THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION NEWSLETTER

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The Australian Technical Analysts Association Newsletter is published by the Australian Technical Analysts Association Inc (ATAA). It is a vehicle for the interchange of ideas and information about technical analysis of markets. This forum is available at the discretion of the editor for the views of members, guest speakers and guest writers.

Contributing to the ATAA Newsletter is encouraged and will repay your effort by expanding and sharpening your analytical ability. The emphasis of the Newsletter is on original articles, although consideration may be given to material of interest previously published in other publications. Newsletters are published each January, March, May, July, September and November. The deadline for copy is the 20th of the previous month: ie December, February, April, June, August and October.

If you would like to discuss how you could contribute, telephone Roger Lawes on 02 375 6536. Contributions should be addressed to Roger and sent to him at GPO Box N255 Grosvenor Place Sydney NSW 2000. Our preference is that you submit articles in both hard copy and on IBM disk. Software packages preferred are WordPerfect 5.1 and Lotus 2.2. However, most packages will generate an ASCII file, which will be fine.

Disclaimer

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A Beginner's Guide to Trading Equity Chart Patterns Using Options - PART 1

by Bernhard Liedtke

INTRODUCTION

I am writing this article as a beginner myself, with only one year of trading experience. This is very little in terms of financial trading. However I wish to share with other beginners some of what I have learned.

I wish to discuss some real life examples of chart patterns to add to information from text books you may be using on this topic. You shouldn't use the information presented religiously, but rather build upon it to suit your needs, also remembering my limited experience.

Due to a chronic health condition, I am often house-bound, so I am forced to work from home. Financial trading forms part of my income and is also a hobby as I find it both fascinating and a challenge. I trade both short and medium term All Ordinaries Index (AOI) SPI options and exchange traded options on individual equities. I am concentrating on chart patterns on individual equities in this article and I will examine the AOI in PART 2.

I subscribe to a daily financial newspaper and enter share price data into a computer program. I also keep hand drawn high/low/close charts which are easier to scribble on and are always handy. I follow some overseas indices and commodities which I feel may be important to particular stocks. I follow the markets intra-daily and keep half-hourly plots of the AOI for Elliott wave analysis (see PART 2).

This article refers to options as a trading medium, but if you trade stocks directly, then the discussion of options will not concern you, however the information on chart patterns may still be of interest. A reference book on price patterns would also be useful when reading this article.

If you wish to trade options, I strongly suggest reading a book such as 'Understanding Options Trading in Australia', by Christopher Tate, RRP $A19.95, before placing your first trade. You must fully understand how to choose the correct option series for your strategy, and how options fluctuate in value. As a general rule, I buy slightly in the money options with two or more months left until expiry as this gives me time to get out if my strategy goes wrong. They will also fluctuate less than shorter dated options, making them less risky. As you become more experienced, you will have to weigh out the risk-reward ratio when choosing shorter dated, out of the money options, with higher potential gains (and losses), depending on the strategy.

I would suggest getting to 'know' a handful of stocks and what affects their share price (gold etc.), rather than following dozens of them, except if you are just looking for price patterns. I have found that each stock has its own 'personality' and their behaviour changes with time. For example, ANZ Bank, during 1993, displayed a smooth, wave like behaviour (possibly suited to an indicator such as a stochastic).

News Corporation on the other hand, is a very volatile stock which can move sharply. Ampolex traded in nearly straight lines for a few months, but then reverted back to a more wave like cyclical movement. I would also suggest that you stick to options which are liquid (quick to trade) like BHP options.

CHART PATTERNS

Chart patterns are just one of dozens of methods which can be used to help you decide on when to open and close a trade. As many short term chart patterns are fairly risky, I limit my exposure to these trades using comparatively small amounts of money.

Because of their risk, I have tended to watch many short-term chart patterns and make predictions without actually trading them. This way I have learned which patterns have a better success rate and under what circumstances they form. Text books make chart patterns look straight forward, but in real life they can often fail. In many cases, I have tried to get away from trying to match chart patterns to those seen in text books, because it makes the whole prediction process too reliant on what the book says these patterns are supposed to do.

Many chart patterns don't quite fit into anything described in the text books, so I try to get a feel for what I think the stock traders are doing to cause such patterns, therefore giving me an idea of the likely future price direction. Some patterns are obvious Head and Shoulders (H&S) or double bottoms etc, so I do refer to the text books to check their volume characteristics etc.

Let us look at some real life chart patterns now. All these are from recent data in the Australian stock market.

Ampolex (Fig. 1) has displayed some interesting price patterns recently. Not only that, but it has often moved in nearly straight lines making trading easier to predict. October saw a double top formation appear where two spikes developed. This often signals an end to an upmove. The left spike developed a 'blow-out' where the share price shoots up dramatically within a few days and the last day's close is about half way down,

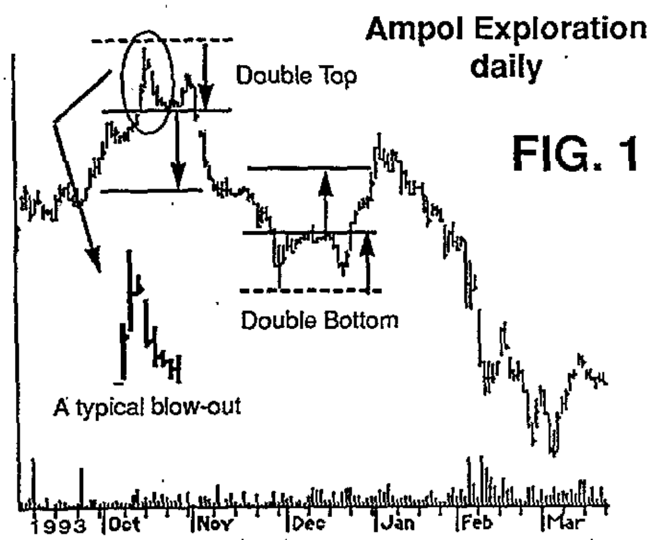


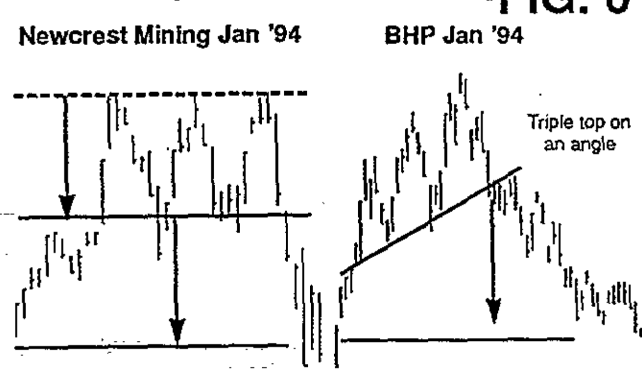
FIG. 1

or near the bottom of the daily price range. A similar downtrend blow-out developed at the end of November 1993.

The price expectation for a double bottom or top is the height of the peak from the neckline (where the price makes a turn to build a second peak). Triple tops and bottoms are also possible. All these patterns appear during times of uncertainty and signal a possible price reversal, often at the same time as H&S price patterns appear. Newcrest Mining showed a nice triple top and BHP also displayed one which completed, although it was a bit asymmetrical (Fig 6).

Triple Tops

FIG. 6

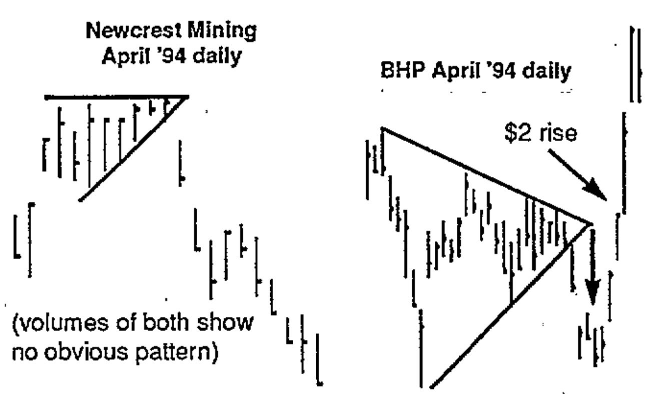


Both price expectations with Ampolex either reached or exceeded their targets. The next downturn at the start of 1994 was one of those situations where you saw a strong downward movement developing and you decided to jump in and hope it continued. A guide to help you close at the right time would be to watch when the cycle makes a new high that is higher than the last. This happened half way through March. The stock then cycled sideways. Notice what looked like another double bottom pattern just before, but it didn't eventuate.

CONSOLIDATION PATTERNS

One pattern which I have found fascinating is the consolidation pattern. It can take the form of a general triangle (Fig. 8), right angled triangle (Fig. 2), rectangle or no shape in particular (Fig. 3). I have often noticed them after a big rise or fall. It doesn't need

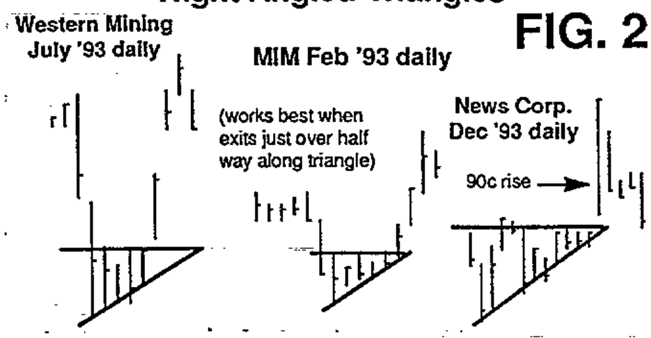
Miscellaneous Consolidations **FIG. 8**



to be too big a rise or fall in short term trading for one to develop. The price moves up and down in a small trading range, and sometimes the range becomes smaller until it is only a few cents and then it suddenly explodes outwards (NCP rose from $10.00 to $10.90 in one day. Notice that the gain was eroded away in the following days. Fig. 2).

Because the whole thing is often over within a day or two, guessing the direction of the move before the breakout is often necessary. This makes them very risky, so keep such trades small if you wish to risk them at all. The right angled triangle often gives a clue to their final direction (they often break out through the horizontal line). Western Mining displayed a very nice real life right angled triangle (Fig. 2).

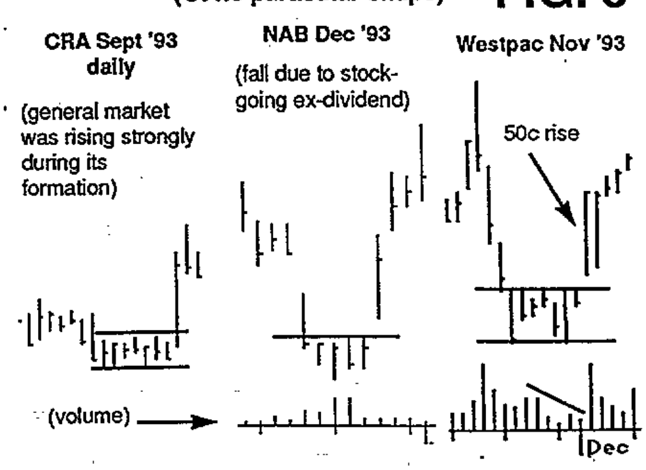
Right Angled Triangles



I have found that if a consolidation occurs at the bottom of a fall, it usually breaks out of the pattern in a upward direction. After a fall, I imagine frantic shares changing hands from panicking investors worried that the fall will continue, to calm investors believing the fall was overdone and the price will soon pick up again. Some investors may go short during the consolidation too, (the longer the consolidation, the more are likely to go short, or long, so the bigger the final move).

When the price finally starts to move upwards, the short traders panic to cover, forcing the price up even more dramatically. Some investors who sold may buy back again, after realising that they

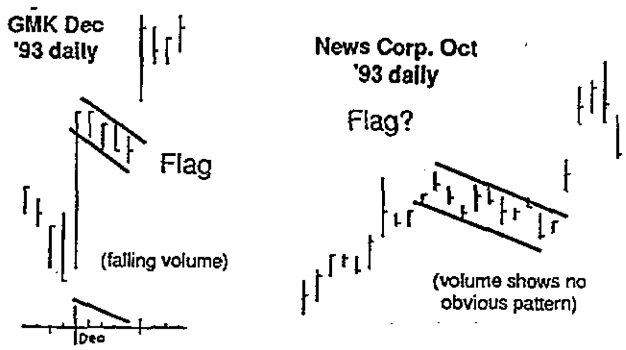
Consolidation Patterns
(Of no particular shape) **FIG. 3**



were wrong selling in the first place. Westpac Bank (Fig. 3) displays a rectangular consolidation pattern (it rose by 50c in one day).

Another consolidation pattern that I have noticed is the symmetrical triangle. The price range each day gets smaller and smaller until it suddenly breaks away (BHP Fig. 8). This particular one looks exactly like an Elliott wave bear market

Flag Patterns **FIG. 4**



symmetrical triangle with the tip pointing to the turnaround point. And turnaround it did, rising $2 in the next few days (I didn't have the courage to trade this one after the fall!) Unfortunately there is no clue to the direction of the final move. Flag patterns have also appeared a few times (Fig. 4), but I have found them very hard to confirm, although they are often obvious on historical charts. I don't act on these any more, as they often turn out not to be flags at all.

Price patterns are fascinating, especially when you know the possible reasons why they formed. News Corporation (Fig. 2) announced that it had shelved its super voting share proposal at this time. The market obviously welcomed this news. The build-up to the announcement probably caused the tighter trading ranges which formed.

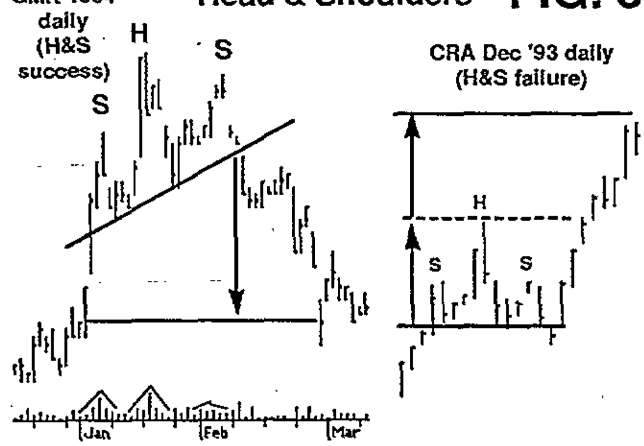
Newcrest Mining (Fig. 8) formed a right angled triangle which went down instead of up as expected. The price went close to the tip of the pattern making this pattern unreliable. But when the price fell, it fell substantially over a couple of weeks. This example demonstrates the risk that these patterns pose.

HEAD AND SHOULDERS (H&S)

H&S patterns develop during periods of market uncertainty and signal a possible reversal in price direction. Some H&S patterns are hard to identify as they are very vague. Sometimes they half succeed and then turn back, making trading frustrating. True H&S patterns can either succeed or fail where both are tradeable patterns. The type I refer to as a success in a bull market, fall through the neckline, whereas failures hit the neckline and then turn back, often going much higher than the peak.

I think the best one I have seen recently has been GMK (Fig. 5). They can take a month or so to complete, so buying an option with a few months of life left is

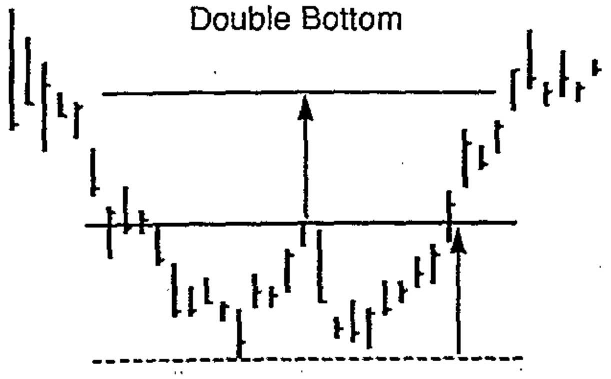
Head & Shoulders **FIG. 5**



advisable. It is a must to wait for a clear break of the neckline, as this helps you work out if it is likely to succeed or fail. In the case of GMK, the gold price never quite exceeded $US 400/ounce. GMK was priced as though this had already happened. Eventually investors realised that gold wasn't going to go any higher and the price of GMK formed a H&S pattern and slowly fell.

CRA (Fig. 5) shows a perfect example of a failed H&S pattern. It

Western Mining Sept '93 daily **FIG. 7**



was still tradeable as the price expectation was projected upwards. This H&S may have been a warning of the major downward reversal in price direction for CRA followed soon after.

CONCLUSION

I try to use other information besides just looking at charts to help me with my analysis of chart patterns (ie. it helps to know why chart patterns are forming). As an example, if you followed GMK (Gold Mines of Kalgoorlie) with some knowledge of the gold price, then this information would have given you more reason to think that the H&S formation developing (Fig. 5) would succeed and its price would fall (see discussion of the GMK chart and gold earlier). National Bank formed a consolidation after it went ex-dividend (Fig. 3). People only looking at chart patterns wouldn't know why these patterns formed. Often just reading a financial newspaper will give you enough basic extra information to help you with your analysis.

US Financial Markets & the Number 56

'We are apparently finished and done with economic cycles as we know them'.
Simmons, President NYSE, September 1929.

A 56 year cycle in major US and Western European financial crises was established by Funk (1932) and McMinn (1993). This cycle is based on sequences in which financial crises take place every 56 years. These sequences in turn are inter-connected by sub-cycles in multiples of 9 years (ie: 9, 18, 36 & 54 years). McMinn (1994) believed the 56 year cycle resulted from zodiacal/aspectual relationships between Sun/Moon/nodes. Diurnal circles were also speculated to be influential, although McMinn (1994) offered no supportive evidence.

The 56 year cycle and solunar cycles are hypothesised to be important in:

(1) 50 greatest one day movements (both highest and lowest) in the Dow Jones Industrial Average (DJI).
(2) US peak monthly market volatility (stocks, bonds and commercial paper) over the long term.

To the authors' knowledge, research relating solunar cycles to business activity has not been undertaken, apart from several studies on the Moon's nodes (McWhirter, 1938; Williams, 1982; Currie, 1988; McMinn, 1994). Eng (1988) also considered the influence of lunar phase in relation to technical trading in certain commodities. The limited nature of these assessments seems unusual given the well established links between solunar cycles and human/animal behaviour, which have been widely covered in scientific literature.

This paper does not attempt to test traditional astrological theory, most notably in relation to planetary cycles. Copious studies have been published by both astrologers and scientists to test traditional factors, none of which offered hard core evidence to support such concepts (Dean, 1978; Culver and Ianna, 1984). After assessing astrological research, Dean (1978) concluded that studies correlating traditional astrology with business cycles were dubious. McMinn (1994) found only the Sun and Moon were relevant to his 56 year cycle of financial crises, even though numerous traditional hypotheses were tested for significance (eg; planetary cycles, sunspots, critical degrees, etc). It was during the crisis phase that people's market perceptions fluctuated dramatically and when they were far more likely to behave erratically.

Please note: A glossary of the terms used in this paper has been presented by McMinn (1994).

HYPOTHESES TO BE TESTED

McMinn (1994) surmised that the following important variables may be relevant in financial market trends. These are analysed in relation to:

(1) The 50 greatest one day rises/falls in the DJI.
(2) US peak monthly market volatility.

36 Year Sub-Cycles correlated with the timing of major US and Western European financial crises since 1760 (McMinn, 1993). The largest one day movements in the DJI and US monthly market volatility are postulated to also occur preferentially in the same patterns of the 36 year sub-cycles. The 54 year sub-cycles was also similarly assessed (see Appendix).

Zodiacal Circle. The zodiacal position of the Sun/Moon/north node is to be considered in relation to the greatest one day rises/falls in the DJI. However, only the north node and Sun can be commented upon for the US monthly volatility data. According to McMinn (1994), major US and Western European crises (1755 to 1940) were most likely to occur when the north node was in the quadrants Aries/Taurus/Gemini or Libra/Scorpio/Sagittarius.

Aspectual Circle. For the DJI data, the angular separation between Sun/ascendant conjunctions to both the Moon and north node are also to be tested for significance, as are Moon angles to the north node.

Diurnal Circles. Diurnal influences could not be appraised in market trends. Ideally, this would require data for the greatest 15 minute rises/falls in the DJI for 24 hour day and 7 day week trading. This obviously is unavailable and thus diurnal influences cannot be assessed.

Apogee/Perigee. Proximity of the Moon to the Earth could be postulated to have a bearing on market movements. Perigee is that point in the Moon's orbit which is closest distance to the Earth, whereas apogee is the point furthermost from the Earth. Apogee/perigee were not tested for significance, due to difficulties in obtaining an astrological program providing the requisite raw data.

DOW JONES INDUSTRIALS 1928 to 1993

The greatest rises and falls of the DJI were taken as the percentage change in the closing index value for the relevant day and the previous trading day. The time to be studied was Sun conjunct ascendant (ie: sunrise) on the days of the greatest rises/falls in the index. An alternative time that could have been examined was Sun conjunct the mid heaven (ie: the culmination of the Sun or solar noon).

Initially, it was assumed the 56 would only correlate with biggest one day falls in the DJI, as McMinn (1993) only linked the 56 with dramatic turns for the worse in US and Western European financial history. However, biggest one day rises and falls both tended to

TABLE 1 BIGGEST ONE DAY MOVEMENTS IN THE DJI				
Crisis	1928 to 1993		1937 to 1992	
1929-33	Rises (44)	Falls (34)	Not Applicable	
1937-40	Rises (2)	Falls (7)	Rises (14)	Falls (23)
1974-75	Rises (-)	Falls (-)	Rises (6)	Falls (-)
1980-82	Rises (1)	Falls (-)	Rises (8)	Falls (2)
1987-89	Rises (3)	Falls (5)	Rises (10)	Falls (14)
Total	50	46	38	39

occur during crisis years (see Table 1) and it was market volatility that is most evident during the crisis phase of the business cycle.

Most of these periods are associated with the 11 principal 56 year sequences of McMinn (1993): 1929-33 (Seqs 01, 03, 05); 1937-40 (Seqs 09, 12); 1974-75 (no principal seqs); 1980-82 (Seq 52); 1987-89 (Seqs 03, 05).

36 YEAR SUB-CYCLES

The 50 largest one day rises and falls in the DJI (1928-1993) occurred preferentially in patterns of the 36 year sub-cycles Series 1, with 30 rises and 25 falls being recorded, both of which were extremely unlikely to occur by chance with p much less than 10^{-8} ($p <<< 10^{-8}$). Few of the 50 greatest one day rises (none) or falls (two, in May 1940) appeared in Series 2 of the 36 year sub-cycles. Series 1 is very strongly represented in the DJI raw data, mainly due to the preponderance of days in 1929-33 (encompassing Seqs 01, 03, 05). Of the 50 greatest rises and falls, some 44 and 34 days respectively showed up in 1929-33 alone. This was the DJI's most dramatic historic period, as it plunged from a record high of 381 in September 1929 to a low of 41 in July 1932 then rose again to 194 before experiencing another major correction in 1937.

The early 1930's events reflect an integral part of the 56 year cycle. Even so, the inclusion of early 1930's data for the DJI could be argued to bias any deductions derived from the assessment in favour of a short five year period in stock market trends. To overcome this problem, the 1937-92 period (one 56 year cycle) was also analysed. It was envisaged that significance would again be realised but at a lower level. This was only partly achieved. For 1937-92, the 50 greatest one day falls still take place preferentially within the 36 year sub-cycles Series 1 and 2 (17 - $p < .01$), but not rises (just below significance: 14 - $p > .05$). However, both rises and falls could be linked statistically with the 54 year sub-cycles (see Appendix). During 1937-92, the greatest one day rises/falls in the DJI took place mainly in 1937-40 and 1987-89.

Levels of significance between largest one day stock market movements and the 36 year sub-cycles are dependent on which particular crises occur within the time frames studied. For example, raw data for any period incorporating the early 1930's would be prejudiced in favour of that period and give very strong correlations with the 36 year sub-cycles Series 1 and Seqs 01, 02 and 05.

THE ZODIACAL CIRCLE

The Nutation Cycle equals 18.6 years and is the time taken for the north node to complete one cycle of the zodiacal circle. Of the 50 largest rises (1928-93), the north node was virtually always found in the one zodiacal half circle 15 Scorpio/15 Aquarius/15 Taurus, with only one exception, while the 50 worst falls recorded four exceptions. Both would be extremely unlikely to occur by chance. Regardless, such findings may be spurious because the greatest rises/falls tend to occur in limited periods. This, combined with the slow movement of the north node through the zodiac, would automatically give very high correlations between the rises/falls and the north node. Again an early 1930's bias becomes a major problem particularly due to the numerous greatest one day movements appearing in 1932-33 (Rises: 30 and Falls: 20). This largely accounts for the very strong showing of the north node in Aries/Pisces (Rises: 38 - $p <<< 10^{-8}$ and (Falls: 25 - $p <<< 10^{-8}$).

To overcome the early 1930's effect, the 1937-92 raw data was also assessed and once more there was a high correlation with the nutation cycle. The north node was in:

* Scorpio/Sagittarius for 20 of the rises and 19 of the falls (both $p < 10^{-4}$), because of crisis events in 1937-40 and 1974-75.
* Aries/Pisces for 16 of the falls ($p < .01$) largely due to the 1987-89 crisis.

As established previously for the 36 year sub-cycles, correlations with the nutation cycle reflect which particular major crises occurred in the time frames reviewed. Greatest one day market rises/falls are inclined to bunch within crisis years of business fluctuations, consequently giving a very strong showing of the north node in restricted zodiacal segments.

Sun's Zodiacal Position. The Sun was recorded in the following signs far more than would be expected by chance for the 50 worst days in the two periods studied.

* 1928-93 (Libra/Scorpio: 22 - $p < 10^{-6}$).
* 1937-92 (Virgo/Libra/Scorpio: 25 - $p < 10^{-6}$).

This factor was also applicable to the 50 largest rises:

* 1928-93 (Libra/Scorpio: 15 - $p < .05$).
* 1937-92 (Libra/Scorpio: 17 - $p < .01$).

October/November are the featured months when both the biggest rises and falls are most likely to be experienced. This finding is nothing new as financial analysts have long appreciated that October is often a month of market instability.

Moon's Zodiacal Position. For 1928-93, the Moon on the days of the 50 largest rises was found most frequently in Aries/Taurus (15 - $p < .05$) and for the 50 biggest falls in the two signs Pisces/Aries (16 - $p < .01$). For the 50 rises in 1937-92, the Moon was far more likely to be sited in the half circle: 0 Aries/0 Cancer/0 Libra (35 - $p < .01$). For the falls in the same period, Moon was selectively located in the opposite half circle 0 Libra/0 Capricorn/0 Aries (34 - $p < .05$). Despite significance being recorded, conclusions cannot be made regarding the Moon's zodiacal position as no consistent patterns apply to the four sets of figures.

THE ASPECTUAL CIRCLE

The 50 greatest one day rises/falls in the DJI is discussed in relation to angles between the Sun, Moon and north node. The time assessed was sunrise (Sun conjunct ascendant).

Lunar Phase. For the 1928-93 period, Sun/Moon angles correlated (120-180 degrees: $p > .01$) with the 50 greatest falls in the DJI, but not the 50 rises. No significance was recorded between lunar phase and the comparable 1937-93 raw data. Consistent trends were not apparent in the four sets of data under review and no conclusions can be drawn.

Sun/north node angles. For the 1928-93 data, these angles ranged with significance from 150 to 210 degrees for both the 50 rises (15 - $p < .05$) and the 50 falls (20 - $p < 10^{-4}$). For the 1937-93 era, the Sun - north node angles correlated with the 50 rises (180-360 degrees: 32 - $p < .05$) and the 50 falls (270-330 degrees: 15 - $p < .05$).

Moon/north node angles. No significance was found between moon angles to the north node.

McMinn (1994) postulated Sun/Moon/ north node angles were crucial in understanding the 56 year cycle. Such an opinion was not generally supported by this study in relation to Moon angles to the Sun and the north node.

MONDAYITIS

It is widely appreciated that shares tend to rise above the long term mean on Friday and fall on Monday. This is called the weekend effect which is just one of several calendar effects in stock market movements (The Economist, 1992). Interestingly, there is a greater likelihood for the largest falls to occur on Monday for both sets of data (1928-93 and 1937-92). However, for the greatest rises during 1928-93, Wednesday, not Friday, was found to be most relevant. The 1937-92 era showed no week day emphasis for the greatest rises.

* 50 rises (1928-1933) (Wednesday: 17 - $p < .05$).
* 50 falls (1928-1933) (Monday: 18 - $p < .01$).

* 50 rises (1937-92) (No week days significant).
* 50 falls (1937-92) (Monday: 22 - $p < 10^{-4}$).

Solunar cycles influencing human behaviours are not restricted to week day trading on the New York stock exchange. Changes in mob psychology leading to greatest one day DJI movements may take place over the weekend for which market information is unavailable. Such considerations would distort the solunar data, particularly as lunar angles and zodiacal position could be out by over 30 degrees by Monday morning. This becomes a considerable problem because of the Monday effect in the DJI's greatest one day falls.

US MARKET VOLATILITY: 1830-1988

Wilson, Sylla and Joneson (1990) conducted a study on US market volatility for stocks, bonds and commercial paper. For each of these three categories, they presented listings of the 50 most volatile months for the national banking era (1866-1913) and 100 most volatile months over the long term (1830-1988). This data formed the basis of the following assessment.

36 YEAR SUB-CYCLES

The information on monthly volatility was appraised in relation to the 36 year sub-cycles (year commencing March 1) (see Table 2). From this data, the following points may be made.

* The 50 most volatile months (1866-1913) fall in the 36 year sub-cycles with significance for bonds ($p < .01$) and stocks (Series 1 only - $p < .001$), but not commercial paper.

* The 100 top months of market volatility over the long term correlated very strongly with the 36 year sub-cycles for bonds ($p < .01$), commercial paper ($p < 10^{-5}$) and, most notably, stocks (Series 1 only - $p <<< 10^{-8}$).

Overall, the 1866-1913 period gave much lower correlations than the very long term (1830-1988). This

TABLE 2 US MARKET VOLATILITY and 36 YEAR SUB-CYCLES				
	Year from Mar 1 (a) (c)		Two years from Mar 1 (b) (c)	
	Obs	Prob	Obs	Prob
Top 50 Months of Volatility 1866 - 1913				
Stocks Series 1	13	$p < .001$	22	$p < 10^{-5}$
Series 2	01	-	01	-
Bonds	17	$p < .01$	33	$p < 10^{-5}$
Commercial Paper	15	NS	34	$p < 10^{-5}$
Top 100 Months of Volatility				
Stocks (Jan 1834 - Aug 1988) Series 1	36	$p <<< 10^{-8}$	69	$p <<< 10^{-8}$
Series 2	01	-	01	-
Aaa Bond Return (Jan 1857 - Aug 1988)	30	$p < .01$	64	$p < 10^{-6}$
Commercial Paper (Jan 1831 - Aug 1988	36	$p < 10^{-5}$	60	$p < 10^{-6}$

(a) Year commencing Mar 1 of years in the 36 year sub-cycles Series 1 & 2
(b) Two yrs commencing Mar 1 of yrs in the 36 yr sub-cycles Series 1 & 2
(c) For stocks, Series 1 and 2 data presented separately
Source of raw data: Wilson, Sylla and Joneson (1990)
$p <<< 10^{-8}$ = p much less than 10^{-8}
NS = Not significant ($p > .01$)
Obs = Observed frequency
Prob = Probability

most likely arose from the differing time spans of the data used. 1866-1913 only covered 48 years or less than one 56 year period, while the long term data covered at least 130 years or well over two 56 year periods. Such long time frames may be essential to reveal very close links between the 56 year cycle and monthly market volatility.

Interestingly, periods of peak US market volatility varied considerably. Stocks (1834-1988) had notably more months of volatility during 1929-1940 and of the 20 top months 18 were in 1932-33. Other months well represented in the data showed up around the 1837 and 1857 panics and the early 1840's depression. For bond returns (1857-1988), the most volatile period was the most recent decade covered in the study (1979-1988). 42 of the top 50 most volatile months occurred in this decade, while the remaining 8 months took place in 1858 after the 1857 panic. Other less important periods of bond volatility were during the Civil War period (1861-65), 1932, 1970-71 and 1975. For commercial paper (1831-1988), the peak volatilities mainly happened in the years prior to the Civil War especially the 1830's. Of the 20 top months in paper volatility, 12 showed up in 1837 alone.

The histories of stocks, bonds and commercial paper are similar as peak volatilities are compressed into short periods during the past 160 years. However, there is a strong variation in the timing of these peaks: commercial paper (1830's), stocks (1930's) and bonds (1980's). Even so, monthly volatility for all three categories firmly correlates with the 36 year sub-cycles over the long term.

Although major US panics are most likely to be recorded within the 36 year sub-cycles, market volatility continues into the ensuing year. Thus the strongest significance was recorded between monthly volatility of stock, bonds and paper and the two years commencing March 1 of the years in the 36 year sub-cycles (see Table 2). This applied to the data from both eras - 1866-1913 and 1830-1988. For stocks (1834-1988), the link was notable. Of the 100 most volatile months, 69 fell in the 36 year sub-cycles Series 1 only (two years commencing March).

THE NUTATION CYCLE

Extremely strong correlations arise between the zodiacal position of the north node and US monthly market volatility. However, the peak volatility months occur in restricted periods, thereby accounting for the very high correlations with the north node. A similar finding was made for the greatest one day rises/falls for the DJI. Thus, a detailed assessment of nutation cycle influences has not been presented.

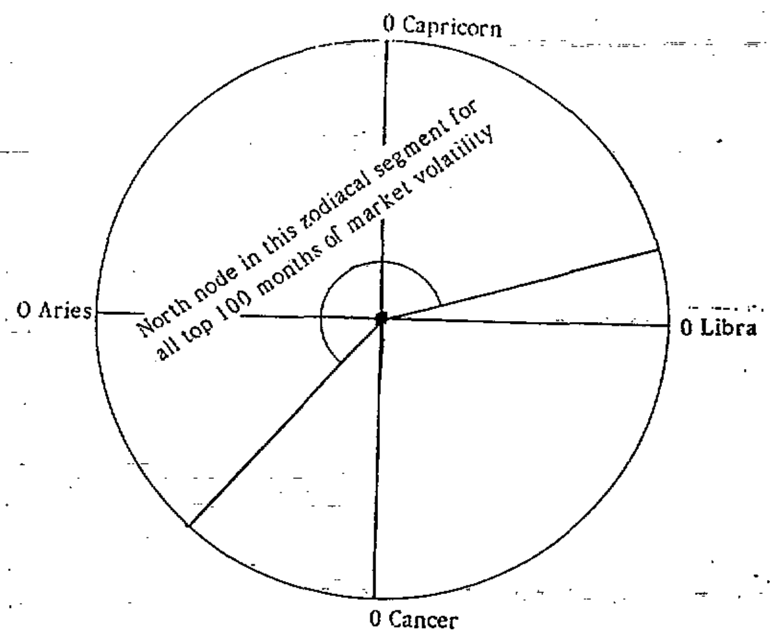
Stock Prices (1834-1988)

Amazingly, for ALL 100 of the months listed, the north node only ever appeared in the 17.5 Libra/ 17.5 Taurus segment (arc of 210 degrees or 59 per cent of the zodiacal circle). This was largely due to a preponderance of volatile months in the 1929-1940 era, particularly 1933-34 (north node in Pisces/Aquarius). Even so, the finding is still remarkable as around 32 of the months occurred outside 1929-1940. Although it could only occur remotely by chance, no reasons can be offered accounting for the total absence of the north node between 17.5 Taurus and 17.5 Libra (arc of 150 degrees).

A similar finding was also made based on a completely different set of figures for the 1866-1913 era, but at a lower level of significance. Of the top 50 most volatile months for stocks, 38 had the north node between 06 Scorpio and 16 Taurus (arc of 190 degrees) ($p < .001$). 10 of the 12 exceptions occurred after the October 1907 panic, yielding an emphasis of the north node in Cancer.

DIAGRAM 1

NN ZODIACAL POSITION and 100 TOP MONTHLY VOLATILITY(a) FOR STOCKS - 1834 to 1988



Based on the 100 peak monthly volatility for stocks (1834 to 1988) presented by Wilson, Sylla and Joneson (1990). North node zodiacal position as at the beginning of the month given.

Aaa Bond returns (1857-1988)

The peak for paper volatility was in the 1979-88 period, notably the years 1980-83, giving a marked clustering of the north node in Cancer/Leo.

Commercial paper (1831-1988)
The most volatile months are evident in the pre Civil War period, particularly around 1834-40 and after the 1857 panic. Thus the north node appears most frequently between Pisces/Gemini, an arc of 120 degrees. Of the 100 months, only one occurs with the north node in the quadrant Scorpio/ Sagittarius/Capricorn. Additionally, all 18 months since the Civil War have the north node sited in Aries/Leo an arc of 150 degrees.

Sun's Zodiacal Position
Curiously, there was no significance for volatility over the long term occurring selectively in particular months. This applied to all three categories - stocks, bonds or paper. The zodiacal position of the Sun does not appear to be relevant in peak monthly volatility over the very long term.

CONCLUSIONS

The 50 largest one day rises and falls in the DJI (1928-1993) did occur preferentially in the 36 year sub-cycles Series 1, due to the over representation of the data in the early 1930's. For the other time frame studied (1937-92), only The 50 falls were found to be significant for the 36 year sub-cycles Series 1 and 2. Over the very long term, US monthly market volatility (1830-1988) also correlated consistently with the 36 year sub-cycles for the three categories studied (stocks, bonds and commercial paper). These findings firmly support a 56 year cycle in financial market trends. However, the correlations were markedly influenced by which major crises were encompassed in the periods reviewed.

Both the DJI and the peak monthly volatility data for stocks correlated amazingly well with the 36 year sub-cycles Series 1, but not Series 2. Why this should be the case remains enigmatic. The importance of Series 1 is a persistent historical trend. Six of the seven most severe panics in US economic history take place within the 36 year sub-cycles Series 1 (1837, 1857, 1873, 1893, 1929 and 1987, - 1907 being the exception).

The timing of the greatest one day rises and falls in the DJI was related to the zodiacal position of the Sun and north node (? Moon). Extremely high correlations were established between the nutation cycle and the 50 greatest rises/falls in the DJI and US top monthly volatility. Even so, a nutation cycle could not be verified unconditionally. It may be debated that such findings are merely artifacts of an inherent tendency for greatest one day market movements and market volatility to occur during limited crisis periods. Additional research is necessary to confirm a nutation cycle in business trends. Strangely, for US stocks, the north node was most frequently found in an approximate 15 Scorpio/15 Aquarius/15 Taurus half zodiacal circle. This applied to the DJI data for 1928-93 (50 rises/falls) and 1937-93 (50 falls only), as well as peak monthly volatility for stocks (1834 -1988 and 1866 - 1913). Why the north node is so prominent in relation to US stock market trends is puzzling in the extreme as it is only a hypothetical point on the ecliptic circle.

Surprisingly, Sun/Moon and Moon/ north node angles did not show up as significant in the DJI data, apart from lunar phase for the 50 greatest falls during 1928-93 ($p < .01$). Before commencing this study, lunar phase was anticipated to be a key factor in stock market movements, but this was not reinforced by the findings. In contrast, Sun/north node angles were significant for the DJI in the two periods being assessed. A reappraisal is required of solunar aspectual influences in market movements and the 56 year cycle. One possible explanation for the discrepancy in the correlations is that Sun/Moon cycles are only imperfectly reflected in financial trends, especially for angles involving the relatively fast moving Moon (averaging roughly 13 zodiacal degrees per day).

Curiously, the greatest one day falls in the DJI were most likely to occur on Mondays for both time spans studied, thus confirming a Monday effect.

Most importantly, the authors do not know how solunar influences apply to the 56 year cycle or financial trends. Rather various hypotheses were tested in an attempt to verify that solunar factors were relevant to US market movements in some manner. This was generally achieved, but with some notable discrepancies. Despite the less than ideal findings, the 56 opens up a promising new field of technical analysis. How this cycle functions in market fluctuations cannot be fathomed from the limited research so far undertaken. What future investigations in this area are likely to reveal may only be speculated upon.

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(066 89 1278)

Acknowledgment:
We wish to thank Colin Nicholson for his assistance in compiling the listing of the greatest one day rises/falls in the DJI and also to express our appreciation for his work in preparing this and other previous 56 papers for printing in the newsletter.

APPENDIX: 54 YEAR SUB-CYCLES and US MARKET TRENDS

In addition to the 36 year sub-cycle, business cycles also follow an important 54 year sub-cycle, which had been presented in Table A. Major crisis years by Kindleberger [1978] (1989) are presented in bold and take place preferentially in patterns of the 54 year sub-cycle ($p < .01$). This 54 year sub-cycle accounts for the occurrence of crises in 1937, 1974 and 1982, which feature conspicuously in US financial history.

The 54 year sub-cycles can be linked with the greatest rises and falls in the DJI for both periods under review (see Table B). Furthermore, US peak monthly market volatility over the long term also correlates with the 54 year sub-cycles for stocks (Series 1 - peak volatility - 1930's) and bonds (Series 2 - peak volatility - 1980's), but not to commercial paper. The latter experienced peak volatility before the US Civil War, especially the 1830's. No years in the 54 year sub-cycles appeared in this era and thus commercial paper volatility could not be correlated with this sub-cycle.

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TABLE A: THE 54 YEAR SUB-CYCLES and FINANCIAL CRISES					
Series 1: Seq 09		Seq 05	Seq 03	Seq 01	
				1761 + 54	1815
			1763 + 54	1817 + 54	1871
		1765 + 54	1819 + 54	1873 + 54	1927
	1767 + 54	1821 + 54	1875 + 54	1929 + 54	1983
1769 + 54	1823 + 54	1877 + 54	1931 + 54	1985 + 54	
1825 + 54	1879 + 54	1933 + 54	1987		
1881 + 54	1935 + 54	1989			
1937 + 54	1991				
1993					
Series 2:		Seq 52	Seq 50	Seq 48	
					1806
				1808 + 54	1862
			1810 + 54	1864 + 54	1918
		1812 + 54	1866 + 54	1920 + 54	1974
	1814 + 54	1868 + 54	1922 + 54	1976 + 54	
1816 + 54	1870 + 54	1924 + 54	1978 + 54		
1872 + 54	1926 + 54	1980 + 54			
1928 + 54	1982 + 54				
1984 + 54					

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Table B is printed on the next page

TABLE B: THE DOW JONES, US MARKET VOLATILITY AND THE 54 YEAR SUB-CYCLES (a)	54 Ysc Series 1		54 Ysc Series 2	
	Obs	Prob	Obs	Prob
Dow Jones Industrials:				
1928 - 93 50 greatest rises	31	p <<< 10^{-8}	01	NS
50 greatest falls	28	p <<< 10^{-8}	00	NS
1937- 92 50 greatest rises	14	p < .001	14	p < .001
50 greatest falls	27	p <<< 10^{-8}	06	NS
US Top Monthly Volatility (b):				
Stocks (Jan 1834 - Aug 1988)	27	p < 10^{-6}	03	NS
Aaa Bond Return (Jan 1831 - Aug 1988)	15	NS	38	p <<< 10^{-8}
Commercial Paper (Jan 1831 - Aug 1988)	03	NS	08	NS

(a) Year commencing March 1.
(b) 100 months of peak volatility.
Source of raw data: Wilson, Sylla and Jones (1990).
p <<< 10^{-8} = p much less than 10^{-8}.
NS = Not significant (p > .01).
Obs = Observed data
Prob = Probability (p < .01)
Ysc = Year sub-cycles

Bibliography: Technical Analysis and Trading

The first part of this bibliography was published in the May Newsletter and dealt with the classic books on Technical Analysis. The concluding part of the bibliography covers books that have been published more recently and are still in print.

The survey carried out at a recent Sydney meeting indicated that members were interested in trading topics generally, rather than just narrowly in technical analysis. Accordingly, the scope of the list has been expanded to include books on trading markets in general.

The bibliography has been prepared by Colin Nicholson in response to requests from members at the last Annual General Meeting.

Australian Sources

Australian Stock Exchange Bookshop (ASX) 20 Bond Street Sydney. Also in other states.

Sydney Futures Exchange Bookshop (SFE) 30-32 Grosvenor Street Sydney.

Australian Technical Analysts

Association Bookshop (ATAA) Members only. Mail order only. Catalogue and order form sent to all members periodically or on request.

Dymocks Technical Bookshop (DT) 350 George Street Sydney.

QBL Software (QBL) 11 Nelson Parade Hunters Hill 02 879 7033

Research Technology (RT) Level 7 4 O'Connell Street, Sydney

Overseas Sources

Financial Trading Seminars Inc (FTS) PO Box 20555 Columbus Circle Station New York NY 10023 USA Fax: 718 639 8889

Fraser Publishing Company (FPC) Box 494 Burlington VT 05402 USA
Fax: 802 658 0260

Traders Library (TL) PO Box 2466 Ellicott City MD 21041 USA
Fax: 410 964 1127

Traders Press Inc (TP) PO Box 6206 Greenville SC 29606 USA
Fax: 803 298 0221

All of these sources sell new books. FPC also sell secondhand and out of print books. They will try to find out of print books that you want, on request.

Request catalogues from FTS, FPC, TL and TP, so you know costs of their books and mail charges. All three accept credit cards, which is the simplest way to order books from overseas.

ASX and RT used to publish catalogues, but neither has published one for some time to the author's knowledge.

Current Books

The following is a list of books on technical analysis and investment that are currently in print. Some will be available locally, but the range stocked in Sydney outlets seems to change quite frequently. Accordingly, overseas mail order sources are indicated. This listing is in alphabetical order by author.

AAII "Guide to Computerised Investing" TL
Ralph Ainsworth "Profitable Grain Trading" FPC, TP
David Alger "Raging Bull: How to Invest in the Growth Stocks of the 90's" FPC
R C Allen "How to Build a Fortune in Commodities" TL
C E M Anderson "A Stock market Strategy" FPC
George Angell "Floor Trader's Confidential Handbook" TP
George Angell "How to Triple Your Money Every Year in Stock Index Futures" FPC, TL, TP
George Angell "Real Time Proven Commodity Spreads" TL, TP
George Angell "Winning in the Futures Market" TL, TP
George Angell and Barry Haigh "West of Wall Street" FPC, TP
Kelly Angle "100 Million Dollars in Profit" TL
Max G Ansbacher "The New Options Market" FPC
Gerald Appel "MACD: The Moving Average Convergence-Divergence Trading Method" TP
Gerald Appel "Selected Readings in the Stock Market" FPC
Gerald Appel and Fred Hitschler "Stock Market Trading Systems" TP
Gerald Appel "Winning Market Systems: 83 Ways to Beat the Market" TL, TP
Richard Arms "The Arms Index (TRIN): An Introduction to the Volume Analysis of the Stock and Bond Markets" TP
Richard Arms "Volume Cycles in the Stock Market: Market Timing Through Equivolume Trading" TP
Robert Arnott and Frank J Fabozzi (Eds) "Active Asset Allocation" FPC
Bruce Babcock "The Business-One Irwin Guide to Trading Systems" TL
Bruce Babcock "Dow Jones Irwin Guide to Trading Systems" TP
Allen Jan Baird "Option Market Strategy" TL
Robert Balan "Elliott Wave as Applied to Foreign Exchange Markets" FTS
N Balsara PhD CTA "Money Management Strategies for Futures Traders" FPC, FTS, TL, TP
Roland Barach "Mind Traps" TL
Scot G Barenblat and Donald T Mesler "Stock Index Options: How to Use and Profit from Indexed Options in Volatile and Uncertain markets" FPC
Robert Beckman "PowerTiming. Using the Elliott Wave System to Anticipate and

Time Market Turns" FPC, TL, TP
L Dee Belveal "Charting Commodity Market Price Behaviour" FPC, FTS, TL, TP
L Dee Belveal "Speculation in Commodity Contracts and Options" TP
Jacob Bernstein "Analysis and Forecasting of Long Term Trends in the Cash and Futures Markets" TP
Jacob Bernstein "Beyond the Investor's Quotient" FPC, TL
Jacob Bernstein "Cyclic Analysis in Futures Trading" TP
Jacob Bernstein "Facts on Futures" TL, TP
Jacob Bernstein "Handbook of Economic Cycles" FPC, TP
Jacob Bernstein "How Futures Markets Work" TL, TP
Jacob Bernstein "Market Masters: How Successful Traders Think, Trade and Invest and How You Can Too" FPC
Jacob Bernstein "Seasonal Futures Spreads" TP
Jacob Bernstein "Short Term Futures Trading. Systems, Strategies and Techniques for the Day Trader" TL, TP
Jacob Bernstein "Stochastic Fantastic" TL
Jacob Bernstein "Strategic Futures Trading" TL
Jacob Bernstein "The Handbook of Commodity Cycles: A Window on Time" FPC, TL, TP
Jacob Bernstein "The Investor's Quotient: The Psychology of Successful Investing in Commodities and Stocks" FPC
Jacob Bernstein "The New Guide to Investing in Metals" TL
Jacob Bernstein "Timing Signals in the Futures Market. The Trader's Definitive Guide to Buy/Sell Indicators" TL, TP
Jacob Bernstein "Why Traders Lose, How Traders Win" TL, TP
C A Bobin "Agricultural Options" TL
Richard Bookstaber "Option Pricing and Investment Strategies" TL, TP
Robert Bowker "Strategic Market Timing" TL
Ben Branch "Bankruptcy Investing. How to Profit From Distressed Companies" TL
Peter Brandt "Trading Commodity Futures with Classical Chart Patterns" TP
Walter Bressert "HAL Blue Book: How to Use Cycles With an Overbought/Oversold Index and a Momentum Index for More Consistent Profits" TP
Walter Bressert "Power of Oscillator/Cycle Combinations" TL, TP
W G Bretz "Juncture Recognition in the Stock Market" FPC
Jack A Brill and Alan Reder "Investing From the Heart" FPC
John D Brown "Panic Profits" ATAA, FPC
John Buckley (Ed) "Guide to World Commodity Markets" TL
James Burgauer "Do It Yourself Investment Analysis: Practical Guide to Life Cycle, Fundamental and Technical Analysis" FPC
Michael L Burke "The All New Guide to the Three Point Reversal Method of Point and Figure Construction and Formations" FPC, TL, TP
Charles Caes "Tools of the Bears" FPC, TL
John P Calamos "Investing in Convertible Securities" FPC
David Caplan "The Options Advantage: Gaining a Trading Edge Over the Markets" FPC, TL, TP
Donald Cassidy "Its Not What You Buy, Its When You Sell That Counts" FPC, TL
T Chade and Stanley Kroll "The New Technical Trader" FTS
C David Chase "Mugged on Wall Street" FPC
Henry Clasing "Dow Jones Irwin Guide to Put and Call Options" TP
Henry Clasing "Secrets of a Professional Futures Trader" TL, TP
Ira Cobleigh "When to Sell Stocks and Pin Down Your Profits" TP
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Kevin Commins "Gold Futures. Facts and Figures: Trading Strategies and Tactics" TL
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John Cox and Mark Rubenstein "The Options Market" TL
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David DeRosa "Options on Foreign Exchange" TL, TP
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Mikel Dodd "Trading Stock Index Options" TL
Mark Douglas "The Disciplined Trader" FPC, FTS, TL, TP
David Dreman "The New Contrarian Investment Strategy" FPC
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Charles Lindsay "Trident Trading Strategy" QBL, FPC, TL
Humphrey E D Lloyd "The Moving Balance System...A New Technique for Stock and Option Trading" FPC
Humphrey Lloyd "The RSL Market Timing System. How to Pinpoint Market Turns in Mutual Funds, Futures and Options" TL, TP
Humphrey E D Lloyd "High-Profit/Low-Risk Options Strategies" FPC
Gerald M Loeb "Your Battle for Stock Market Profits" FPC, TP
Gerald M Loeb "The Battle for Investment Survival" TP
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Louis P Lukac, B Wade Brorsen and Scott H Irwin "A Comparison of Twelve Technical Trading Systems" TP
Peter Lynch "Beating The Street" FPC, TL
Peter Lynch "One Up On Wall Street" FPC, TL
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Joe Maxwell "Commodity Trading With Stops" TP
Joe Maxwell "Commodity Trading with Point and Figure Charts" TL, TP
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Greg Morris "CandlePower" TL, TP
Thomas A Meyers "Dow Jones Irwin Guide to Investment Software" TP
Thomas A Meyers "Dow Jones Irwin Guide to On-Line Investing: Sources, Services and Strategies" TP
Thomas a Meyers "The Technical Analysis Course" FPC, TL, TP
Moore Research "Trader's Desk Reference" TL
Edward Mrkvicka "The Rational Investor" TL
John J Murphy "Intermarket Technical Analysis" FPC, FTS, TL, TP
John J Murphy "Technical Analysis of the Futures Markets" FPC, FTS, TL, TP
John J Murphy "Study Guide for Technical Analysis of the Futures Markets" TL, TP
Joseph Murphy Jr "The Random Character of Interest Rates" TL
Joseph E Murphy "Stock Market Probability" TL
Sheldon Natenberg "Option Volatility and Pricing Strategies" FPC, FTS, TL, TP
Glen Neely "Mastering Elliott Wave" FPC, TL, TP
Humphrey B Neill "Tape Reading and Market Tactics" TP
Humphrey B Neill "The Art of Contrary Thinking" TP
Wayne F Nelson "The Best Kept Secret on Wall Street" FPC
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Donald R Nichols "The Income Investor" FPC
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Metals" Tl
Jeffrey Nichols "How to Profit from the Coming Boom in Gold" TL
Jeffrey Nichols "The Complete Book of Gold Investing" TP
William and Susan Nix "Dow Jones Irwin Guide to Stock Index Futures and Options" TP
William and Susan Nix "Guide to International Securities, Futures and Options Markets" TP
Thornton L O'Glove "Quality of Earnings" FPC
O'Higgins "Beating The Dow" TL
William J O'Neil "How to Make Money in Stocks" ATAA, TL
Options Institute "Options: Essential Concepts" TL
Options Research Institute "The Options Secret" TL
O'Shaughnessy "Invest Like the Best: Using Your Computer to Unlock the Secrets of the Top Money Managers" ATAA
James P Owen "The Prudent Investor" FPC
Albert Peter Pacelli "The Speculator's Edge: Strategies for Profit in the Futures Markets" FPC
Robert Pardo "Design, Testing and Optimisation of Trading Systems" FTS, QBL, TP
Alexander Paris "A Complete Guide to Trading Profits" FPC, TP
Larry Persavento "Astro-Cycles: The Trader's Viewpoint" TL, TP
Larry Persavento "Harmonic Vibrations: A Metamorphosis from Traditional Cycle Theory to Astro-Harmonics" TP
Larry Persavento "Planetary Harmonics of Speculative Markets" TL, TP
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Edgar F Peters "Fractal Market Analysis" FTS, QBL
Thomas W Phelps "100 to 1 in the Stock Market" FPC
Clifford Pistolese "Nerves of Steel: Mastering Your Emotions to Beat the Market" TL
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Tony Plummer "The Psychology of Technical Analysis: Profiting From Crowd Behaviour and the Dynamics of Price" FPC
James B Powell "Super Investment Trends" FPC
Mark Powers "Inside the Financial Futures Markets" FPC, TL
Margaret Price "Emerging Stock Markets: A Complete Investment Guide to New World Markets" ATAA
Martin Pring "The All-Season Investor" FPC, TL, TP
Martin Pring "Investment Psychology Explained" FPC, FTS, TP
Martin Pring "Martin Pring on Market Momentum" FPC, FTS, TL
Martin Pring "Technical Analysis Explained" ATAA, FPC, FTS, TL
Christina Ray "The Bond Market. Trading and Risk Management" FTS
R K Reichmann "Its Your Turn to Get Rich" TP
Anthony M Reinach "The Fastest Game in Town: Trading Commodity Futures" FPC
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Joe Ross "Trading by the Book" TL, TP
Joe Ross "Trading by the Minute" TL, TP
Joe Ross "Trading is a Business" TL, TP
Joe Ross "Trading the Ross Hook" TL, TP
Robert Rotella "Elements of Successful Trading" FPC, FTS, TL, TP
Nancy H Rothstein and James M Little "The Handbook of Financial Futures" FPC
Alan Rubenfeld "The Super Traders. Secrets and Successes of Wall Street's Best and Brightest" FPC, TL, TP
Paul Sarnoff "Jesse Livermore: Speculator King" FPC, TP
Paul Sarnoff "Trading in Silver" TP
Dr Eugene Sarver "The Euro Currency Market handbook" TL
James E Schildgen "Analytical Methods for Successful Speculation" FPC
Jon Schiller "Insider's Automatic Options Strategy" TL
Howard M Schilit "Financial Shenanigans" ATAA
W Keith Schilit and Howard M Schilit "Blue Chips and Hot Tips" FPC
Joseph A Schumpeter "Business Cycles" FPC
Bertram Schuster "The Insider's Edge" TL
Jack Schwager "A Complete Guide to the Futures Markets" FPC, TP
Jack Schwager "Market Wizards" FPC, FTS, TL
Jack Schwager "New Market Wizards" FPC, FTS, TL
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Daniel Alan Seiver "Outperforming Wall Street: Stock Market Profits Through Patience and Discipline" FPC
Ken Shaleen "Technical Analysis and Option Strategies" FTS, TL
Ken Shaleen "Volume and Open Interest: Cutting Edge Trading Strategies in the Futures Markets" TL, TP
Robert Sharp "Lore and Legends of Wall

Street" TP
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Michael D Sheimo "Stock Market Rules" FPC
Clifford Sherry PhD "Mathematics of Technical Analysis" FPC, FTS, TL, TP
Dan Siegel "The Futures Markets" TL
Seiki Shimizu "Japanese Chart of Charts" TL
Mark Silber and Jacob Bernstein "Stochastic Fantastic. Market Magic with Stochastics and Timing" TP
Arthur Sklarew "Techniques of a Professional Commodity Chart Analyst" TL, TP
Mark Skousen "Scrooge Investing" TL
Charles W Smith "The Mind of the Market: A Study of Stock Market Philosophies, Their Uses and Their Implications" FPC
Courtney Smith "Commodity Spreads: Analysis, Selection and Trading Techniques" TP
Courtney Smith "How to make Money in Stock Index Futures" TP
Courtney Smith "Option Strategies" TL
Courtney Smith "Seasonal Charts for Futures Traders" FPC
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Robert Sobel "Inside Wall Street" FPC
Robert Sobel "Panic on Wall Street" FPC
Robert Sobel "The Great Bull Market" FPC
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Larry Spears "Commodity Options" TL
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George R Sranko "How to Make Money Trading Stocks and Commodities" FPC
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T H Stewart "How Charts Can Make You Money" TL
Dick Stoken "Strategic Investment Timing in the 90's" FPC, TL, TP
Dick Stoken "The Great Cycle" FPC, TL
Peter Strebel and Steven Carvell "In the Shadows of Wall Street: a Guide to Investing in Neglected Stocks" FPC
David Sutton "Understanding the Stock Market" TL
Bob Tamarkin "The New Gatsbys: Fortunes and Misfortunes of Commodity Traders" TL, TP
Gabriel Tarde "The Laws of Imitation" FPC
Frank Taucher "Supertrader's Reference Manual" TL
Frank Taucher "1993 Supertrader's Almanac" TL
Frank Taucher "Trading the Four Year Presidential Election Year Cycle" TL
Richard J Teweles, Edward S Bradley and Ted M Teweles "The Stock Market" FPC
Richard J Teweles and Jones "The Futures Game: Who Wins, Who Loses and Why" TL, TP
Annette Thau "The Bond Book" TL
Edward A Toppel "Zen in the Markets" FTS, TP
John Train "The Money Masters" FPC
John Train "The New Money Masters" FPC
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Robert Trippi "Neural Networks" TL
Robert Trippi And Turban (Eds) "Neural Networks in Finance and Investing" FTS
Veres "Unique Fibonacci Applications" TP
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Ralph Vince "Portfolio Management Formulas" FPC, FTS, TL, TP
Aaron Viner "Inside Japanese Financial Markets" TP
Don Vodopich "Trading for Profits with Precision Timing" TL, TP
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Joseph A Walker " How the Option Markets Work" FPC, TL, TP
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Ted Warren "How to Make the Stock Market Make Money for You" FPC
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James A Willson "Investing in Call Options" FPC
Robert Wiest "You Can't Lose Trading Commodities" TL
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James Yates "The Options Strategy Spectrum" TL, TP
Michael Zahorchak "The Art of Low-Risk Investing" FPC
Martin Zweig "Winning on Wall Street" FPC, TL

Hayden Murrells on Markets
Part one: 1994 - A Major Top Forming

SUMMARY

Broadly speaking, 1994 will go down as the terminating year of a process of massive distribution. Thanks to Government privatisations and the refloating of the 1980's corporate debt debacles, public ownership of equities is the highest in the country's history. In addition, with the Federal Government's compulsory superannuation legislation for the entire work force in place and an increasing proportion of people's pay packets going into super funds, talk in recent years has been of several hundreds of billions locked up in the superannuation industry by the end of the decade. How much of that float and super money actually survives the decade following the triple assaults of Government taxation, rising interest rates, and capital depreciation remains to be seen.

Traditional valuation methods are at pre 1990 Japanese levels of absurdity and out of all proportion to the earnings prospects of the companies concerned. The Australian Stock Exchange changed its method of calculating price earnings ratios and dividend yields in early 1991 to hide this fact from the public (no doubt to prevent a panic). Yet what are we hearing about valuations today? A bottom-up, asset-allocation method is advocated, suitable for a bull market but of no use in a bear, especially one which turns into a grizzly. An 8% yield is not much compensation for a 75% capital loss. What is lost sight of is the need for some viable top-down perspective, as a means of assessing future prospects and avoiding losses. This is precisely what is lacking to the majority at present.

In spite of record high valuations, the public is being continually urged by the investment advisory, funds management, and stock broking industries, as well as the financial press, to invest "for the long term" and ignore any down turns. The lack of this avalanche of advice at the 1974 and 1982 lows, when valuations were low, is itself evidence of a top forming. The recently appointed investment manager of the AMP Society, Australia's largest corporate investor, stated his confidence in the long term prospects of a well managed investment programme, while also mentioning that the AMP's core fund is index linked, thus guaranteeing that the AMP will tank along with the market. In fairness to some finance industry professionals, they probably believe their own propaganda lines in these matters. However, to paraphrase a well known saying, if the blind are indeed leading the blind, there will still be a collapse from distribution back to accumulation, no matter who says what to whom or for how long.

The strength of the economic "recovery" is anaemic. Listed corporations in aggregate are more profitable than unlisted private companies. Within the former, it is overwhelmingly the well managed corporate giants which are making the lion's share of the profits. In particular, the three heavyweights

BHP, the National Bank, and Newscorp are ahead of the rest by a country mile. Reflecting this trend, institutional fund managers are putting more money into blue chip stocks with every passing year. Small companies are finding it increasingly difficult to attract investment funds. Unemployment is at record levels and not coming down by a lot. The Stats. Bureau fiddles the unemployment figures just as the ASX fiddles corporate valuation numbers. Much of the economy is still waterlogged by debt and having to cope with record and rising inflation-adjusted interest rates: the trend of the future. In spite of a decade of "deregulation" and "micro-economic reform," government red tape is worse than ever, with employment-generating small business the most affected. Business investment is flat on its back and in spite of the prophesies of the Treasury Department witchdoctors in the last budget, is unlikely to rise by much.

Long-term investment, anybody?

In short, the three factors of unwarranted optimism, overextended valuations, and massive distribution into weak hands, against a background of a poor economy undergoing a selective bear market revival, are the classic signs of a major equity peak. The record extremes in all three factors are in proportion to the size of the top and will be offset by an equivalent bear market. A 50% to 75% decline by end 1995 from a 1994 top would not be surprising.

ALL ORDINARIES INDEX

Figure 1 shows the monthly progress of the All Ordinaries Index from the 1974 bottom to the present. As you can see, a

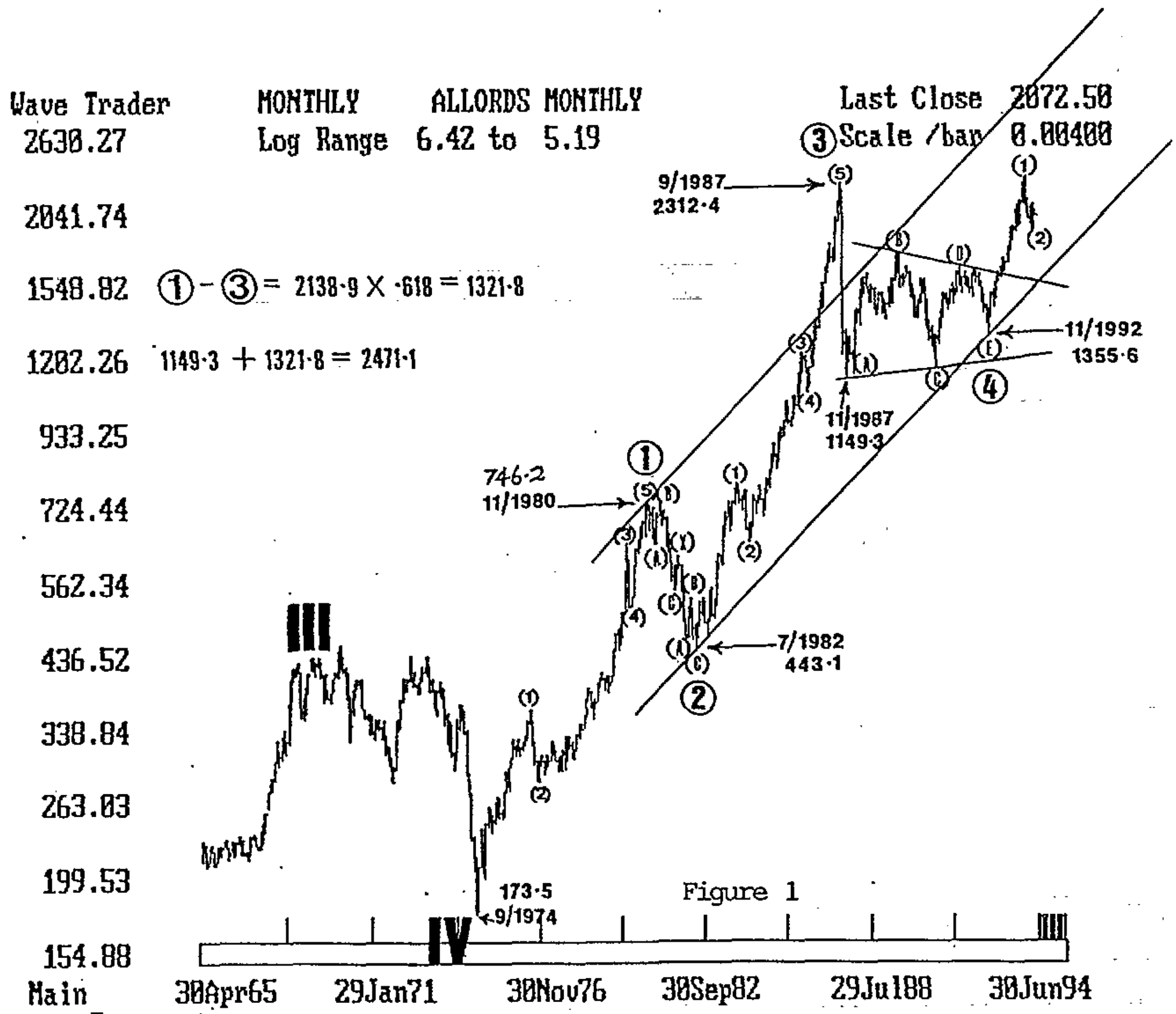


Figure 1

five wave progression from that bottom is almost complete. Wave (5), which commenced with the lift-off from the November 1992 bottom, has traced out Wave (1) to 3/2/1994 and Wave (2) to 8/7/1994. Wave (1) is likely to be the extended wave in this series, with Waves (3) to (5) being approximately .618 times Wave (1) from the Wave (2) base. With Wave (1) travelling a total of 994.5 points,

1946.7 x (994.5 x .618) = 2561.3.

On the bigger picture, Waves (1) to (3) had a net travel of 2138.9. We can do a similar calculation from the Wave (4) price low of 1149.3 in November 1987 for the following result:

1149.3 x (2138.9 x .618) = 2471.1

Also look for support/resistance at double the AOI's 1991 bottom of 1200, or 2400.

SPI

The SPI has very strong overhead resistance this year at 2482, which I think on balance it is unlikely to penetrate. This would of course imply a cash index peak lower than the futures level. However, if I am wrong, then 2482 should be an acceleration point rather than a stopping point. Even if this level is penetrated, it may be an acceleration point into a blow-off top, so, for all but the shortest term traders, this would signal a penetration to get out on, rather than a penetration to get in on.

BREADTH AND SENTIMENT

Figures 2.1 to 2.5 show the breadth of the market against the AOI, plus three sentiment indicators. In all four cases, the four week moving average of the weekly data has been plotted. The data series runs from July 1987 to the second week of August 1994.

Figure 2.2 shows a weekly advance/ decline ratio and is an excellent way to measure the strength of bull and bear campaigns against the AOI in Figure 2.1. Breadth divergence occurred on tops from July to September 1987; between the 1988 and 1989 tops; and throughout the 1993 rally. It has occurred on bottoms from October 1990 to January 1991; from December 1991 to November 1992; and most recently the decline into the June 1994 bottom was accompanied by a drying up of downside breadth.

You will notice, however, that the top earlier this year coincided with a breadth surge to a new post-crash record. This may signify a last-gasp surge of optimism at a major top, but it could also mean higher highs to come. The decline from last February's top was messy, typical of an A-B-C correction, retraced only slightly more than 38.2% of the 11/1992 to 2/1994 rally, and was accompanied by substantial bearishness. This, combined with my cycle outlook, fits the picture of a second wave of decline, rather than the start of a major bear market.

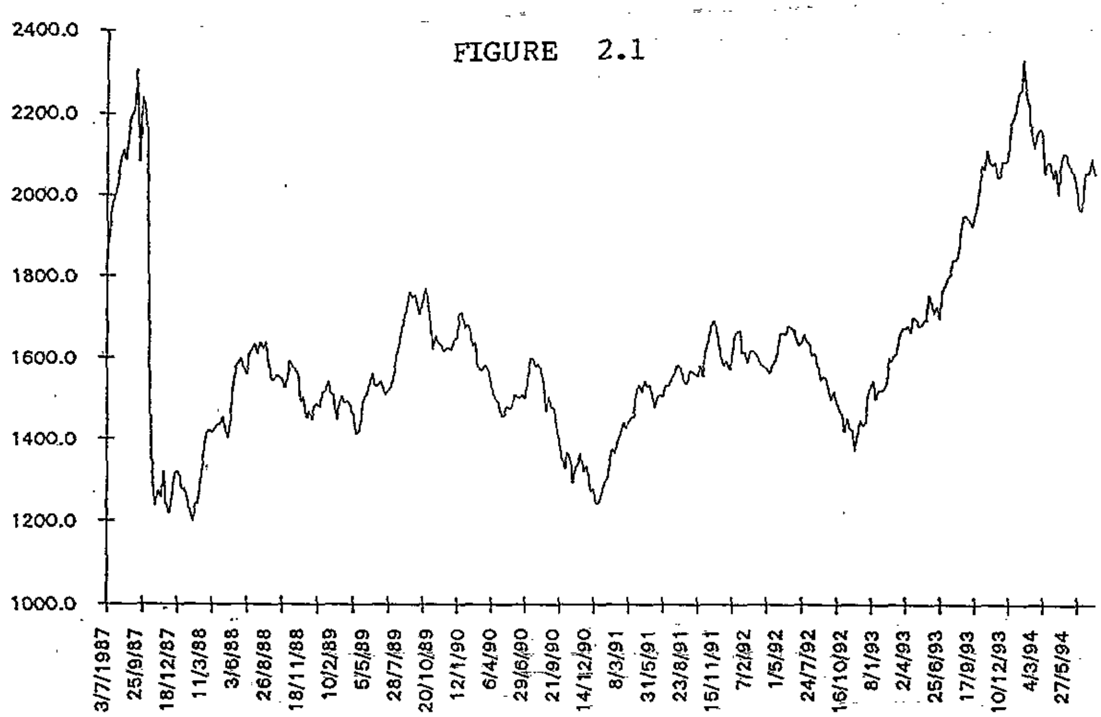
Figure 2.3 is the Futures/Cash spread. At last February's high, this indicator was showing the most optimism in just over two years, while at the June bottom, the SPI cowboys were at their most pessimistic since October 1990.

Figure 2.4 shows put/call ratios on stock options, based on both volume of trades and their dollar value. At major bottoms, the dollar value ratio soars well above the equivalent ratio by volume. This year's correction has seen levels of bearishness on this indicator only exceeded by the 1987 crash and the market lows of late 1990/early 1991. It has far exceeded the levels reached during the 1992 bear market. This is despite the fact that price levels during this year's downturn were still miles above the levels of 1992.

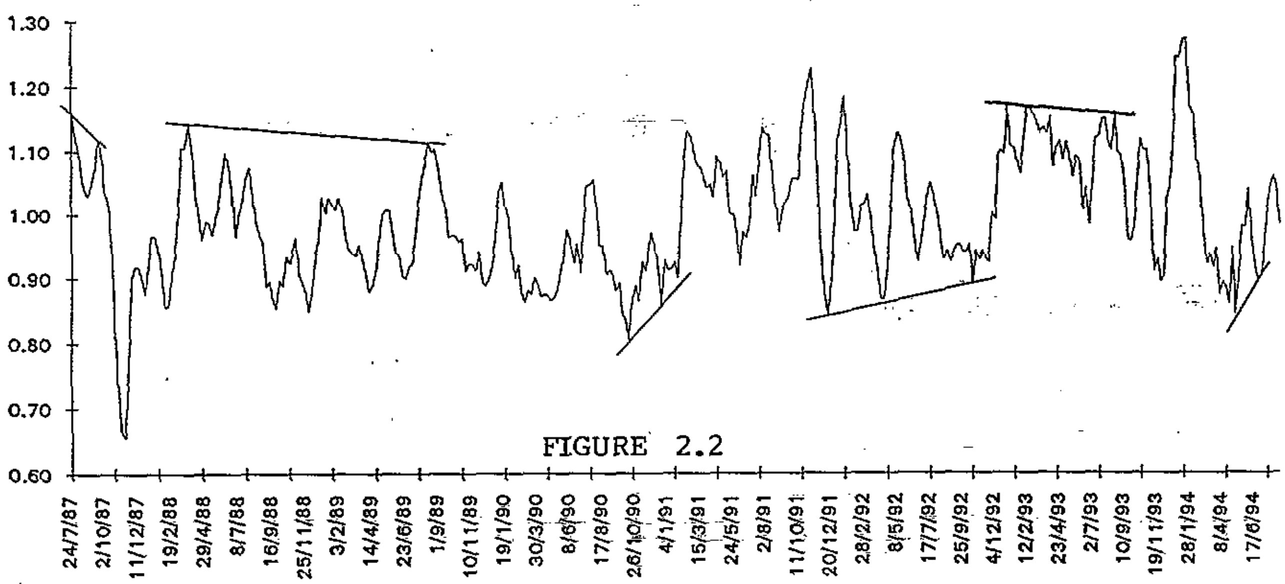
Second waves recreate the psychology experienced at the start of corresponding first waves. These two indicators give ample confirmation that this state of affairs had been well and truly reached by mid year. From the perspective of market sentiment, the stage has been set for a short but powerful third wave of advance over the next few months.

Figure 2.5 is perhaps the most interesting sentiment indicator. This records the put/call ratio of SPI option open interest. Judging from the record

ALL ORDINARIES INDEX - WEEKLY



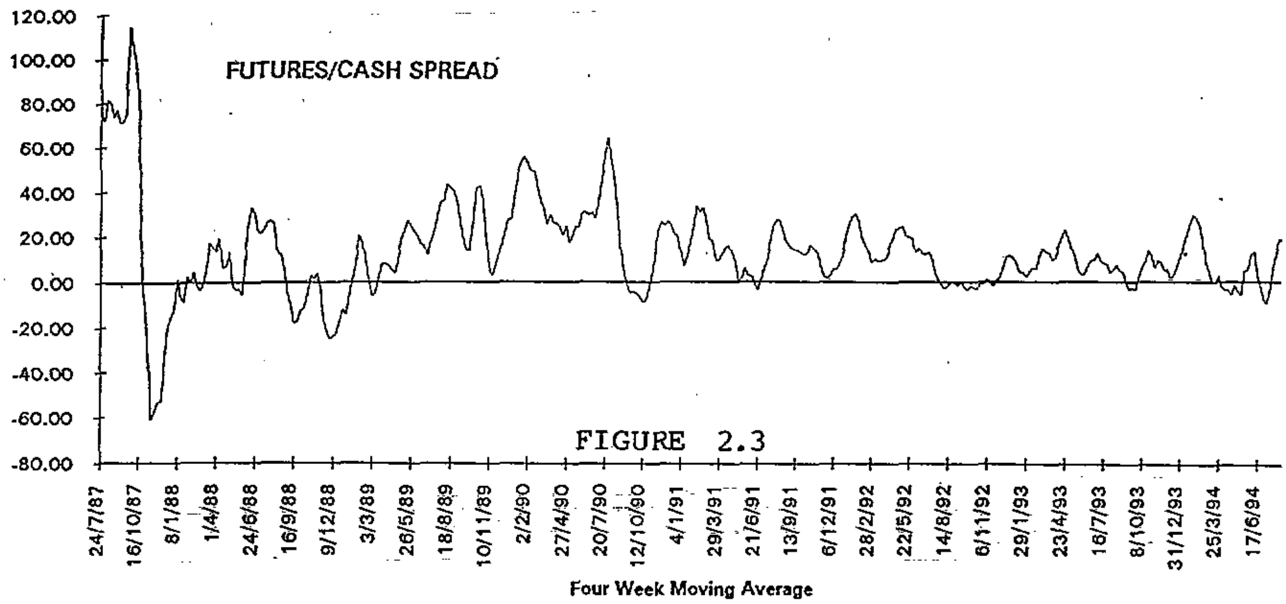
ASX - ADVANCE/DECLINE RATIO

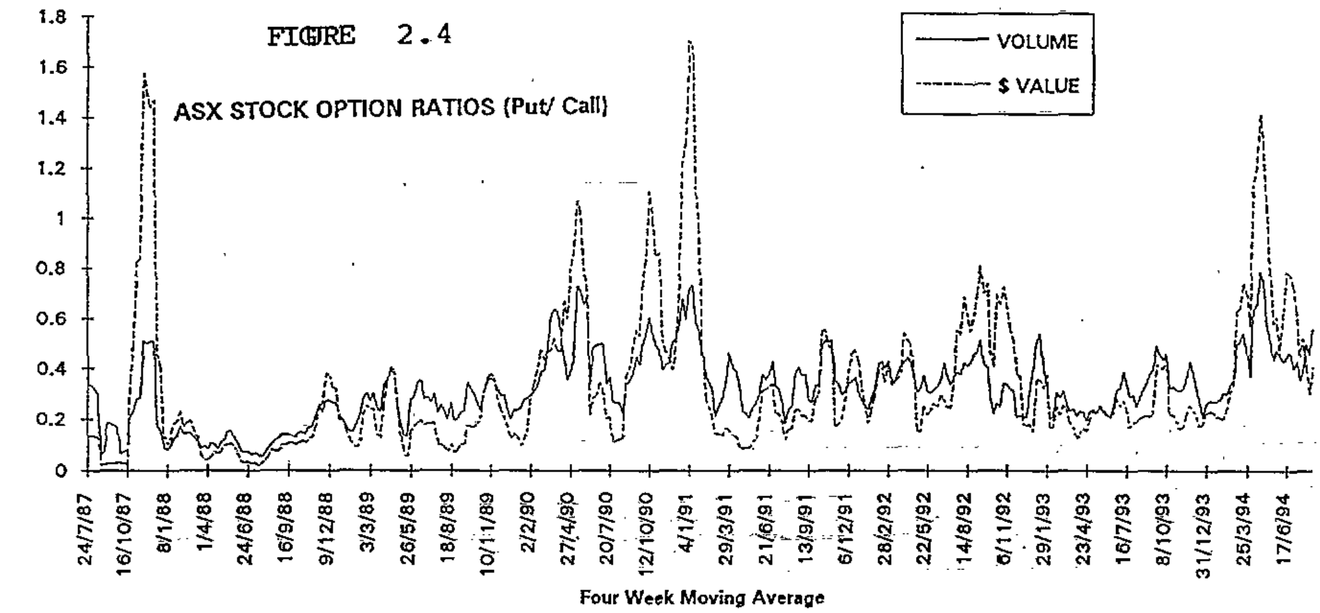


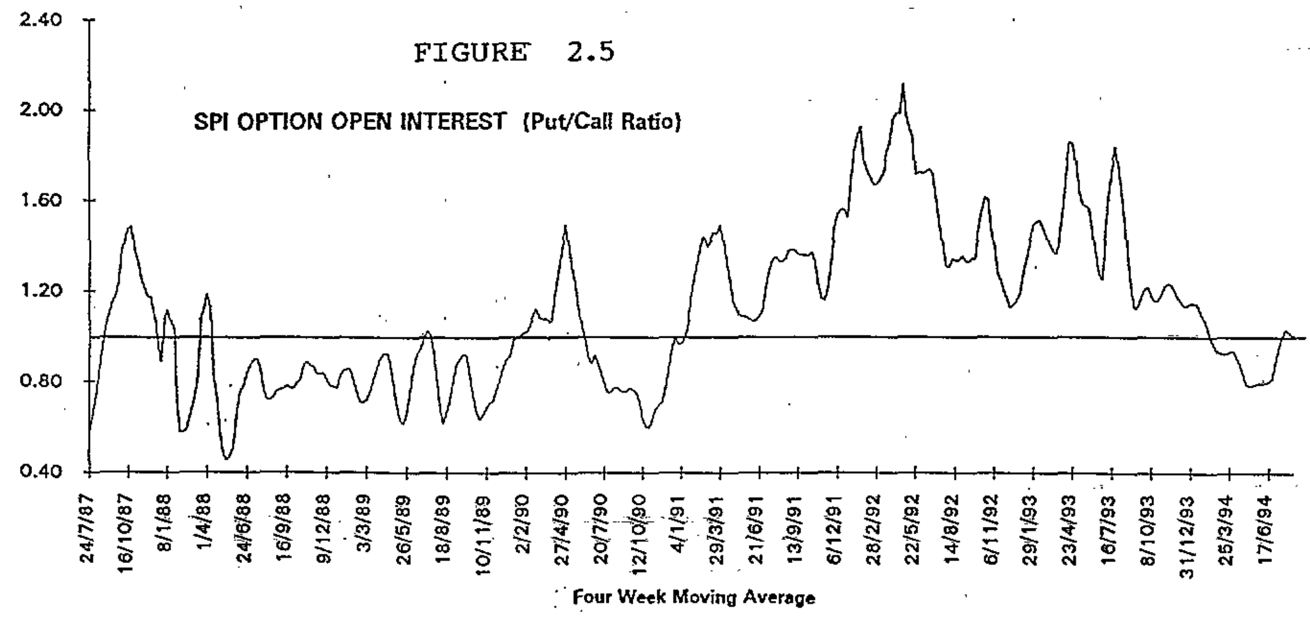
Four Week Moving Average

since July 1987, I would say that it represents some of the more informed end of the market, possibly institutional investors hedging their portfolios with SPI options.

You will note that during the July/ September 1987 rally, this ratio was also moving up, indicating that someone was getting bearish and adding to puts/ subtracting from calls. This pushed the indicator substantially above parity (horizontal line) to a net put option position before the crash. Post crash, the ratio fell and remained under parity, indicating a net call position for two years. The collective view must have been one of undervaluation, with


120.00
100.00
80.00
60.00
40.00
20.00
0.00
-20.00
-40.00
-60.00
-80.00
FUTURES/CASH SPREAD
FIGURE 2.3
24/7/87
16/10/87
8/1/88
1/4/88
24/6/88
16/9/88
9/12/88
3/3/89
26/5/89
18/8/89
10/11/89
2/2/90
27/4/90
20/7/90
12/10/90
4/1/91
29/3/91
21/6/91
13/9/91
6/12/91
28/2/92
22/5/92
14/8/92
6/11/92
29/1/93
23/4/93
16/7/93
8/10/93
31/12/93
25/3/94
17/6/94
Four Week Moving Average


1.8
1.6
1.4
1.2
1
0.8
0.6
0.4
0.2
0
FIGURE 2.4
ASX STOCK OPTION RATIOS (Put/ Call)
VOLUME
$ VALUE
24/7/87
16/10/87
8/1/88
1/4/88
24/6/88
16/9/88
9/12/88
3/3/89
26/5/89
18/8/89
10/11/89
2/2/90
27/4/90
20/7/90
12/10/90
4/1/91
29/3/91
21/6/91
13/9/91
6/12/91
28/2/92
22/5/92
14/8/92
6/11/92
29/1/93
23/4/93
16/7/93
8/10/93
31/12/93
25/3/94
17/6/94
Four Week Moving Average


2.40
2.00
1.60
1.20
0.80
0.40
FIGURE 2.5
SPI OPTION OPEN INTEREST (Put/Call Ratio)
24/7/87
16/10/87
8/1/88
1/4/88
24/6/88
16/9/88
9/12/88
3/3/89
26/5/89
18/8/89
10/11/89
2/2/90
27/4/90
20/7/90
12/10/90
4/1/91
29/3/91
21/6/91
13/9/91
6/12/91
28/2/92
22/5/92
14/8/92
6/11/92
29/1/93
23/4/93
16/7/93
8/10/93
31/12/93
25/3/94
17/6/94
Four Week Moving Average

little downside risk in 1988 and 1989.

Starting in 1990, the ratio shot up to pre-crash 1987 levels on substantial bearishness and put option buying. 1990 was of course a big bear market year. By late 1990, another undervalued condition was perceived, resulting in a sharp swing to the call side and a ratio drop under parity. This was about the level of the market bottom. The ratio rose broadly from then until a put option buying frenzy peaked in April 1992. 1992 was a sideways to down year and the terminus of Primary Wave 4 .

The really interesting thing about this ratio is the reaction to the rally into this year's top so far. **Instead of buying put options into the top, calls were bought in their place.** This could mean several things: there is no major top in place; or else that small specs. have piled into the SPI option market near its top. Although there is no way of knowing the reaction to any further rally in the second half of the year, could it also mean that fund managers, who base their decisions on fundamental factors, have bought the economic recovery line and see no need for downside insurance, because "this time it's different?"

Both the long term wave count and cycles indicate that we are in the terminating phase of a bull market starting at the 1974 low. In order for a big turning point to be made, it is necessary to catch big market participants the wrong way. The bigger the turn, the bigger the class of investor who must be caught. This indicator will certainly be worth watching over the next few months.

CYCLES - SHORT TERM

Last year I wrote an article for the March 1993 issue of the newsletter, in which I said to look for a major top on 16th September. What the market gave us instead was a major bottom. From a practical trading perspective that was fine, because there was still a good tradeable move from that bottom. However, in the event of that inversion and the market's action so far this year, it calls into question my then stated belief in a major low on 3/12/1994. As with the 1993 call, the time is fine (almost) but the direction will have to be reversed from down to up.

I would now say that on a monthly basis, November 1994 should be the last complete up month in the current cycle, with an actual daily top in early December. As 3rd December will be a Saturday, my original calculation would have to mean a turning point on either Friday 2nd or Monday 5th. With a small refinement in the original calculation earlier this year, I consider that Tuesday 6th December to now be the most likely day for a rally top.

One other cycle calculation projects a top on 13th December this year. Although its relation to the above cycle is debatable, I consider that the cycle series terminating on 6/12/1994 to be stronger and more reliable than its cousin, which turns up one week later. Either way, December 1994 is likely to be a key reversal month and kick off a twelve month bear market.

CYCLES - LONG TERM

People who rely on cycles to keep them on the right side of the market can be on a good thing if they know now to use them properly. However, if you rely on cycles alone, they can still trip you up. This is because even if the repetition is reliable, the amplitude of the repetition is not necessarily so.

One of W.D. Gann's principal failures as a forecaster was his many predictions of doom and gloom for the U.S. in the early 1950's. The early 1950's were indeed disastrous in many parts of the world. The main reasons were the spread of Communism to include several hundred million extra people post 1945 in Central Europe and China, the spread of Communist insurgencies throughout South-East Asia, the acquisition of a full range of atomic weaponry by the U.S.S.R. thanks to Stalin's spy networks, the outbreak of the Korean war, Arab/Jewish conflict following the founding of the state of Israel and the attempted Communist take-over of Greece. If you lived in the wrong part of the world, there was plenty to feel bad about.

Gann's cycle forecasts for that time

were therefore pretty much on the ball as far as general conditions were concerned outside the U.S.A. but due to a typically blinkered American inability to see anything beyond the borders of his own country, he could not understand why American stock prices did not decline into a cycle of depression. From that point on, he gave up trading stocks and concentrated on commodities for the balance of his life.

In contrast to this, Hamilton Bolton, a student of R.N. Elliott's Wave Principle, was bullishly enthusiastic on prospects for the 1950's stock market and economy, based on the unfolding wave count on the Dow from its 1932 bottom. With a progression of first and second waves from 1932 to 1949, it was apparent that a third wave extension was taking place in American stock prices, thus muting any bearish cyclic influences. As a student of the Wave Principle, Bolton could see this clearly. As a student of cycles, Gann could not.

Now, let's fast forward to 1994 and look at the picture today. Overvaluation is rife, optimism based on "economic recovery" is high, distribution is massive, and what is the response from many cycle analysts? They are bullish! As far as I can see, there are two reasons for this. Firstly, based on the decennial pattern or ten year cycle, the fifth year of the decade is expected to be strong. Therefore, 1995 should be a big bull market year. Secondly, the twenty year cycle from 1974 terminates this year, thus predicting years of bull market! (Years of straight out bull, if you ask me). They forget that unlike 1974, prices did not **fall** into 1994, they rallied into it. Here are three reasons why I am bearish on 1995.

1. Valuation Levels Although I am a technical analyst, I don't ignore fundamentals. I simply can't time or price the market with them. What I can say is that no long term bull market ever came out of an overvalued era like this one.

2. The Wave Principle Figure 1 says it all. The market is near the terminus of a five wave advance twenty years long, which in turn is the fifth wave up from the September 1931 low. If you want to buy for the long term this year, I'll be happy to sell it to you on 7th December.

3. Cycles Yes, cycles. Not theirs, but mine. As the result of extensive research, I have developed my own cycle perspective. Briefly, my outlook for 1994 and 1995 calls for blue chip stocks and blue chip stock indexes to:

* decline this year into an April low;
* to base build through to July;
* to progress moderately in August;
* to stage an accelerated advance through September and October;
* to top-build in November;
* to key reverse from up to down in December;
* to fall in January 1995 in the fastest down move since October 1987;
* to bottom about the end of the first week of February;
* to attempt a choppy, partial recovery until June, making a secondary top;
* and to then head down in a virtual one way bear market to December 1995.

Look for the anniversary of any December 1994 top to be the December 1995 bottom, or close to it. A few select blue chip stocks, such as BHP and the National Bank, could make final highs about June 1995, unaccompanied by anything else.

The interesting thing about this outlook is that although 1994 repeats the profile of 1984 for both stocks and bonds, 1995 does not. One thing that has become obvious to me from my study of cycles is that from the early 1990's on, many cycles should increasingly repeat by inverting and running backwards. This inverse repetition should be most obvious in the stock and bond markets, which next year are set to stage large collapses, not large advances, in a deflationary crunch.

Cycles are a valuable tool if used correctly but, like any other method, should not be used alone.

Part Two: BHP - The Last Bull Market Stock

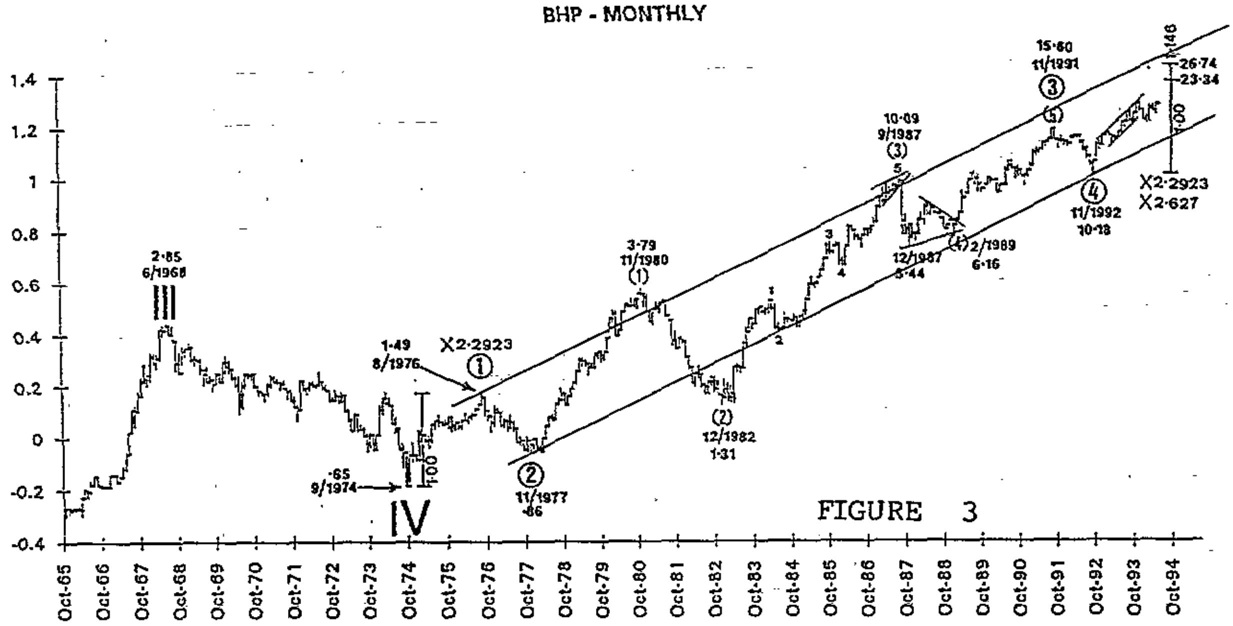


FIGURE 3

Figure 3 shows the monthly chart of BHP's long term wave count back to the late sixties. BHP has been tracing out a five wave advance from its 1974 low point of $.65 adjusted. Since Wave 3 from November 1977 to November 1991 is the extended move in the current bull market, Waves 1 and 5 should have a similar percentage increase or else show a logarithmic relationship. Wave 1 ran up from $.65 to $1.49, an increase of 2.2923 times the base price. If Wave 5 has a similar percentage increase, then a top of $10.18 x 2.2923 = $23.34 would be appropriate. However, there are a number of reasons for thinking that $23.34 is more likely to be a third wave top, rather than the end of the bull market. Consequently, $10.18 x 2.627 (2.2923 x 1.146) = $26.74 is a more probable target. Because 2.627 is close to the log ratio 2.618, use of the latter ratio would indicate a $26.65 top.

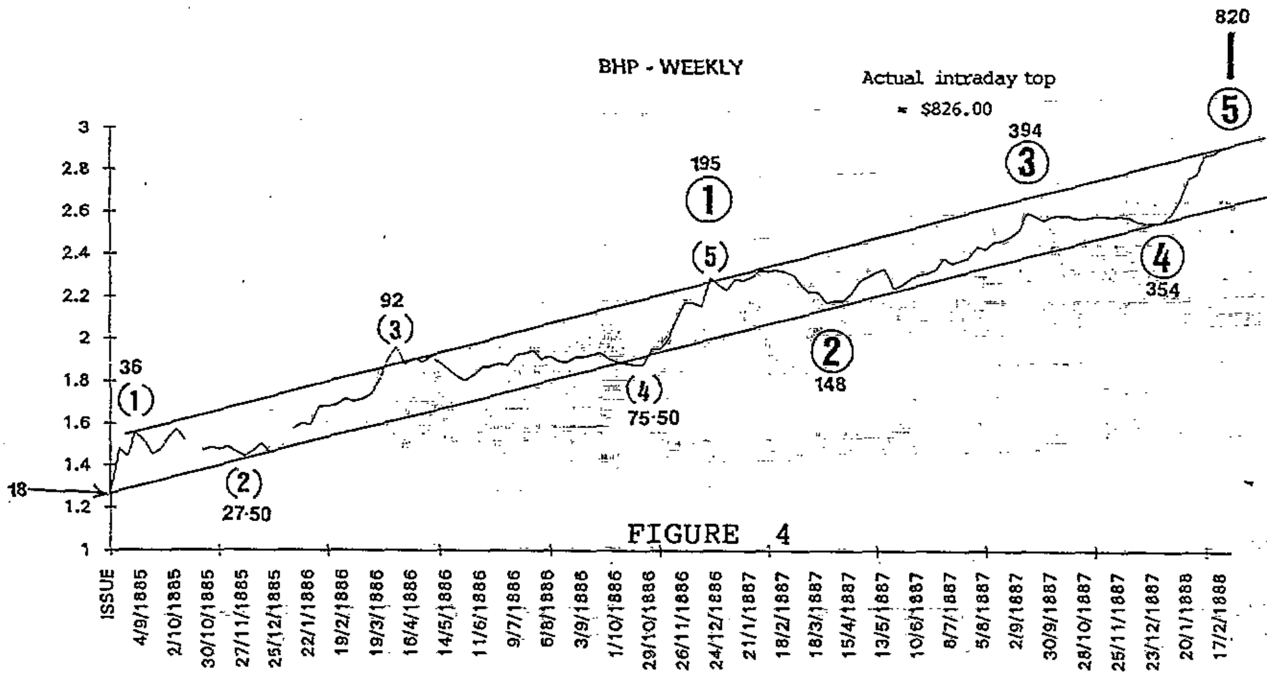
One reason for thinking that something greater than exact equivalence is possible can be seen by looking at Figure 3. Note that wave (3) of 3 peaked in 1987 at $10.09 and fell to $5.44. It is normal once five waves are complete, for the subsequent correction to return to the area of the previous fourth wave. This is especially so where the correction is itself a fourth wave. Yet Wave 4 bottomed out in 1992 at $10.18, failing by nine cents to enter the price territory of the 1987 crash.

The total retracement of Wave 3 by Wave 4 was a minimal 14.7% (log 14.6%), indicating a very powerful underlying trend.

Another way to get some idea of BHP's fifth wave potential is to look at past fifth waves. The 1968 top was a fifth wave peak and even on semi log scale, runs almost vertically into that top. An even more impressive fifth wave top can be found in the 1880's. Figure 4 tells the story. BHP was founded on 13/8/1885. Its stock was issued at $18.00 per share and the first traded price was $26.00 per share. In the frenzy of the 1880's silver boom BHP's price was run up to an incredible $826.00 per share by February 1888. This is its highest traded price in its history.

THE FIFTH WAVE OUTLOOK

Figure 5 shows the daily bar from November 1992. An acceptable five wave count peaked last February at $19.60 for Wave (1). Wave (2) travelled $3.60 to $16.00, for an exact 38.2% retracement of the previous $9.42 advance. According to this count, BHP is now near the centre point of its third wave. Count #2 in Figure 5 shows a progression of first and second waves from the 1992 low. Going by this count, BHP is also near the centre of its third wave up. There are no alternative counts of any consequence.

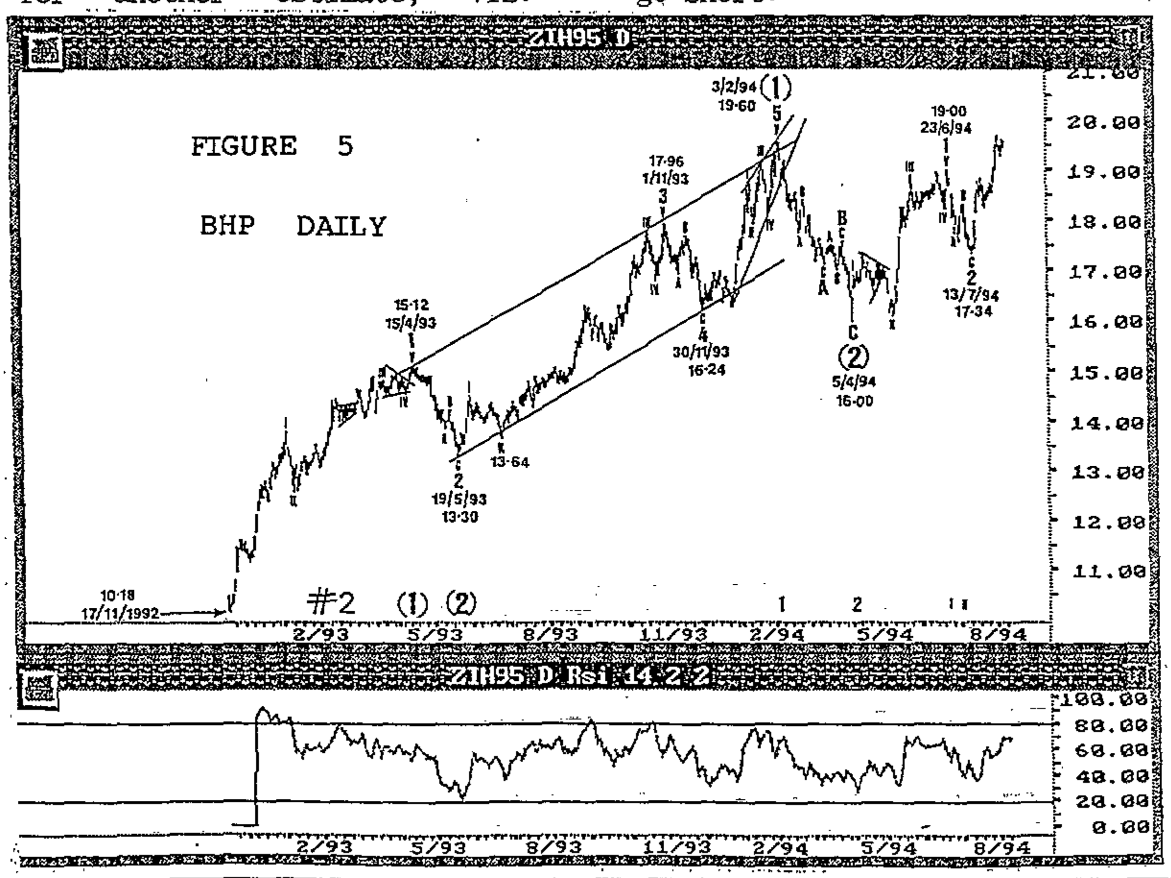


One further calculation can be made from Count #2. By it, Wave (1) ran from \$10.18 to \$15.12, a 48.5% increase in the base price. If the percentage increase for Wave (3) is 1.618 times that of Wave (1), then \$13.30 + (\$13.30 x 78.5%) = \$23.74, which is within cooee of the \$23.34 obtained from the larger picture. Finally, the \$9.42 advance made so far can be used as the base for another estimate, viz. \$10.18 + (\$9.42 x 1.618) = \$25.42.

Whatever the precise outcome, two things are fairly certain:

1. In spite of the tremendous rate of advance so far, there is still no sign of a major top in place yet;
2. As of writing, the best of the run appears to lie ahead.

Conclusion: don't sell out too soon or go short.



TIME AND PRICE

In order to examine time/price relationships on a stock properly, it is essential to use traded price data, not the adjusted price. Figure 6 shows the monthly traded price on BHP from January 1931 to July 1994. All pre 1966 data has been converted to dollars and cents from pounds, shillings, and pence for ease of comparison. The time/price ratio used for all long term data is $1.00 per one year.

BHP made its history low on 11/9/1931, reaching $1.14, while its post-depression high was on 28/6/1968, when it reached a Sydney top of $25.75 and a Melbourne top of $25.60. You will note that once BHP fell under its 1880's range of $26.00 to $826.00, its subsequent highest high was right underneath its first ever traded price of $26.00 back on 13/8/1885. In May this year, the SFE began trading a BHP futures contract. Its first traded price was $18.02, a whole two cents from its original issue price of $18.00. Last year's top was $17.96. The history high of $826.00 divided by 32 equals $25.80, five cents from the 1968 Sydney top. Beginnings do influence subsequent events. Old tops and bottoms do provide support and resistance for subsequent action but to know this and use it, you must have as much old data as possible.

Figure 6 shows the two chief 45 degree angles since 1931. The first angle rises from zero in March 1942, when BHP made a panic low at $2.65 on Japanese invasion fears and reached $26.25 in June 1968. The Sydney top came to within $.50 of this level. The second angle rising from zero in June 1968 is the one to watch today, as it reaches $27.00 in June 1995. A top then in the high $26.00 range would put BHP in almost exactly the same position as in June 1968. Figure 7 shows the proportional relationship between the price rise from 1931 to 1968 and the time since that event. The rally from 1931 into the Melbourne top was $24.46, while 24.46 years from 28/6/1968 gives 14/12/1992. This was four weeks from the November 1992 low point, a .29% error. (The range to the Sydney top has a similar relationship to the first 1993 low point in January).

Although the broad market had two similar relationships to BHP, one terminating at the November 1992 low and the other on 3rd December 1992, neither one was a two and a half decade whopper like the one on BHP. Despite the fears about BHP's exposure to Fosters which were flying around in 1992, in my opinion BHP's underperformance against the broad market leading into the 1992 bottom and outperformance since then can be most easily explained by the information contained in this chart.

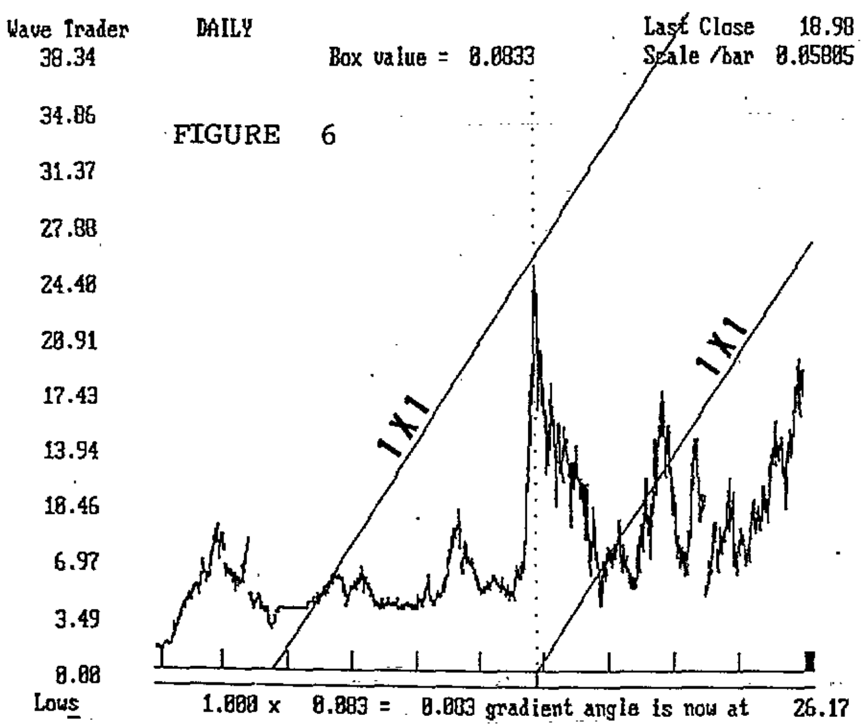
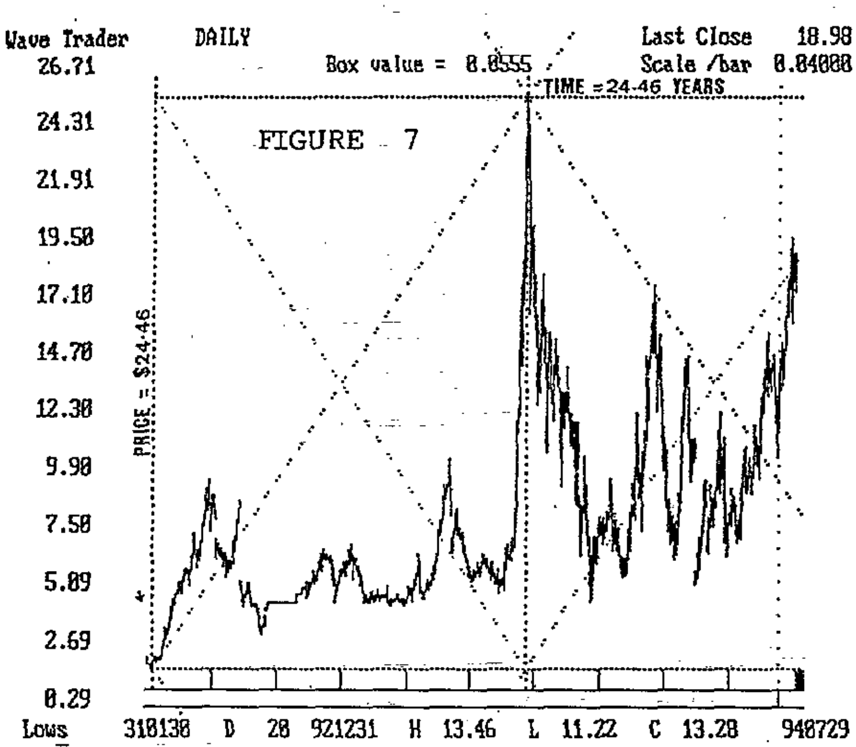


FIGURE 6



The square of the two price tops in 1968 are also very interesting.

28/6/1968 + 25.60 years = 2/2/1994
28/6/1968 + 25.75 years = 29/3/1994

The Melbourne top squares out one day from the February peak this year, while the Sydney top squares out one week or three trading days from last April's bottom. This means that the top and bottom early this year have the same time relationship to each other that the two 1968 tops have to each other in price. Random walk, anyone?

MARKET SENTIMENT

Despite the fact that BHP is a world class company with a booming profit record and is growing new businesses at a rapid pace, the attitude to the company continues to be one of caution and scepticism. Consider the following facts.

1. Figures published last year showed that the biggest sellers of BHP stock were the country's biggest institutional investors; the life offices, insurance companies, fund managers, and super and pension funds. However, in an increasingly internationalised market place, BHP's excellent record is increasingly well known overseas. To a Japanese or American fund manager, a stock in the low to mid teens is dirt cheap, not overpriced.

2. Early August last year, the word going around Melbourne had it that both the AMP Society and National Mutual were sitting on BHP at $15.00 and selling it down every time it approached that level. By the end of the month, it was up over $16.00.

3. Last September, the Financial Review featured an interview with a technical analyst, who was worried about when BHP was going to fall under $15.00. Within one month, it was up over $17.00.

4. According to stockbroker comment over the last year, it has proven difficult to encourage private investors to buy BHP, because at $16.00 plus, "it is too high". By the time it gets over $23.00, you will be amazed at what a bargain they will think it is!

5. With a 30% annual profit increase

announced at the end of June 1994, the dominant reaction was one of "What a great result, but how can they ever beat it?'" This is not market top psychology. When the top does arrive, the crowd will only be able to see the multitude of new projects BHP is starting up, proclaim it a premier growth stock, and see nothing but blue sky for years.

6. In recent months, several stock-broking companies have had sell recommendations out on BHP. What on earth do these galahs want to put their clients' money in to? Presumably FAI or Goodman Fielder!

7. At the end of last June, fears over BHP's holding of Fosters stock resurfaced, just as they did in 1992 at the bottom. If you look at the daily BHP chart, you will see that this occurred during the progress of a second wave, the exact point where market bottom fears are repeated.

In short, the attitude of the crowd is not following the fundamentals of BHP at all but that of the Wave Principle, which shows all the price action since $10.18 to be in first and second wave territory. We are now getting close to the centre point of BHP's third wave, which is that place in crowd psychology where the cautious, sceptical majority realise that they were wrong and rush en mass to buy. This recognition of the trend is now beginning to break at the professional end of the market, with one stockbroker reported late last month as saying that BHP had potential up to $22.00-$23.00.

In my opinion, the true potential of a trend can best be gauged through use of the methods such as those used in this article. Early last year, when BHP was in the low teens, some people thought that I was nuts when I said that it was headed up into the mid twenties. Today, with the price in the high teens and the company receiving favourable reviews in the press three or four times per week, this potential will be increasingly *recognised by more and more people over time. It is the ability to see the trend in advance of the crowd which provides the best results.*

A BLOW - OFF TOP?

Third waves display excellent breadth and good participation by secondary stocks. Fifth waves have more selective breadth relative to their corresponding third waves and are increasingly blue chip dominated towards their end. The late 1960's saw the topping out of a 26 year third wave and in the topping out process, the spectacular blow-off stocks were a couple of penny dreadful nickel miners, Poseidon and Tasminex. The newspaper article below reports the Poseidon blow-off. Poseidon reached a final peak of $280.00.

If there is to be any blow-off at the end of Wave V, it will come from the opposite end of the corporate spectrum from those two. The most likely candidates are of course BHP, the National Bank, Newscorp, and CRA. BHP is certainly a prime candidate for this type of result. Since 1974, its traded price lows have been forming a multi year parabolic curve. From its November 1992 low, it has entered the acceleration part of the parabola. This indicates both a rapid move up to its final high and an even more rapid collapse thereafter. Should BHP or any of its heavyweight partners stage a blow-off top over the next twelve months, remember you read about it here first.

HAYDEN MURRELLS 23 AUGUST 1994

Front page of the Daily Mirror, 19 December 1969.

Videotape Library

New Videotapes

We have acquired another copy of MACD and RSI. Guy Bower has also donated a copy of TRIPLE SCREEN TRADING SYSTEM. These additional copies will reduce waiting time between tapes, which is currently 6 to 8 weeks.

Another addition is the five tapes comprising THE VIDEO COURSE ON TECHNICAL ANALYSIS by Martin Pring which can be ordered now.

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

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

We lend these videos on a type of first-come-first-served basis and maintain a waiting list. While we will place you on the waiting list for more than one video tape, you will only ever be sent one at a time. Members who have not received a videotape before are placed at the top of the list and will receive the next video that is returned to the library and was ordered by them. That member's name then drops to the bottom of the list and he/she will not be sent another video until his/her name works its way to the top of the list again. This system ensures that all members experience a similar waiting period between videos, depending upon the demand. However, it also means that the order in which members receive their selections will be random, depending upon which video next comes back when their name is at the top of the list. However, members ordering Elder: "Technical Analysis in 52 Minutes" or Pring: "Principles of Technical Analysis" will be sent those tapes first, if they so request. This may delay receipt of the first tape, however.

The tapes currently available for loan are:

Schwager: What it Takes to be a Great Trader
Elder: Technical Analysis in 52 Minutes
Elder: MACD and MACD-Histogram
Elder: Relative Strength Index (RSI)
Appel: Day Trading with Gerald Appel
Elder: Directional System
Elder: Triple Screen Trading System
Elder: Elder Ray
Elder: Stochastic
Elder: Williams %R
Fuller: Market Opportunities '94
Elder: Psychology of Trading
Plummer: Forecasting Financial Markets
Pring: Basic Principles of Technical Analysis
Pring: Price Patterns
Pring: Support, Resistance, Trendlines & Moving Averages
Pring: Momentum, Relative Strength and Volume
Pring: Mechanical Trading Systems & Correct Investment Attitudes

If you would like to borrow any of the videotapes, contact Colin Nicholson to be placed on the waiting list. There are three ways to do this:

1. Telephone Colin on (02) 436 1610

2. Write to:
   Colin Nicholson
   3 Eastview Street
   Greenwich NSW 2065

3. Fax to:
   Colin Nicholson
   C\- Christopher Carr
   (02) 901 4468

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

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* To help raise the level of community awareness and respect for technical analysis,
* To provide meetings and encourage the interchange of materials, ideas and information in order to add to the knowledge of its members and
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Meetings are held each month except December and January. In Sydney, meetings are usually held on the third Monday of each month at 6.00pm. In Melbourne, meetings are usually held on the third Wednesday of each month at 6.30pm. All meetings are advised in advance by mail. Alternatively, contact the Honorary Secretary in Sydney, or Paul Simmons in Melbourne. Informal meetings are held in other states at various times.

Subscription can be obtained by filling in the membership application form on the reverse side and mailing it to;

The Honorary Secretary
Australian Technical Analysts Association Inc
GPO Box 2774
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