 Apr. 93 and then had a Key Reversal Day and Week! to the downside. Why did it stop there and then?

Date	High/Low	Rate	Weeks to 27.Apr.93
02.04.93	Low	0.6933	3.6
22.03.93	High	0.7193	5.1
05.03.93	High	0.7143	7.5
21.01.93	Low	0.6635	13.7
14.9.92	High	0.7400	225 days (0.618 x 1 year)
25.8.92	Low	0.7035	35 (1 week slippage)

Not only that but the 0.7260 was just below the 61.8% retracement of the last year's range between the 0.7707 high and the 0.6635 low at 0.7297.

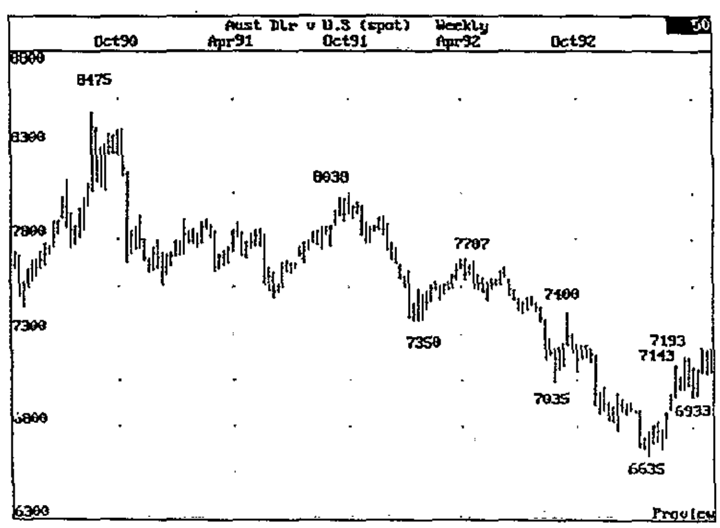
The Gann techniques as taught to some of our members last year by Gann Research Educators' Nick Flamborous of Chicago added confirmation to the Fibonacci findings and helped pinpoint the day.

Lets look at the confirmation side first. Nick Flamborous taught us that Gann said we should look to the square of numbers for a change in trend. It was 81 months from the 29.Jul.86 all time low at 0.5725 (81 = 9 x 9) to April 1993. 27.Apr.93 was also 81.7 weeks from the 0.8038 03.Oct.91 high. Just over the squaring in weeks Nick taught us.

Now lets look at pinpointing the day. The number days from the last spike high at 0.7400 was 225 (225 = 15 x 15). That's OK but its not enough. The market was at the end of its daily square in (under Nick Flamborous's daily chart method) from the low at 0.6635 on the 27 of February. The AUD/USD was also just under the top of the square of price method Nick taught us at 0.7295. On 27.Apr.93 I had an order to buy US Dollar at 0.7247. It was executed at 7.30 pm and hung around at 0.7240 to 60 for 2 hours. But by 11.45 pm the AUD/USD had collapsed and was at 0.7140/45 and had just started a key reversal day. A gain of 100 points in an hour. Good stuff.

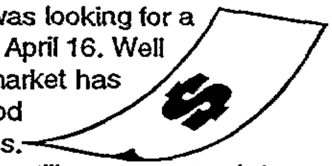
The next day my normal mechanical hedging systems gave me a surprising signal "Sell AUD Buy USD". It normally does not cut in so fast. With the key reversal day and the Fibonacci and Gann relationships. It was much easier to accept this strange signal.

At the time of writing the AUD/USD has broken a new weekly low in a Key Reversal Week, broken through the bottom of the band despite the strength of GOLD (new highs). This augurs well for a continuation of the downtrend after a rally to 0.7100 (maybe 0.7200 at best). Confirmation of the long term downtrend would come from the break of 0.6933 (just below the 50% retracement area of 0.6635 to 0.7260).



Bonds Update

The past few years have seen US & Australian Bonds in a massive bull run. Is this coming to an end? When I visited Nick in Chicago late last year he was very bullish the US 30 year Bonds for a move to the 112/114 area (Futures basis).



Early in April he told me that he was looking for a retest of the March 8 113.06 top on April 16. Well it was to the day. Since then the market has failed to rally substantially on good news and has made lower swing highs. His feeling is that while 114.00 is still an outside chance the massive US Bond rally is over and that distribution is starting as there are more profitable games to play.

"T-BOND (& BEAN) FLASH

I have just received some turning point dates, both past (so I'm able to test probabilities) & future, from Nick Flamborous. He has a method of determining good probability turning point times (what he terms Mass Pressure Days) and whether they will be a high or low.

He trades the 30 Year Treasury Bonds and Soy Beans Futures, with his partner on the floor of the Chicago Board of Trade [CBOT], for a living.

For the T-Bonds there have been 13 forecast turns to date, only 3 have inverted. Inversion means when a high is forecast and the market actually has a low and vice versa. The majority of turns are exact with some being plus or minus 1 or 2 days, as well there were no forecast turns in the strong trends. As space does not permit a full analysis a full report will appear in the July ATAA journal. Gann Research Educator's Future Mass Pressure Dates for the T-Bonds & November Soy Beans are set out below:

T-BONDS:		**BEANS:**	
Forecast Date	Forecast Turn	Forecast Date	Forecast Turn
27.5.93	Likely Low	30.05.93	Likely Low
1.06.93	Likely High	14.06.93	Likely High
12.07.93	Likely High	29.06.93	Likely Low

Inversions can and do occur, but they can still provide you with a low risk trade. I'd rather enter a trade on a confirmed reversal day, with a close stop, whether the market d inverted or not.

Caution

Forecasts of tops or bottoms can help you take profit on existing longs or shorts. NEVER enter a new trade before the turning point is confirmed as a top or bottom, it may invert. USE other technical analysis tools (that suit your trading style) eg Candlesticks, Reversal Days, divergence etc, to confirm that a top or bottom is in place in accordance with the forecast, before entering a trade. ALWAYS trade with sensible STOPS that are placed at a point where you are proven wrong and where you will not be financially ruined (its a fine line!!!). The decision to enter the market must be ACCEPTED as your RESPONSIBILITY alone, as must the decision to exit the market.

DW Hunt

WELCOME

New Members

Welcome to the following New Members:

Ms Irene Leonardo of Artarmon, NSW
Mr Victor Nevill of Pymble, NSW
Mr Dennis Mycock of Woolwich, NSW
Mr Paul Pusari of North Adelaide, SA
Mr Graham Critchley of South Melbourne, VICT
Mr Arthur Tee of Wheeler's Hill, VICT
Mr Robert McGregor of St Ives, NSW
Mr Michael Berry of Mosman, NSW
Mr Peter Robilliard of Neutral Bay, NSW
Mr Noel Quartermaine of Cunderin, WA
Mr R Shattock of North Ringwood, VIC
Mr Michael Rosenfield of Abbotsford, VIC
Mr Charly Hartmann of Endeavour Hill, VIC

New Groups

Currently, the ATAA holds meetings in Sydney and Melbourne each month. Member numbers in Queensland, South Australia, Tasmania and Western Australia are starting to grow as the TA network builds. While full scale meetings are not yet feasible in these states, it may be good for members in each state to be put in contact with each other to help bounce a few ideas etc off each other. If you are interested write to me at the PO Box 2774 Sydney NSW 2001 and I'll put together those people agreeable to the notion.

DW Hunt

Secretary, ATAA

Larry Williams - On Fear and Greed

By Larry Williams

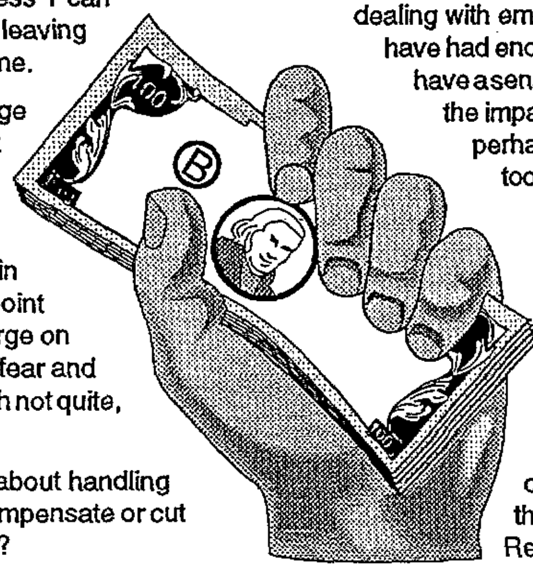
It's been said the best speeches are given by the people most qualified to give them, that giving a good speech is simply a matter of having earned the right to give that speech.

Hopefully it's the same when it comes to writing articles because I feel qualified for this article on fear and greed...more qualified than I've ever been in my life.

Currently on any given day I will be long or short somewhere over 2,000 Bonds and who knows how many S&P's.

That means every tick in the Bond market will make...or lose me $62,500. Believe me if you want to get in touch with fear and greed, there's no better way of doing it than to have each tick in the Bond market represent $62,500!

While trading commodities does create an un-real sense of value and economic worth, nonetheless I can appreciate $62,500... I can appreciate it leaving me and I can appreciate it coming to me.



My experience is that trading in large amounts gets you immediately in contact with the emotions of fear and greed. It really does not matter how much you are winning or losing, it's all in relationship to how much you have to win or lose. I know. I started trading, at one point in my life, with simply what I could charge on all of my credit cards. The pressure of fear and greed then were almost as great, though not quite, as now.

The question is, how do traders go about handling fear and greed? What can you do to compensate or cut back on the impact of these emotions?

Certainly if one does not learn to get these two wild horses under control, you will experience financial difficulties trading commodities.

That's because fear will force you in a strange fashion to either hold on to losing positions too long or to get out too early of positions that would have turned profitable.

The problem with greed is just the opposite. Here, pure greed will force you to hold on to positions you should be getting out of because you always think there's another tick... or two, or several hundred left in the market for you. Hope may spring eternal, but uncontrolled greed will be the demise of commodity traders.

You can escape these two emotions of fear and greed, they are just like yin and yang, they go hand in hand, they are like success and failure, salt and sugar, night and day; they separate making or losing money.

There are several practical ways I have developed to eliminate fear and greed; the first is to have a system.

Why a System Is Important

Don't think this is a novel or new idea; in Homer's Iliad, he tells us, "Let us put our trust rather in the council of great Zeus, King of mortals and immortals."

That's really what we system followers do. We are putting our trust in the system, our god; thus, we can eradicate the emotion of fear and greed. These emotions should have no impact on a system trader. However, there's a world of difference between should and won't. Fear and greed will still impact the system trader and I'll tell you how I attempt to handle fear and greed in my system trading.

Those of you who are not system traders have a greater problem, you don't have a Zeus to who you can shift responsibility; thus, you must be in a constant state of alert, battling fear and greed.

So how can you do it...how can you go after these two dragons, get them to rest?

First, let's look at what we are dealing with here, we are dealing with emotions. Now I am no psychologist, but I have had enough winning trades and losing trades to have a sense of how one can go about desensitizing the impact of emotions. In fact desensitization is perhaps the most significant psychological tool I could share with any commodity trader.

Remember the movie The Exorcist? If you don't, try to call up any other spooky movie. It's almost certain that the first time you saw the movie it had its frightening moments, in the case of the Exorcist some people were scared flat out silly. However, if those people had seen The Exorcist 30, 40 or 50 times can you imagine them being scared on the 39th or 40th screening? Of course not. Regardless of how scary anything is, if you see it over and over and over, it starts to drop charge and your mind can act rationally, without emotions running amok.

Thus, one approach to sublimating fear and greed is to desensitize yourself by having a physical action, involving money, that has thousands of decisions all having fear and greed at stake. Even an active trader may only feel the tugs of fear and greed on 4 or 5 trades a day.

However, there are other activities involving money that may have you exposed to literally hundreds of ultimate decisions with money.

To desensitize myself from fear and greed, many years ago I wagered small amounts at gambling casinos not really caring if I won or lost money. But I had to repeat the process over and over and over, literally thousands of times to desensitize myself from being pulled into having any emotions about what happens to money. After you win or lose several thousand decisions you start to gain some control of your emotions...you start to realize that you can be in charge of them, rather than having them in charge of you. This type of desensitization for commodity traders will take a long time and is something not everyone can do, but if you've got the time and patience, it's one of the best physical ways I know to go after desensitizing emotions.

Another approach might be to simply come into contact with the reality that simply nothing matters. While this may be too much Zen for some, I think it is of great value. Alan Watts said "Nothing is more important than something because there is no way of seeing something without having the background or context of nothing". If Watts were still living, I'm certain he would go beyond that statement telling us that the only real problem in our life is our mind. So once you learn to escape your mind, which really for the most part is your ego speaking, you will have escaped the impact of fear and greed.

Athletes refer to a state of consciousness where everything flows, where they play the perfect tennis or golf game, have the perfect pass.

We commodity traders experience that too. It is the Satori concept, which is truly a warrior's state of being, but it appears it cannot occur until your mind is totally free of thought. Once you get all your thoughts and considerations about the world out of your head, then you become pure awareness. Your body will be active, yet sensitive and relaxed. In the state of Satori the commodity trader will also find that prices seem to be not only in his control, but also moving much slower than usual, there is still a certain cadence or beat, but now you are in communication with this pulsation.

In this state of Satori, which I have experienced on occasions, there is no concept of fear and greed. There is simply nothing to pull at you because fear and greed are not considerations or thoughts.

From this I have deduced that if one can get to the point that fear and greed are not considerations...that fear and greed don't matter, one is less impacted by them.

So, how do we pull this off? The way of getting to that point goes back to the original Zen comment that nothing has value to it. This may be hard for some readers to grasp or intellectually accept, but it is a truism. This is an intellectual thought, but needs to be experienced at an emotional level, before it will be of value to the commodity trader.

We all express it in one form or another, even in our own humor regarding the market when we say, after winning or losing days, it's only money...it's only more zeros past the base number; thus, we attempt to give a sense of nothingness to money.

When you get to the point that in fact there's a total sense of nothingness to money or market success of failures, you will then reach that state of nirvana, or satori wherein you have a realization or transformation that allows you to view what goes on in the market as simply having no value.

If it has no value then of course there cannot be fear because you cannot be fearful of losing something nor can you be greedy about gaining something that is nothing. It's like the line in the Kris Kristophersons' song, Bobby McGee, "Freedom's just another word for nothing left to lose". Indeed this is a strange attitude or approach to have especially towards something that people covet as much as money, but this is the attitude that will free you of the charge and emotional trauma that will come from these emotions.

In St. Paul's apostle to the Philippians, he admonishes "Let this mind be in you, which is also in Christ Jesus, who being in the form of God did not think identity with God as a thing to be clung to, but humbled himself and made himself of no reputation."

Here you have expressed the exact thing that Watts and the Zen Roshi are trying to say. When we attach importance to something, you become so screwed up about it that you cannot function correctly around it; so it is with our money. When we attach importance to it, come roaring in our vicious dragons of fear and greed like charging bulls.

We system traders have it a little bit better because we can intellectualize without going to the emotional/intellectual level, we need not surgically remove these emotions.

Consider this..if you are a system trader, you have selected a system to follow, you are following that system for numerous reasons, some of which may be: it's easy to follow; it works well in the markets you like to follow. The truth of the matter is you are following a system for two reasons:

1. It has shown the ability to eliminate losses
2. The mirror image of that, it has been profitable for you.

Isn't this really another way of talking about fear and greed? Aren't systems really created to get us away from these two emotions?

You see, once you start following a system, what you actually have said to yourself is, I am happy with the profits the system generates, I am pleased with the profits this system generated: therefore, I will follow the system. If that's true, I then ask you, if you are happy with these profits, why in the name of the commodity god or goddess would one want to try to get more profits from the markets? Isn't that foolish? Yes, of course it is.

If you are satisfied with the system it means you are satisfied with the profits the system makes; thus, that satisfaction tells you there is no need for you to be greedy...there is no need for you to try to hold on to positions when the system says you shouldn't nor is there a need to try to take trades the system says you shouldn't or additional contracts, etc.

It matters not; if you're a system follower, you have already admitted to yourself, at an intellectual level, that you are satisfied with profits.

The profits satiation the system provides you is your assurance that you do not have to do anything but follow the system, that you are content with the system's performance; therefore, there is no reason for you to try to stretch out the system's performance...to cheat trying to seek out an extra buck or two. Be content with the system and you will have eliminated totally the impact of greed.

Let's next turn our attention to fear. As I said, systems are constructed for two reasons, one to handle greed and the other to handle fear.

Let me explain this, The reason I have developed systems, and I'm certain everyone else has developed systems, is to make certain we don't lose money.

After all, the practical reason we develop systems is to make money, but even of more importance, to not lose money because we know some 90% of all commodity traders do. The key point to having a system is to enable us not to lose money.

What you're really saying...if you're a system follower...is that you have developed a set of concise rules that have managed the commodity markets and your money in such a fashion that you are able to accept what losses occur in the system, knowing that losses are a part of the process and also knowing that the system controls these.

Ah hah! There it is...the kernel of truth. The system controls losses far better than you can control losses. Once you grasp that, you will realize there is no need to not follow your systems. There is absolutely no way your emotions, your considerations, your friends or whatever, will be able to do a better job of managing losses and money management decisions than a well thought out system.

Hence, the system becomes your shield to protect you from the emotion of fear. You can walk through the valley of evil and fear no death when you have your system. Your system has clearly told you, yes, there will be losses but I, the system, will manage and control losses for you.

Once you throw away the shield, you are on your own big boy and who knows what's going to happen; you certainly don't! But we do know that you and other people most always make the wrong decisions when the emotion of fear comes sneaking on its cat's feet only to metamorphose itself into an ugly red beast seen in only your worst nightmares.

Yes, if you have a system you don't have to have fear, you can approach the market from that Satori view point because there is no need for fear; you have already turned it over to your Zeus. Your trust is in the system, that it will handle losses...the origination of fear...greater than you can.

Thus, a system becomes almost a father confessor for its follower. The problem is: system followers have not intellectualized or rationalized to the level I hope I have just brought you, so they buck the system; when the system says buy, they sell; when the system says take profits, they hold on; when the system has a loss, instead of following the system, they continue holding the losing trade.

There is no need for system followers to do this once they realize they chose the system because it has made profits and those profits are satisfactory by them, and that the system manages losses far better than they can ever manage losses.

Hopefully this article will help you stab an ice pick into the heart of the emotions of fear and greed and stop these emotions from killing you.

I assure you that the elimination of all removable risk is the most plausible way of staying alive. When there is nothing at risk because you have a sense of nothingness, your life will be vital and well. If you cannot get to that point, then have a system, it will control and protect you from risk better than any other alternative.

Larry Williams

Larry Williams became a newsletter publisher and registered investment advisor in 1967 trading primarily stocks. After finding remarkable success in stocks, he started to trade commodities and in 1973 published "How I Made a Million in Trading Commodities." Since 1973, Larry has narrowly lost an election for the U.S. Senate, carried on an expansive seminar circuit and concentrated on his newsletter "Commodity Timing." After discontinuing his newsletter in January, 1987, he has concentrated exclusively on the field of managed commodity accounts.

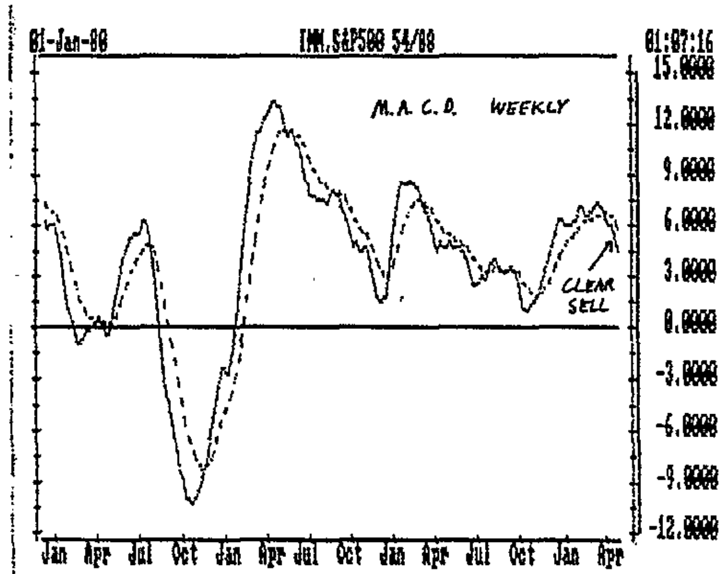
For more information on Larry Williams, contact:
Investors Performance Group
CIS # 71260,341

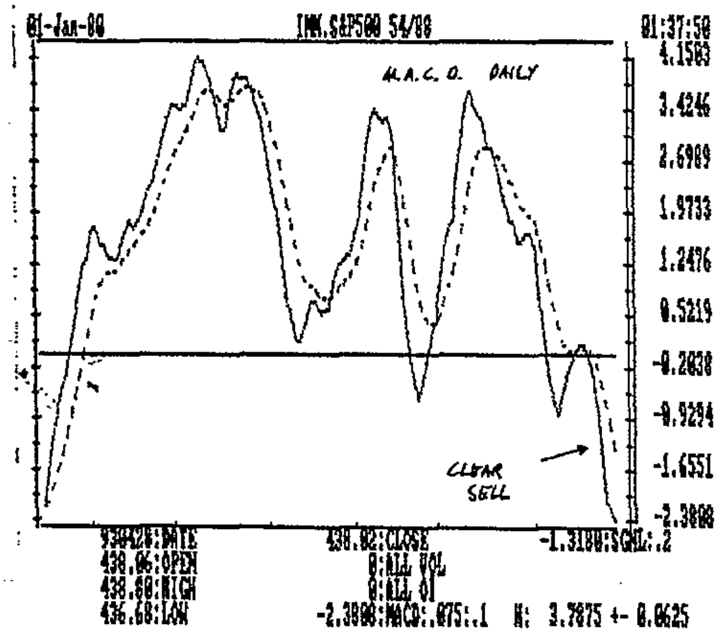
WHERE TO NEXT?

Forecasting is a heroic exercise. We should not sensibly indulge in it unless we join a consensus or people forget what they said last week let alone last year. But I shall stick my neck out and give a general overview of the "big picture".

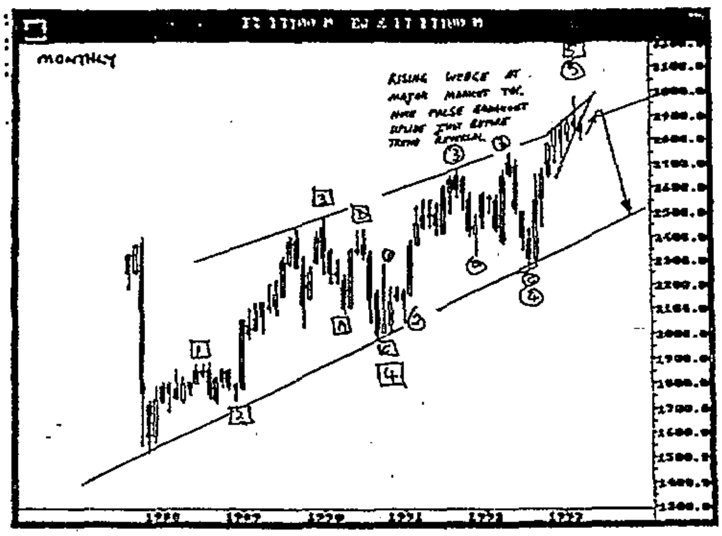
We are on the verge of the mother of all bear markets. The decline in interest rates which has stimulated the bull market in shares and bonds is in fact driven by the deflationary forces which must inevitably depreciate the bloated financial assets sector. No bull market has ever persisted in the face of declining liquidity and credit contraction. Neither fiscal stimulus nor cheap money policy will counteract this deflation. Such diversions will only prolong the agony and hinder the generation of savings and productive investment.

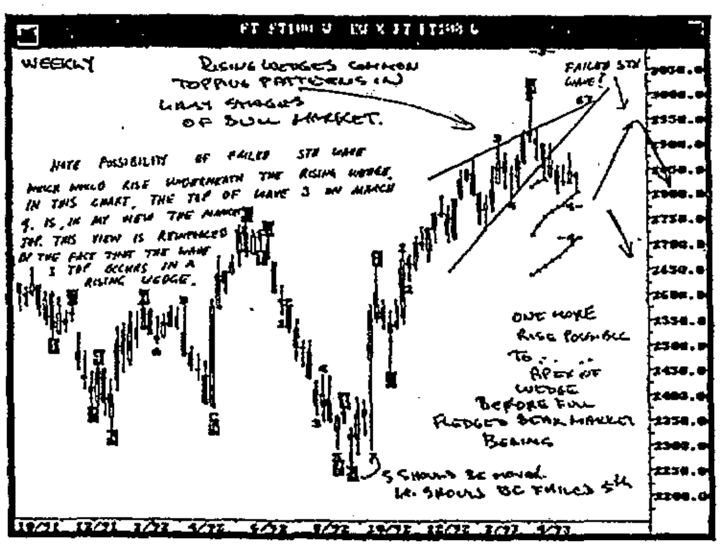
Now to the specifics.



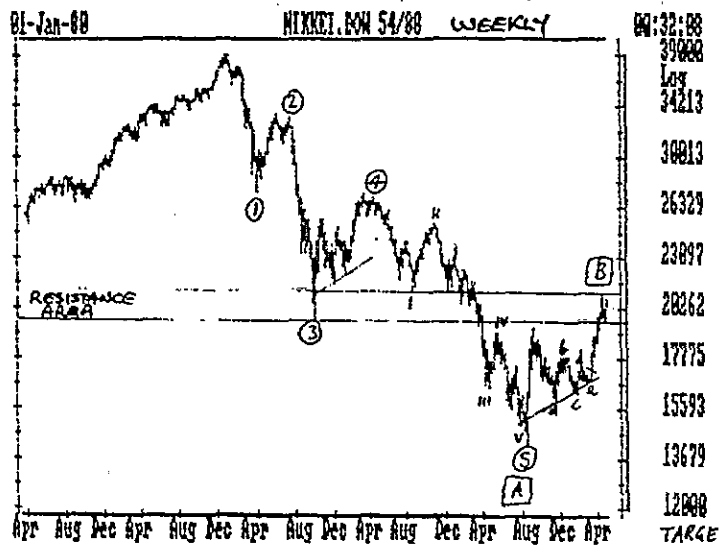


I believe that the S & P 500 completed its final top on March 11 at 456.76. On April 2, we had a large one day fall. This was the day the DOW fell 68 points. We had a bottom on April 6 with an intra-day low on the S & P 500 at 439.48. Since every previous fall had been followed by a new high, it was hardly surprising that the crowd bought aggressively. The Put/Call ratio highlighted the consensus view that the fall was simply a buying opportunity. But the mutual funds, acting as proxies for the crowd, could only succeed in pushing the S & P up to a lower top at 450.21 on April 13. The Dow, which only comprises 30 stocks, reached a double top with help from the Transport index. Striking non-confirmation from the broader indices underlined general weakness. The Dow was clearly in retreat by April 20. By April 23, the S & P 500 had reached a lower low than that of April 6. A lower top and lower low could only tell us that the trend had changed. As at April 23, the daily and weekly MACD on the S & P 500 were giving a clear sell. Moreover the 11 day Directional Movement Indicator was giving a strong directional downside move.

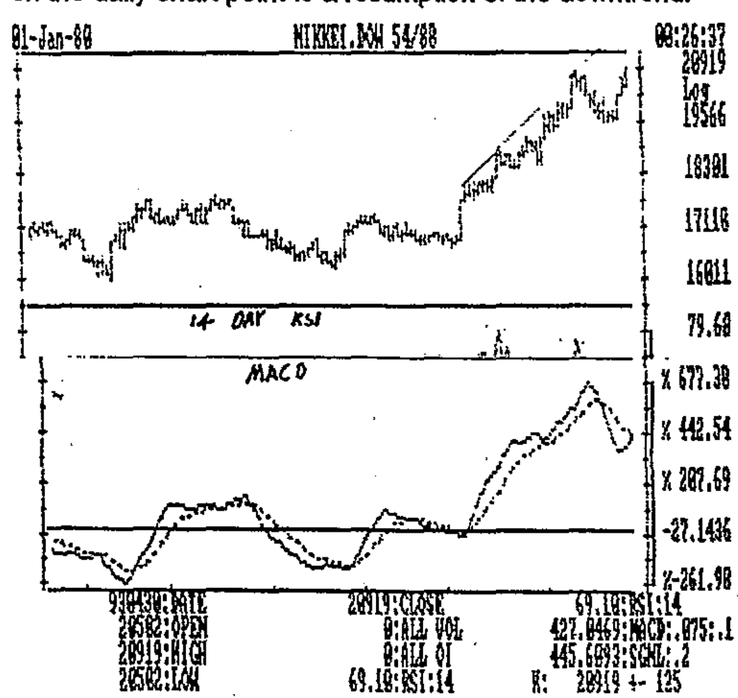




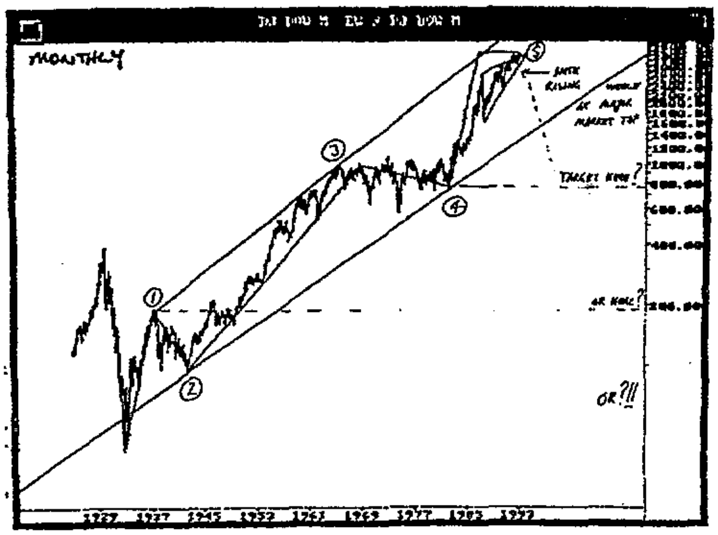
It appears that the FT 100 reached its final high on March 9 at 2980.9. On both the weekly and monthly charts, we have a clear rising wedge, which is a common topping pattern in the last stages of a bull market. The monthly chart shows the completion of a major wave 5 whereas the weekly chart shows the completion of a lesser degree wave 3 with wave 5 still to come. This may cause some confusion. However the keen student of Elliott Wave would be aware that the top of wave 3 is frequently the market top. The rising wedge top in the weekly chart means that any wave 5 is only likely to rise to beneath the apex. Thus we would have a so-called failed 5th. Another point to note is the false breakout on the upside of the rising wedge, followed by the break downside. This is quite common in rising wedge tops. It further reinforces my view that the top has been seen. An ABC rally from 2800.6 to 2881.2 followed by an impulse move down diminishes the potential for any sustained move up from here. Time is certainly running out. A sharp move down is indicated. A first target would see a test of the trend line between 2,400 and 2,500.



Many observers including David Fuller believe that the Nikkei Dow is starting a new bull market. The recent rally has reinforced their optimism. David Fuller points out that whereas the Nikkei has been in a bear market since December 1989, the Dow Jones has been in a bull market during much the same period. At some time according to his argument, the two markets should converge, helped by the Keynesian stimulatory policies in which he appears to place much faith. But historically, new bull markets have only begun after the excesses of the previous bull market have been liquidated. The Government is attempting to prevent this liquidation from running its natural course. It is seeking to defy market forces. The use of public pension is nothing more than a massive misallocation of available savings. The current near-record P/E ratio of 75 on the Nikkei only serves to reinforce my view. I believe that the technical picture complements my fundamental view. The duration of the current rally is partly influenced by continued successful Finance Ministry manipulation. The best interpretation of the weekly Nikkei places the current rally as a B wave in a large ABC move down from the top in 1989. Emerging divergences in the 14 day RSI and MACD indicators on the daily chart point to a resumption of the downtrend.



If this bear market is structural rather than simply cyclical, the normal statistical probabilities become irrelevant. In THE GREAT RECKONING, James Dale Davidson and William Rees-Mogg argued: Every nation that has yet emerged as a leading financial power in the modern world has experienced an extraordinary boom in investments, and then a crash that deflated prices by about 90%. It would be surprising if Japan were to be the exception. This suggests a final target between 3,000 and 4,000 on the Nikkei Dow. As for the other markets, it is difficult to nominate targets. The use of technical analysis for long range forecasts is a problematic exercise. In terms of Elliott Wave, we can say that with the completion of super cycle wave 5 on both the New York and London markets, the coming correction must be at least greater than any of the preceding corrective waves during the five wave move. The monthly Dow Jones chart with that classic rising wedge at the top of wave 5 should cause some bulls to pause and think.



Possible targets according to Elliott rules would equal the bottom of wave 4 or the top of wave 1 of the preceding 5 wave move which started in 1932.It may be even worse. If not only supercycle wave 5 but also grand supercycle wave 5 has been completed, a more horrendous scenario could be suggested. However, we can infer that a bottom is near when extreme pessimism and fear is accompanied by a steep rise in the proportion of money held as cash, and a large rise in liquidity in relation to debt. Another money measure would be a rise in M3-M1, a proxy for increased savings.

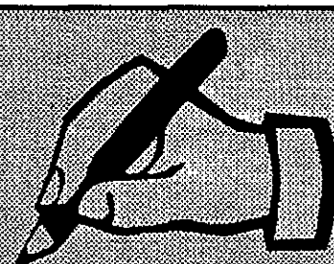
The paradox is that the coming financial crisis carries the seeds of recovery. The banking crisis will be the culmination of the coming bear market, and the deflation of asset values. This is the factor that will drive gold into a new bull market. David Fuller's attempt to link a rise in the gold price with a rise in M3 largely misses the point. Gold is a hedge against currency depreciation, chaos and the consequences of inflation. As a pure hedge against inflation, gold has performed rather poorly. People will demand gold not because of inflation but because they demand a proxy for cash which will (1),not be hostage to a banking system which may fail and (2), will not be hostage to a vicious cycle of competitive currency devaluation. As gold rises in value, gold reserves both official and private create a new basis for liquidity. The deflation will have run its course and the basis of a new bull market and economic recovery set in place.

In the meantime, the regular army of Keynesian economists, stock brokers and fund managers will repeatedly seek to reassure us after every decline that now is the time to buy; that the latest decline is the last. I have but two comments. The first is that the bottom will be reached when the "bulls" are finally silenced and succumb to despair, whenthe purchase of equities is seen as the act of a lunatic. The second is that so-called countercyclical government policies will fail and in fact will only prolong the necessary adjustments. Massive government spending and promotion of cheap money only deplete further the savings base and divert resources from productive to non-productive ends. In fact the only way fiscal and monetary stimulus "works", is if there is an adequate savings base which would allow a natural recovery to occur anyhow. Japanese Government efforts to keep the stockmarket strong cannot succeed unless the market rally becomes self-generating. In other words, a market, dependent on continued injections of government "dope", can only be diverting resources from productive wealth-generating activities.

The foundations of the new bull market will only be set in place when governments and other assorted advocates of intervention finally acknowledge the supremacy of the market and get right out of the way. Yours truly will then become a bellowing bull!

Christopher Carr April 30, 1993

Acknowledgment
My thanks to Zoran Gayer for his helpful comments on Elliott Wave patterns. However responsibility for the opinions expressed in the article are mine.



HOW TO CONTRIBUTE

Contributing to the ATAA newsletter is easy and can sharpen your thinking/logic on the analysis you are using.

Newsletters are published in March, May, July, September and November (Odd months). Copy deadlines for the next Newsletter are the 20th day of February, April, June, August, October (even months). Copy can be given by hand at the meetings or mailed to PO Box 2774 Sydney NSW 2001.

Our preference is for submissions to be on floppy disk (either IBM or Apple). Both text & graphics should be on the disk. We will return your disks. Any popular word processing or spreadsheet package can be used. ASCII dumps (printing to a file eg .prn) can be used for the more esoteric word processing packages. Graphics such as .PCX, TIFF, HPL, .PIC, Paintbrush etc are acceptable.

Packages acceptable are Word (both Windows and DOS) Word Perfect, Wordstar, Lotus and MS Excel are also acceptable.

If you cannot put it onto a disk, please type on paper and include good quality originals of graphs or charts.

If you would like to help, talk to Colin Nicholson on (02) 436 1610.

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The Australian Technical Analysts Association (ATAA) is a member body of the International Federation of Technical Analysts (IFTA). The ATAA was established in 1990 with the goals of:-

- promoting the knowledge and use of Technical Analysis in Australia,
- providing a forum for new ideas and concepts,
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