THE
AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION
NEWSLETTER

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GREENWICH NSW 2065

Your Committee

Contributions to the Newsletter

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 last day of the previous month: ie December, February, April, June, August and October.

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

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Almis Simankevicius NORTH SYDNEY NSW
Lynton Sallis BEAUMONT SA

Our national membership is now 281

A New Method of Forecasting Trend Change Dates
by S Kris Kaufman

A new cycle-based timing tool has been developed that accurately forecasts when the price action of any auction market will change behaviour. By "behaviour" is meant uptrend to downtrend, downtrend to trading range, etc. Six cases are covered by the term "trend change".

While most cycle techniques attempt to model and forecast the timing of market highs and lows, this new approach focuses on the precise timing and magnitude of any trend change, whether from a high or from a low. By sacrificing direction, this method can take full advantage of the chaotic nature of auction markets to increase timing · accuracy. The decision whether a trend change marks a high or low point is left to the trader.

The indicator is constructed by analyzing a 10 to 20 year history of daily price-trend changes to determine weights for the cycle model. These weights are used to forecast one to two years ahead. A trend change is shown on the indicator by a spike; the higher and broader the spike, the more important the trend change.

The results presented here cover several markets during the period of late 1989 and early 1990. The pictures show the timing and magnitude of market turning points as given directly by this indicator.

Introduction
Trend change dates mark transition points between different types of market price behaviour, as shown by the six cases below:

Up/down to down/up

Up/down to sideways

Sideways to up/down
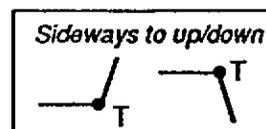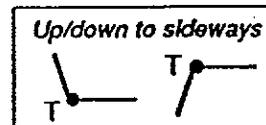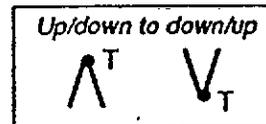
Now we need to know when a trend change will occur, what the magnitude of that change will be and in what direction the market will now move.

Market analysts try to use as many indicators as possible to decide if a significant turn has already occurred. If the market (including individual issues and commodities) were truly random, even detection of a turn after the fact would not be helpful. In fact, many markets tend to exhibit non random behaviour, such as trending and cyclic repetition, which some studies have linked to chaos theory.

Chaos theory is the basis for such phenomena as fractals, which the Elliott practitioners were quick to adopt as the key to their theory of market motion. Another effect characteristic of a chaotic system is period doubling. When a system undergoes a transition to chaotic motion, periodic motion is seen at periods that are doubles of each other - such as 20, 40, 80, 160, etc. - instead of random fluctuations.

Our method is used to detect and forecast this period-doubling effect. The procedure is to (1) create a trend change series from historical market records, (2) decompose
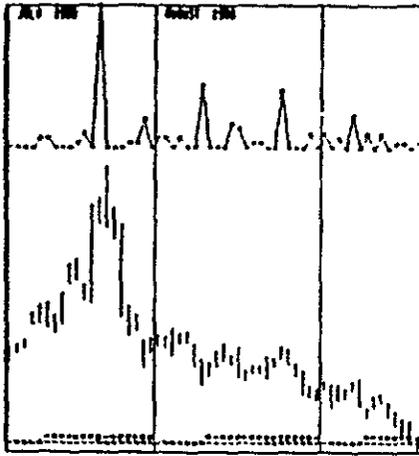
FIG. 1. Price series for silver, plotted in a bar format (below) and in time-weighted format (above).
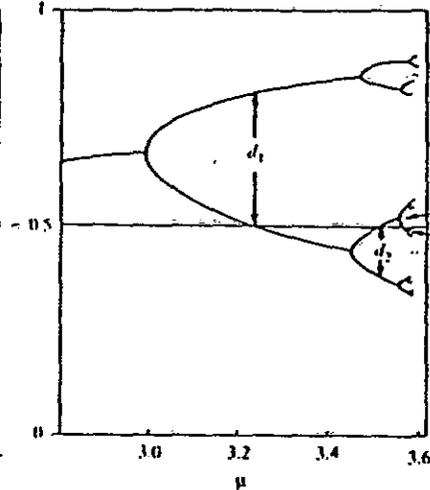
FIG. 2. Transition to chaos reveals periodic behavior.
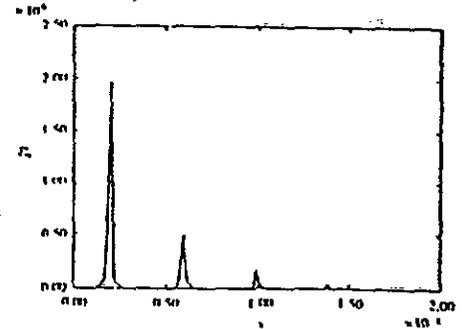
FIG. 3. In the frequency domain, a transition to chaos would reveal periodic behavior by showing distinct evenly spaced spikes.

this new series into harmonics, and (3) project trend changes using the results of this decomposition. The results are evaluated by comparing the date and size of the predicted trend changes with the actual market outcome.

Method
All cycle analysis methods must condition the data before solving for the dominant periods. Our method, however, is only concerned with when the market changed direction and how major a change it was.

Create a Trend Change Series
To emphasize only market trend changes, a time series is constructed that contains only positive-valued spikes located on the days of market highs and lows. The size of each spike is equal to the minimum number of days forward and backward in time until that particular high or low is exceeded by a higher high or lower low.

Everywhere else, the series is set to zero. In long-term price extremes, a maximum cutoff number is substituted for the actual day count.

This technique produces a detrended and time-weighted trend change series that can be used for cycle analysis. The series has positive spikes for both highs and lows, which effectively wipes out all reference to price

direction (see Figure 1).

Price direction is removed because we only wish to detect and model the period-doubling effect characteristic of a chaotic (or nonlinear) system.

Decompose into Harmonics
Both past price and volatility (rate of change in price) contribute to the basis for buy and sell decisions made continuously by market participants. The player's willingness to buy or sell, in turn, affects current price. This recursive relationship is typical of chaotic systems.

Figure 2 shows a system undergoing transition from a smooth and predictable behaviour to a chaotic state. As the degree of chaotic behaviour increases (left to right), period doubling becomes more and more evident. Periodic behaviour is best shown as evenly spaced spectral spikes (Figure 3) in the frequency domain.

Figure 4 shows a spectrum of the stockmarket. A distinct set of somewhat evenly spaced spikes can be seen. Note, for instance, that the spike at 55 days is matched by ones at 113 and 224. Also note the spike at 74 days and its double at 148.

The second step in our method is to decompose the trend-change series into the dominant cycle components, and weight the
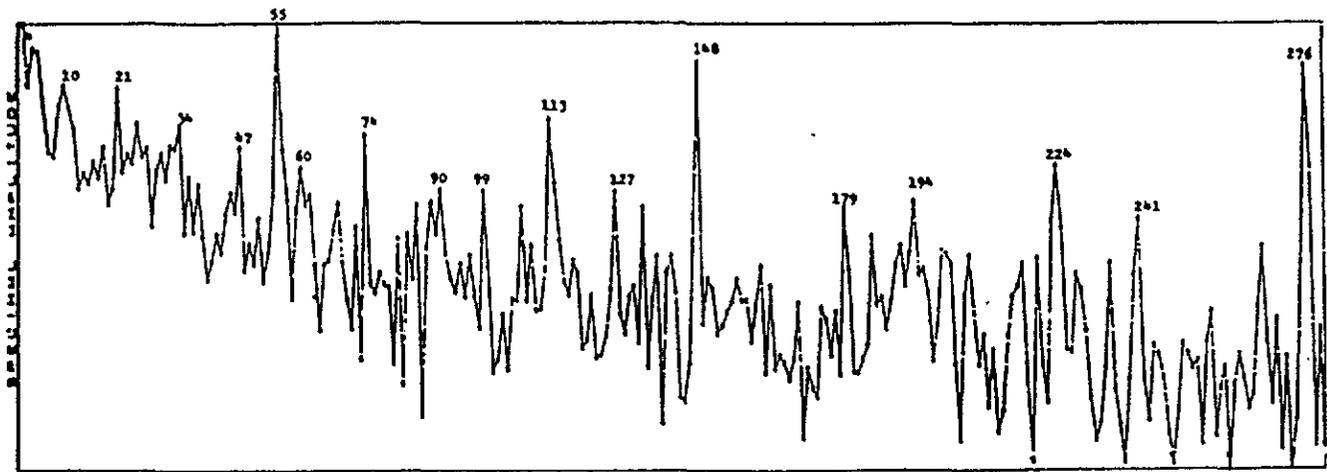
FIG. 4. Spectrum of 100 years of daily DJIA prices.

contribution of each. Although this process is proprietary, the basic principles are shown in the the example shown overleaf.

Let $i = 1$ to m represent days of time-weighted series data, and let $j = 1$ to n represent selected harmonic periods. Solve for a set of weights Wj for each harmonic period Lj, such that the error in fitting the time-weighted trend change series Ti is minimized:

$$Wj \{\sin Lj\ Xi + ... + \sin Ln\ Xm + \cos Lj\ Xi + ... + \sin Ln\ Xm\} = Ti$$

This is a simple least squares problem that is easily solved, because there will always be far more days of data than harmonics.

Project Trend Changes

Once decomposition and weighting have been carried out, merely run the calculations into the future to create the forecast. The resulting series should simulate what the real trend change series eventually would look like. In other words, spikes should occur at turning points.

Interpretation of the Indicator

Trend changes in a market are specified by three pieces of information: time, magnitude and direction. Our indicator delivers time and magnitude. Direction is determined by the use of another indicator, or by examination.

Trend change dates are shown by spikes on the indicator. The actual trigger comes as the indicator drops from its spike high. For complex cases with a broad spike, the last day is used as the trigger point:
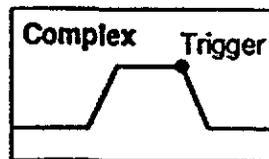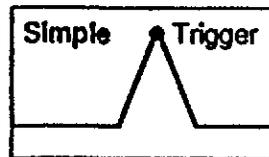
The importance of a trend change is proportional to the height and breadth of the spike. Tall spikes usually mean that major market highs or lows are due. Broad spikes indicate the merger of many smaller turns, and so mark times of choppy price action.

For simplicity, we consider spikes that penetrate the centre line of the graph to be major, and those that peak below the centre line to be minor. In a major trend change, the change should be noticeable on weekly and possibly monthly charts.
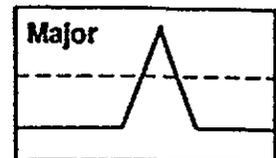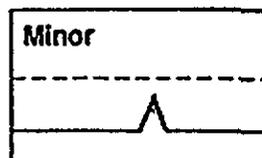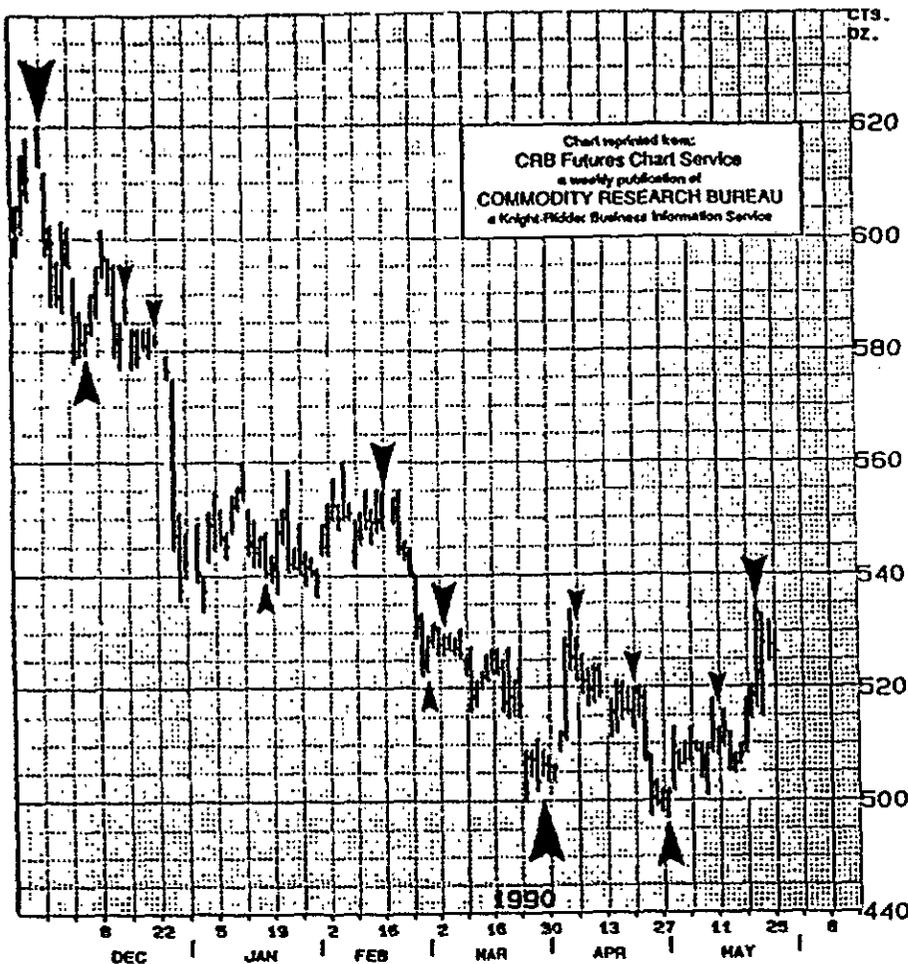
FIG. 5. Comex Silver, July 1990, showing forecast trend change dates.

The Results

The method we have described produces a spike series that extends into the future. The spikes on the series signify the projections of past market turns, which have occurred at regular intervals, into the future.

Figure 5 show trend change dates forecast for silver. Figure 6 shows trend changes for the DJIA based on the longer period components only. The indicator correctly detected significant tops in 1987, 1989 and just recently in 1990.

Figure 7 shows the trend changes for crude oil during the critical mid 1990 time frame, and, in graphical form, the trend changes for crude oil during the third quarter of 1990. July 6 (the low), and August 2 and 20 are clearly important.

The arrows in these figures point to price bars on the exact date given by the trend change indicator. The size of the arrow indicates trend change magnitude. Remember that the indicator does not give direction. The directions of the arrows are simply meant to clarify the presentation.

The success of the cycle-based method presented here strongly argues in favour of the chaotic nature of auction markets. This means that some level of deterministic behaviour is present and can be used to forecast. A random market could not possibly exhibit such behaviour.

Our indicator is tuned to each market's rhythm, and continues to forecast the pattern of turning points that will be played out well into the future.
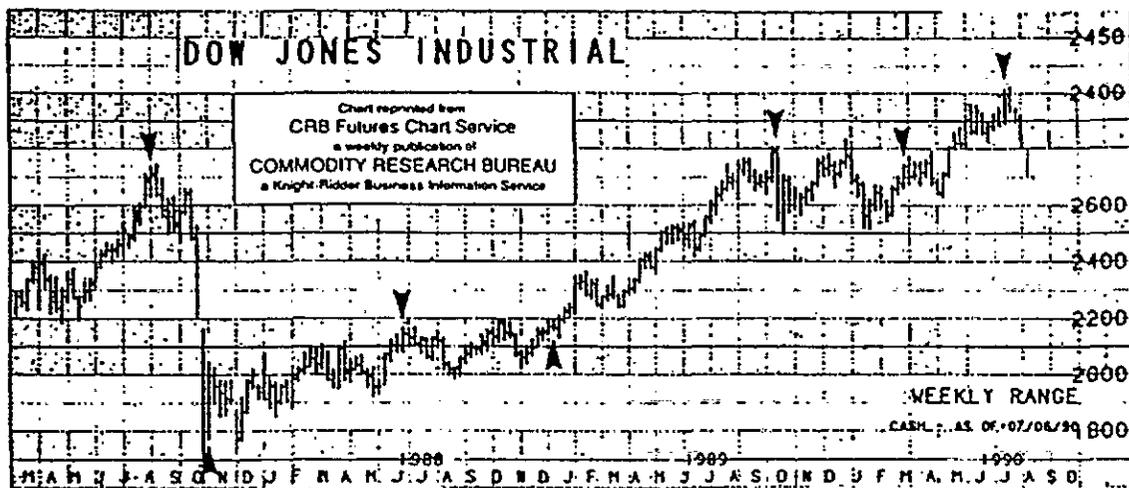
FIG. 6. Trend changes for the DJIA, based on longer period components.

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S Kris Kaufman is a senior geophysicist with a leading oil exploration software company, and president of Parallax Financial Research, Redmond, Wahington, which publishes the Precision Turn indicator quartlerly.
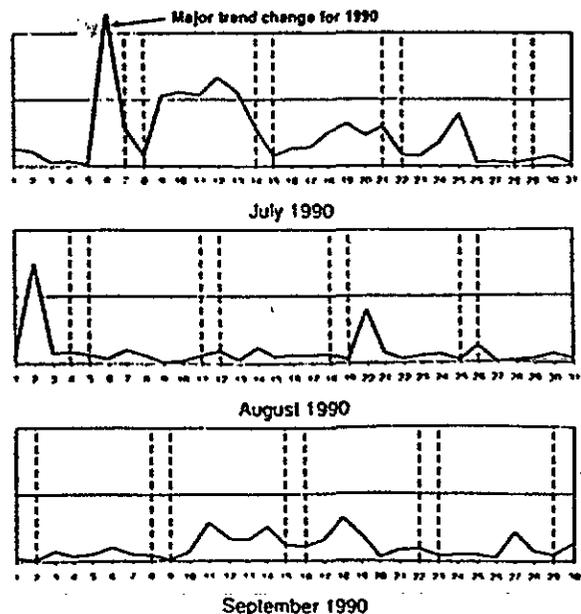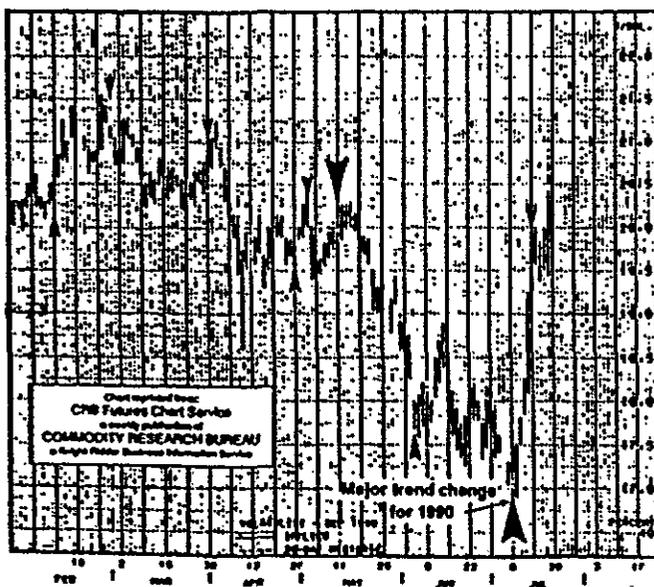
FIG. 7. Trend changes for crude oil during mid-1990 (left) and, in graphical form, during the third quarter of 1990 (right).

50 Years of the All Ordinaries

Zoran Gayer gave a talk to the Sydney ATAA monthly meeting on the 10th October 1994. The talk was entitled   50 Years of the All Ordinaries.

The following is a summation of the presentation and Zoran's update on the current market. It includes details of rules and a basis of analysis which will of interest to those who have an interest in the application of Elliott Wave Analysis.

Zoran Gayer is a professional trader who has been trading the markets on a full time basis for approximately four years.   His main basis of analysis is Elliott Wave, though he uses Bryce Gilmore's Wavetrader to assist in the timing of the markets.

Elliott Wave rules as applied by Zoran have principly been determined by use of Glenn Neelys "Mastering Elliott Wave" though other standard Elliott works have been studied and are applied.

Software packages used by Zoran are GET, an Elliott based trading system which has a strong bias to the use of oscillators. Future source which Zoran uses in the Research Technology trading area in Sydney in which he works; Supercharts and Wavetrader.

The basis of analysis is the determination of likely wave counts as determined by Elliott rules and by the use of oscillators determined by two moving averages set in the ratio of 1:7.

Methodology:

The Chart is set for 80 bars on Wave 3 and a 5:35 oscillator applied. Data is compressed to comply to 80 bars using Futuresource though other software may be used without compression subject to the 1:7 rule applying.

The oscillator is only used on impulse waves and chart construction is arithmetic on short-term but logorithmic used on longer term. The main benefits are in the determination of W4 endings, when the oscillator should go to zero and in highlighting 5th waves where divergence should be evident.

A wave count is applied for both larger and smaller degree using the above tools.

A set of predetermined rules for likely wave terminations and forecasts are strictly adhered to and are detailed on the following illustrations.

The illustrations detail the rules as applied to each of the impulse waves of the Elliott Wave Count and provide useful rules for members seeking to apply counts to a stock or commodity.

The aim of the rules is to "play the odds" with market trades having a clear risk/reward criteria based upon an entry point set by a selected support level on a retracement which would not be allowed to retrace further or on a predetermined target level in an extended move where a reversal seems to be indicated.

The illustrations also include longer term charts on National Australia Bank and BHP which were not included in the presentation but may be of interest to readers.

As with most Elliott Wave Technicians the longer term counts all seem to indicate that we are already at, or are close to a point where a correction to the larger scale picture is pending. It will be interesting to see whether the wave counts hold good. This will be an interesting test, though it may take some months to confirm one way or the other

Complied by Roger Lawes.
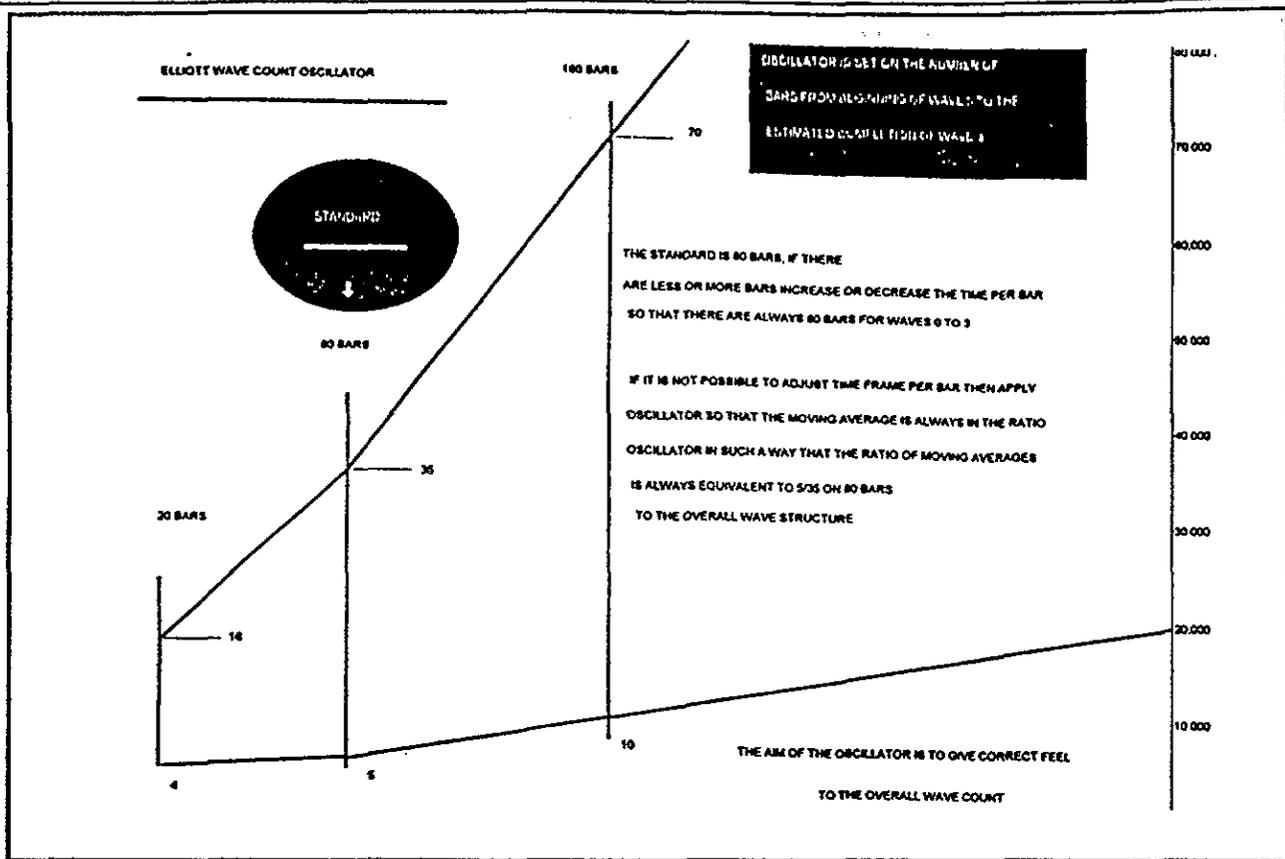
Oscillator settings
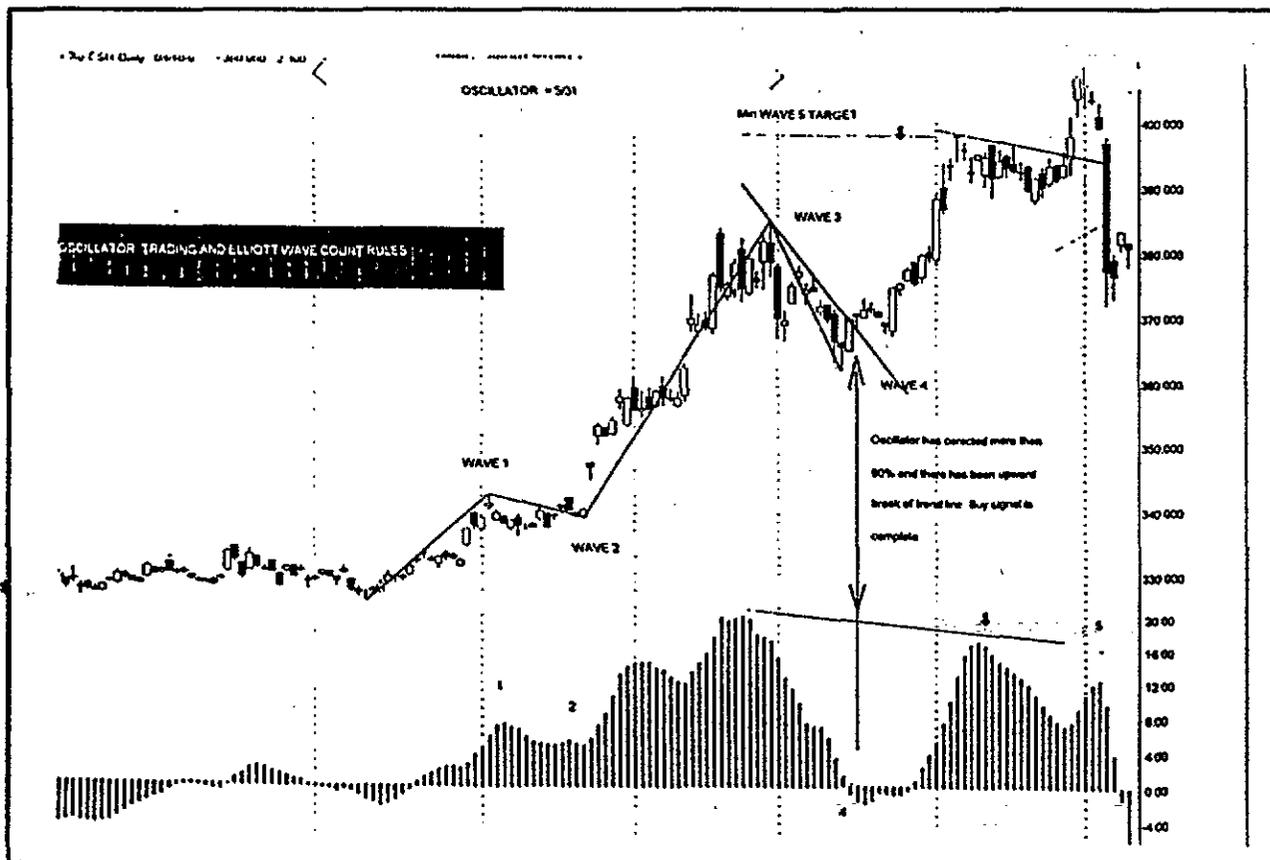
Example based on gold of oscillator action and interpretation
Note Wave 4 deepness and divergence to Wave 5
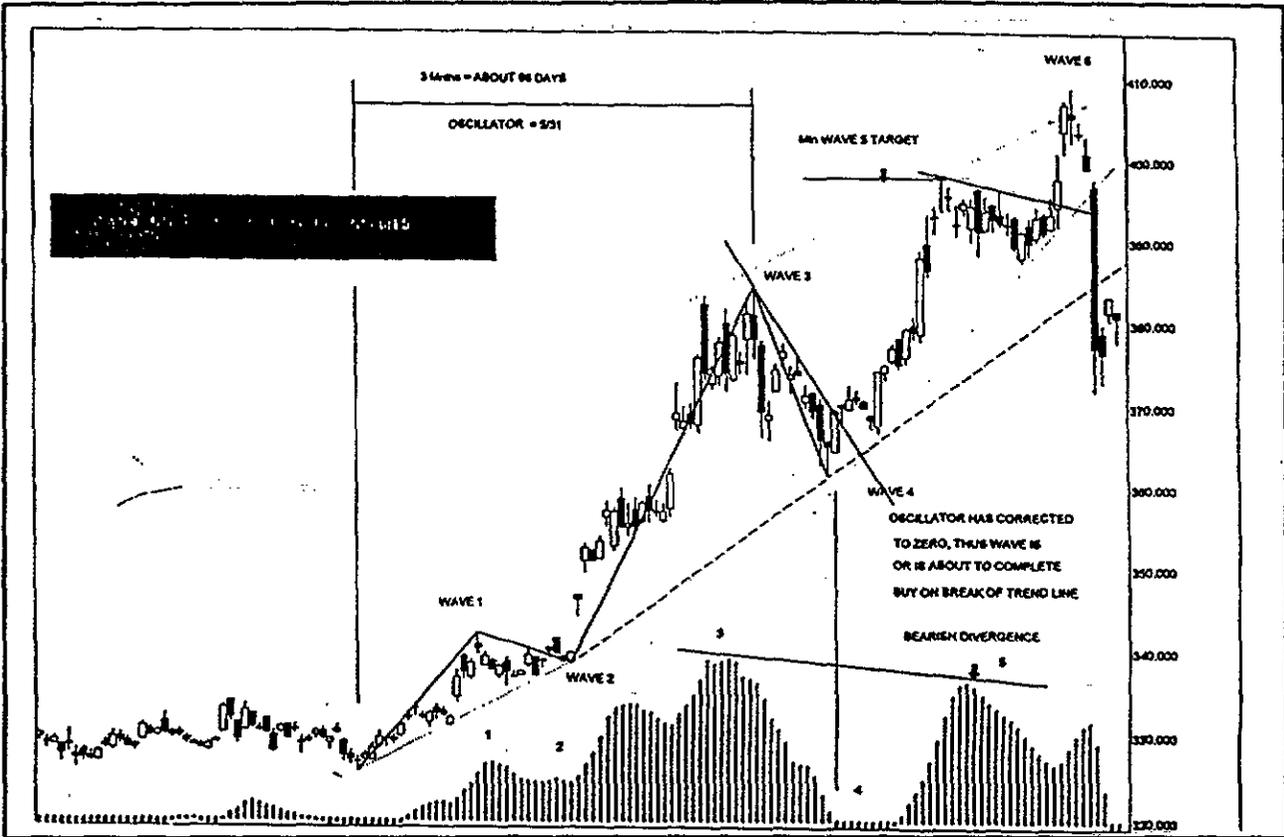
Display basis of Oscillator setting based upon Ø - W3 time of 66 days.   Oscillator applied 5:31
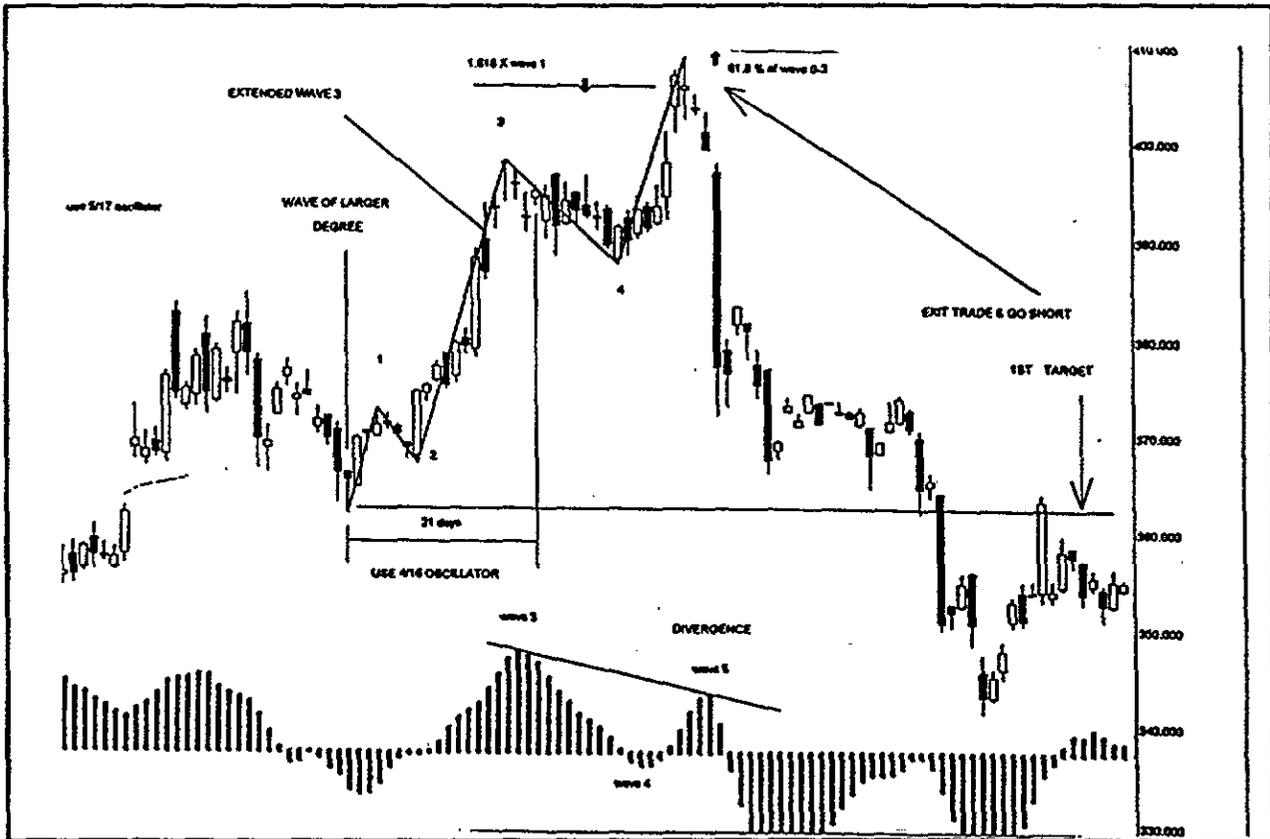
The example given above has been a well documented highly profitable trade which was entered
as a result of the stated analysis.
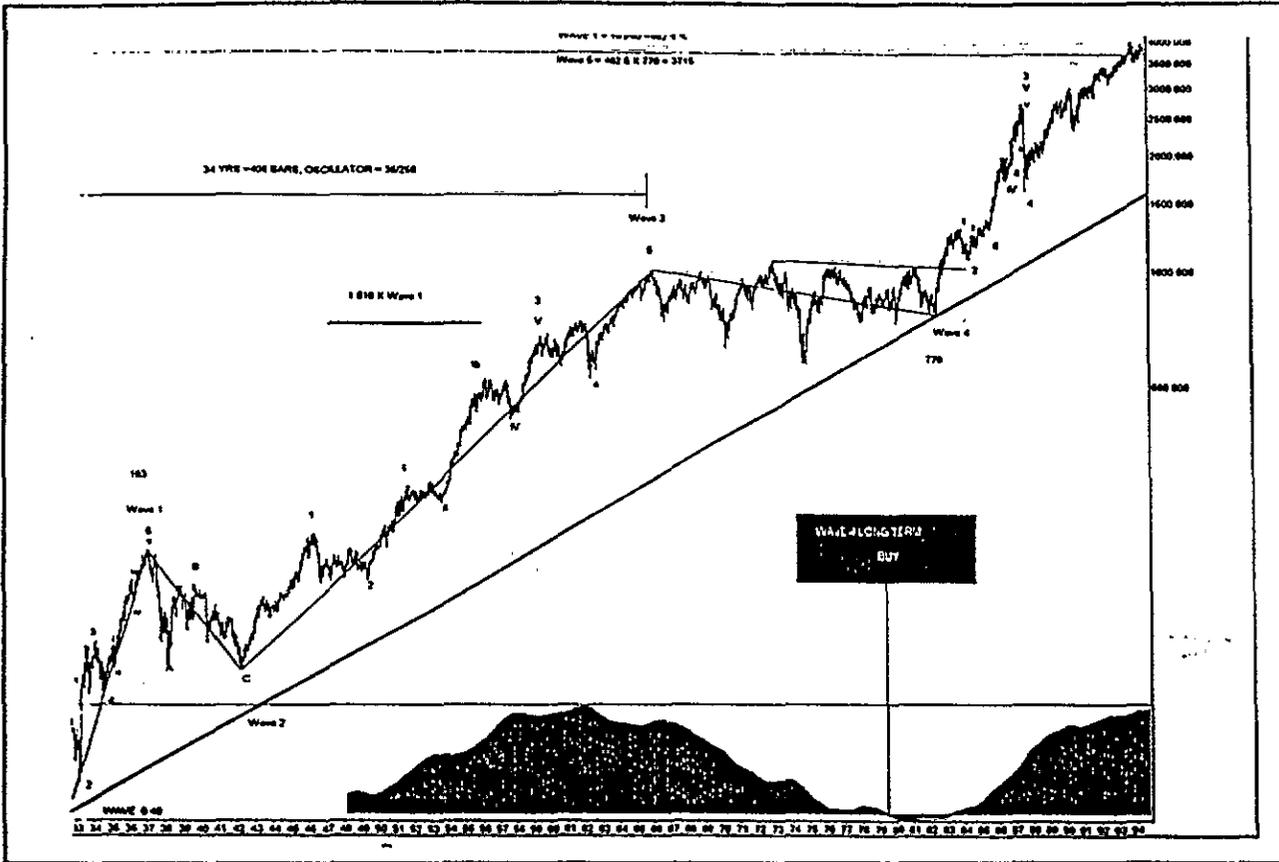
This chart of the US Dow shows longer term wave counts and the oscillator again demonstrating the W4 position
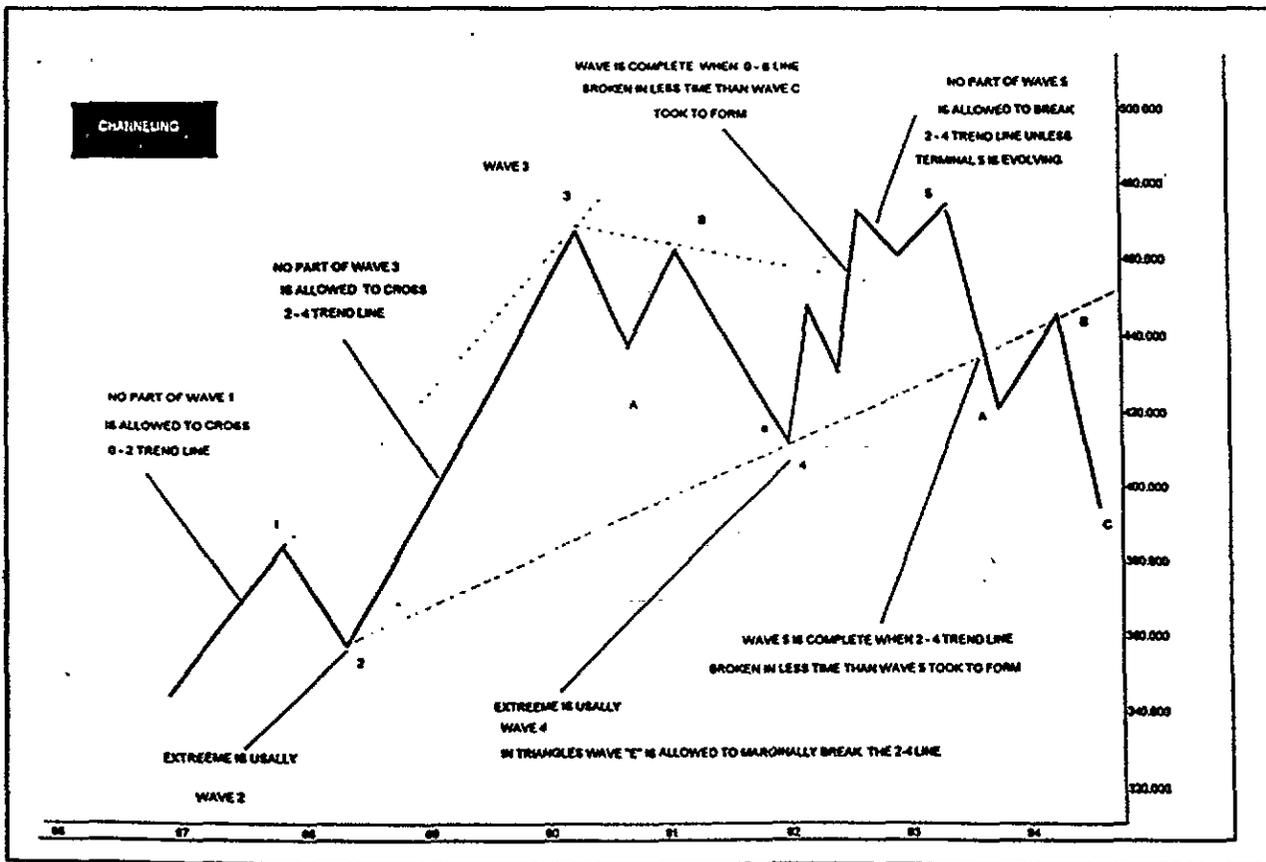
Channeling - rules as applied by Zoran

Impulse Waves

Impulse wave is a movement of 5 waves

Breaks trend lines, may return to test them (60%) but will not rebreak that line substantially till impulse move is complete

Wave 2 of a good impulse wave will not correct more than 61.8% (statistically less than 15% correct more).

Impulse wave will gap on pattern break

The start of impulse wave will take out the previous wave in less time than it took to form (of the same degree).

Will not channel with more than 2 touch points on both upper and lower trend channels

Impulse wave is a wave out of control

Corrective Waves

Corrective wave is a wave of 3 movements

Reacts to trend lines and if the movement breaks a trend line often the reaction will rebreak the line again.

Corrective waves will correct more than 61.8% though they do not have to.

Corrective wave gap in the middle of pattern corrections

Corrective waves tend to take longer in successive wave

More than two touch points on a line suggest corrective wave

Corrective wave is a wave within control.

Properties of the Impulse and Corrective Waves
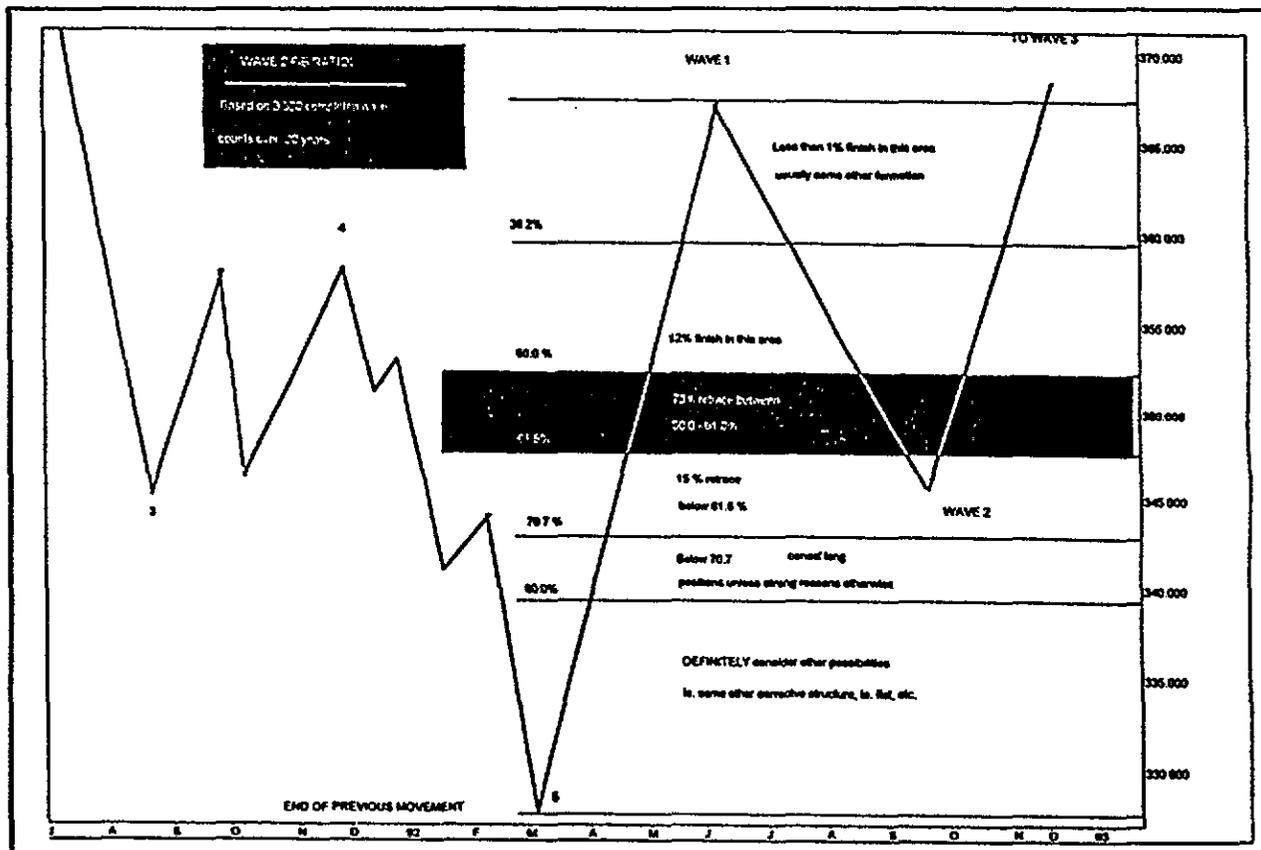
Having determined the position of Wave 1, the most likely retracement for Wave 2 - Playing the odds!
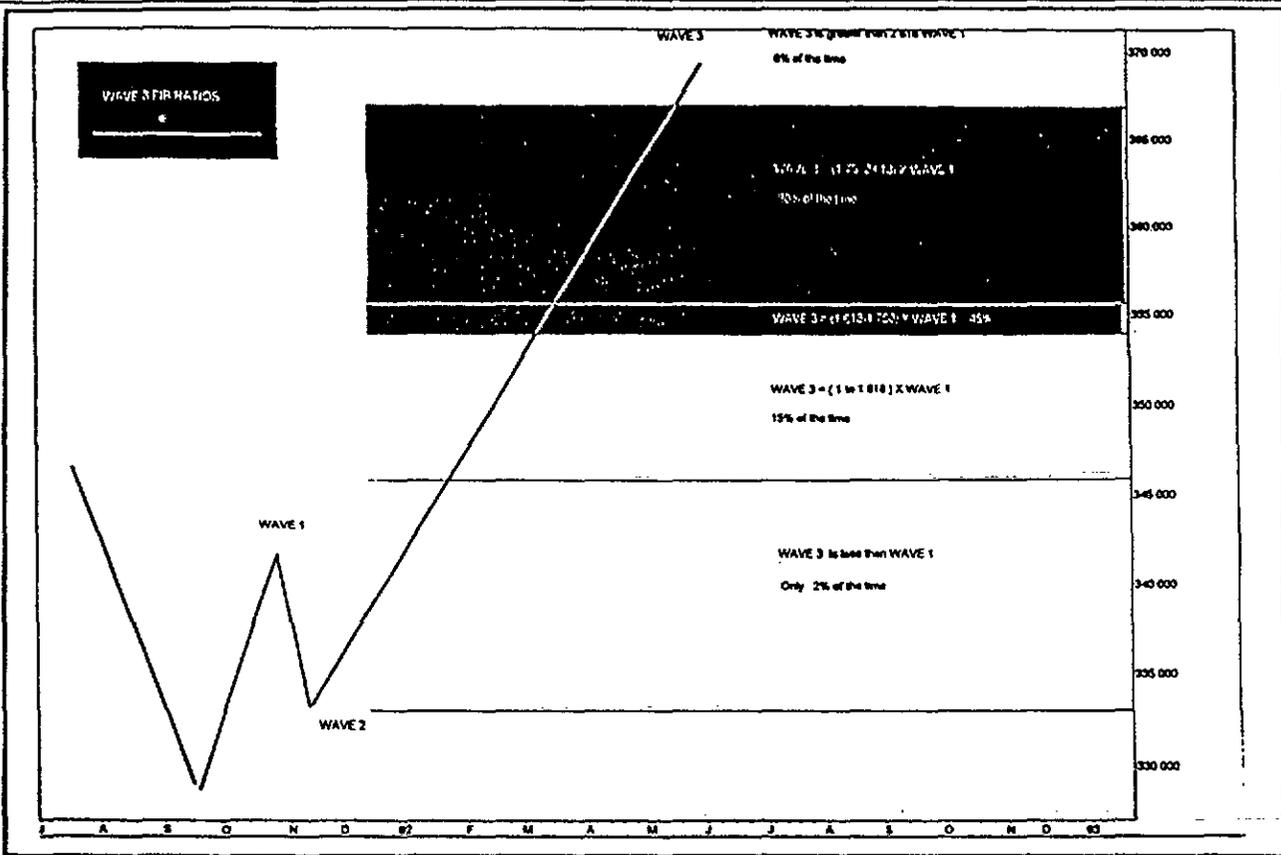
WAVE 3 - odds favour a multiple of 1.618 to 2.618 of Wave 1 for the termination point
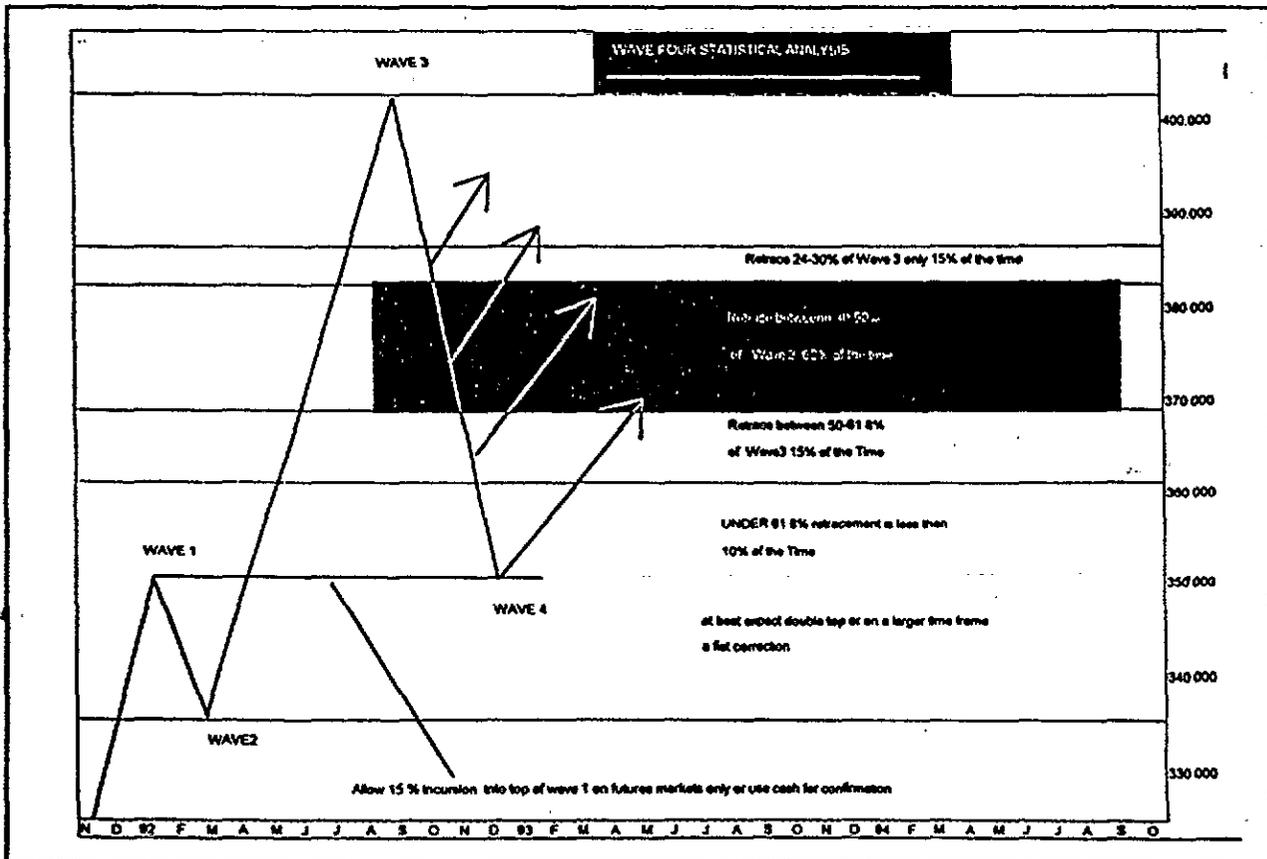
WAVE 4 - Retracement Statistics

WAVE 5 - 90% probability of an ending between 60 - 100% of Wave Ø to 3 added to the termination point of Wave 4

The All Ordinaries showing Zoran's wave interpretation into the May 1994 lows. At this point two alternative counts. Preferred Wave 3 at January highs - looking for Wave 4 bottom. If correct Wave 4 should not ideally correct more than 61.8% of Wave 3 being 1944.

The market has since structured itself by failing to impulse and preferred count is now with termination of Wave 4 into the the July secondary low. Once the 1994 low is taken out then must assume we are correcting to a larger degree, an argument which the pattern now favours.

The US Dow day term count - an unorthodox count by Zoran for the current position with an exceedingly extended B Wave top
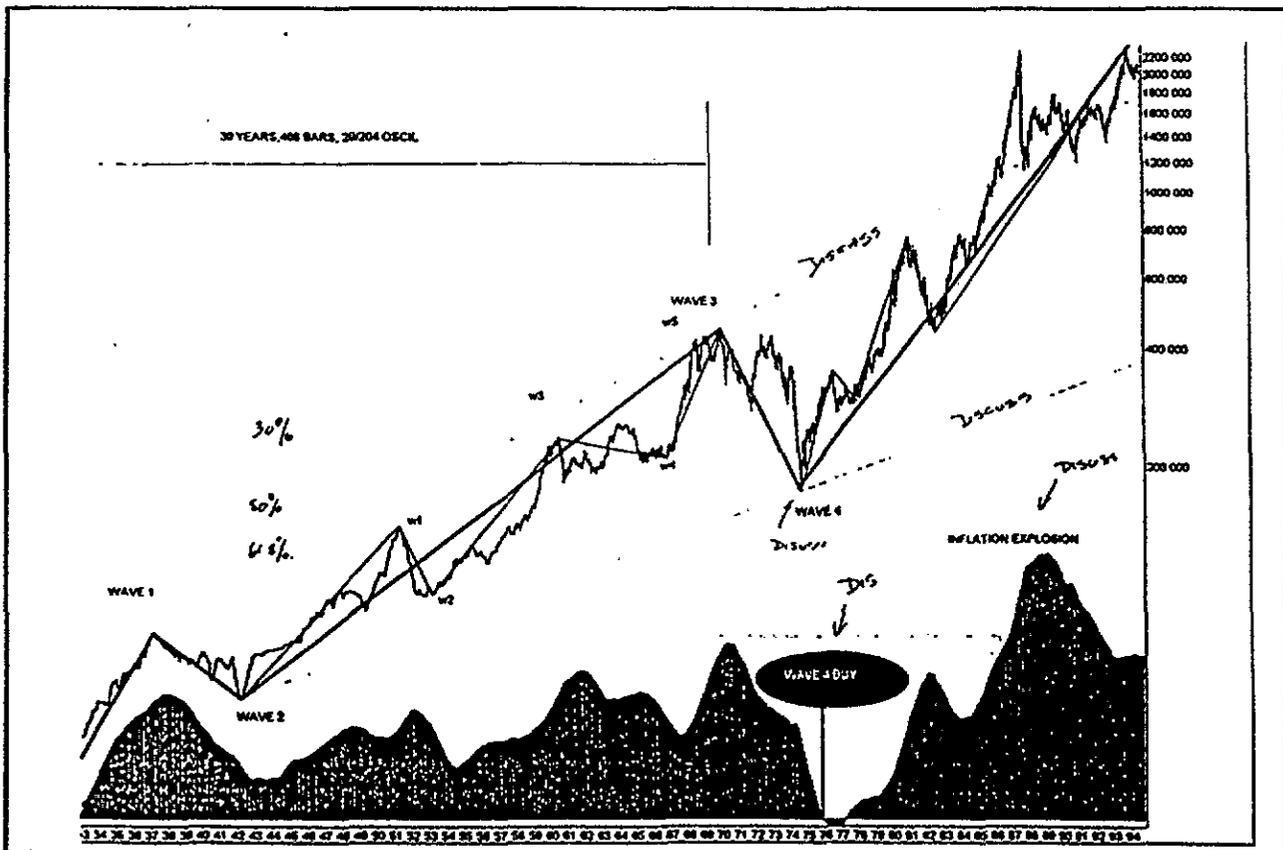
The All Ordinaries index from the 1930's, a good example of the Oscillators use
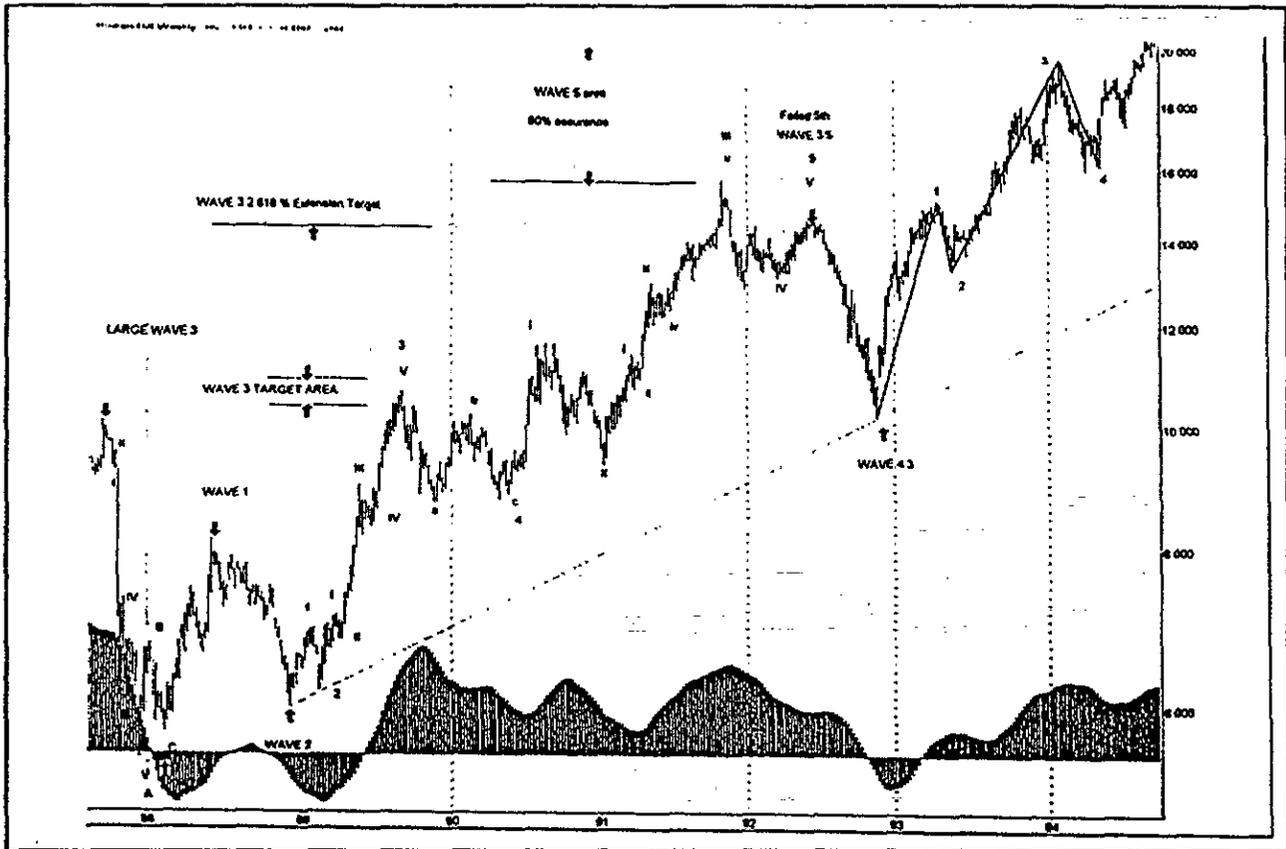
For interest purposes - counts as demonstrated on BHP and National Bank
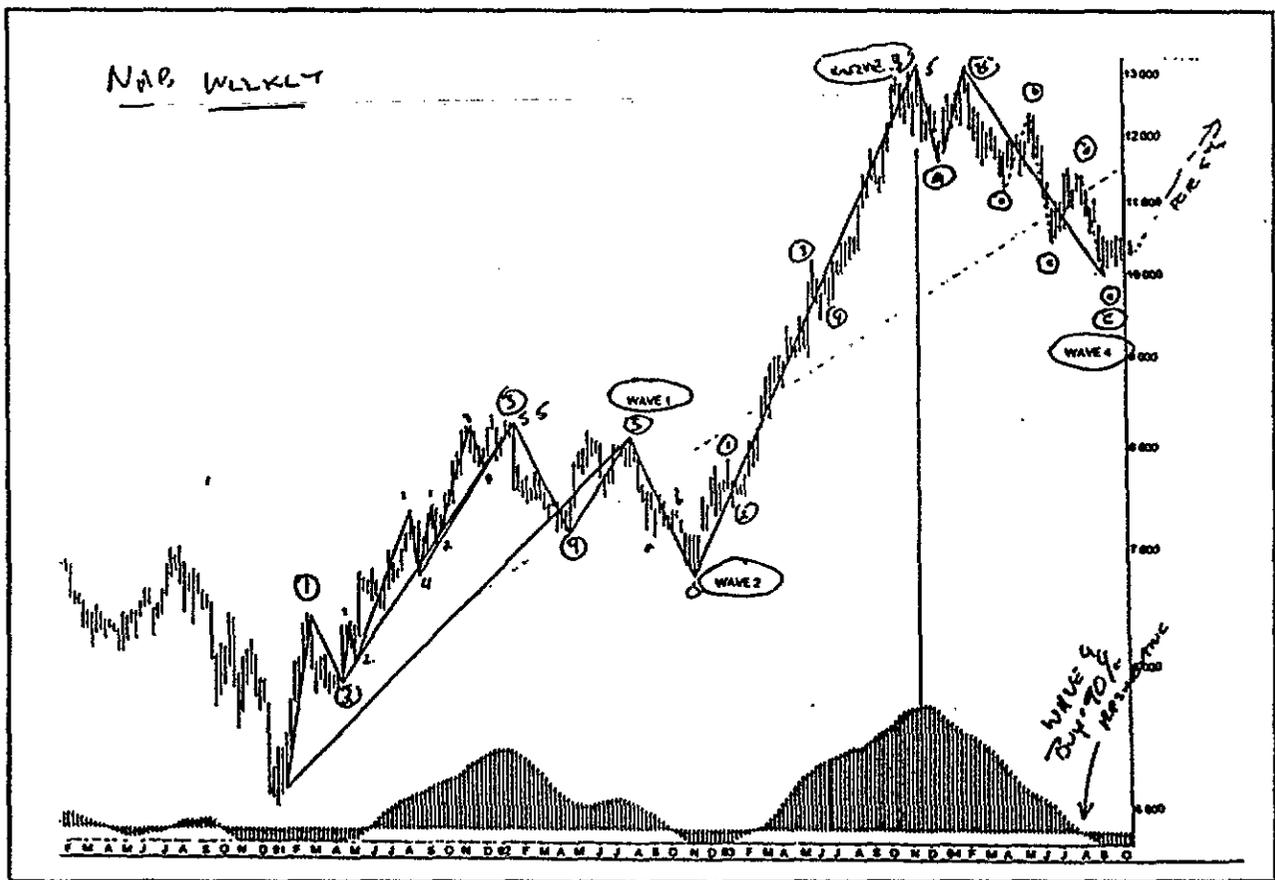
Current Market Position   by Zoran Gayer
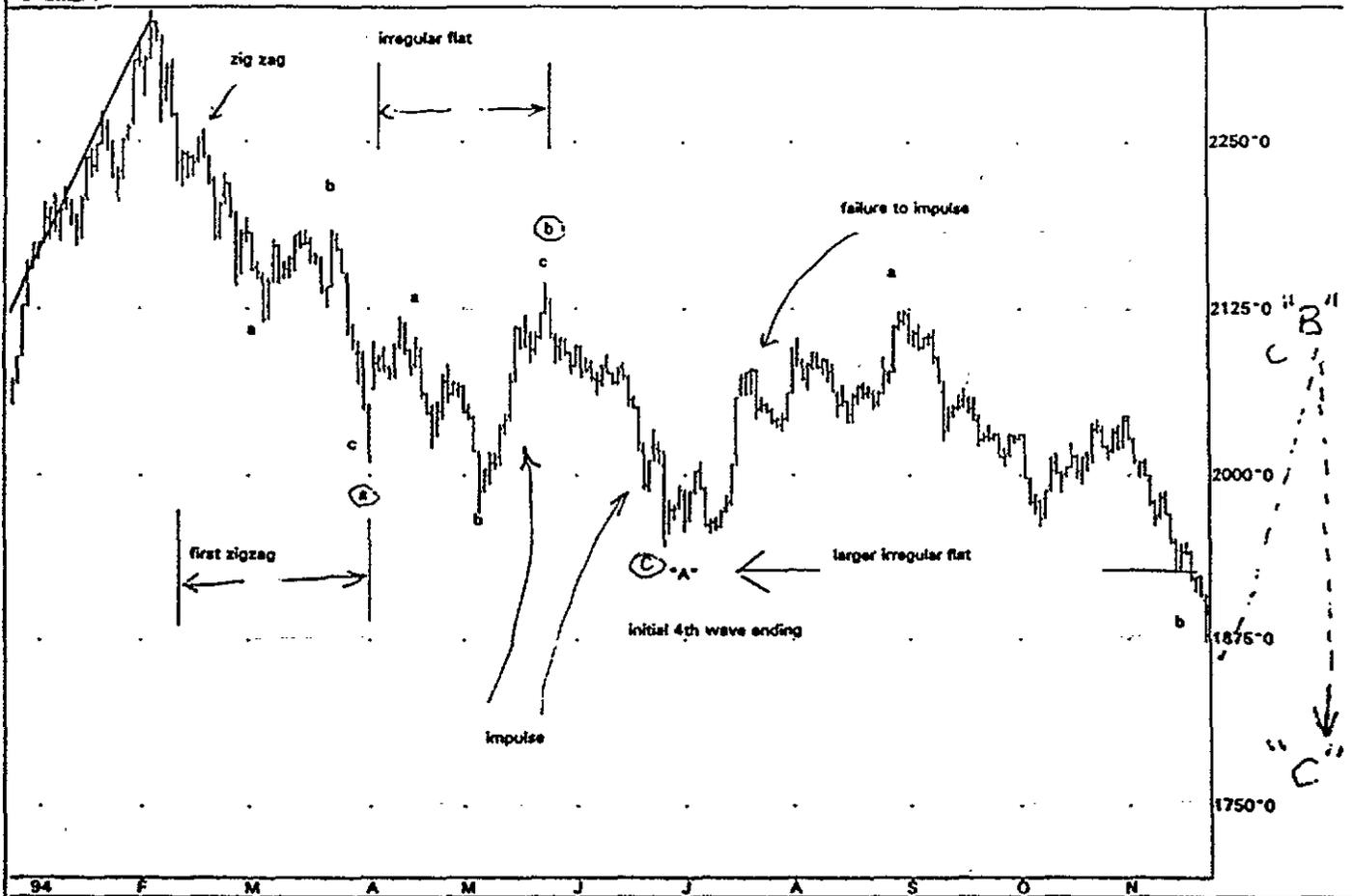
Having abandoned the idea of a 4th wave correction into the June lows by reason of the inability of the wave out to impulse this low now taken as an A wave of a larger ABC correction.

Best interpretation now that wave b of a larger irregular flat in progress and likely to terminate very soon. The distance is often 1.382 of the wave a.

A wave c should then evolve being likely to be of similar time and distance to the a wave of the same formation. This would give it a duration of about 45 days and a distance of about 150 points

21st November 1994

WORLD BOND MARKETS (%) TECHNICAL REPORT 9th November, 1994
By Vicki Stapleton

30yr US T-Bonds Yield
Monthly close chart

*Note: Peak of 14.68 is monthly close, hi lo data not available proir to 1983.
Marked Peaks and troughs actual mthly hi or mthly low.
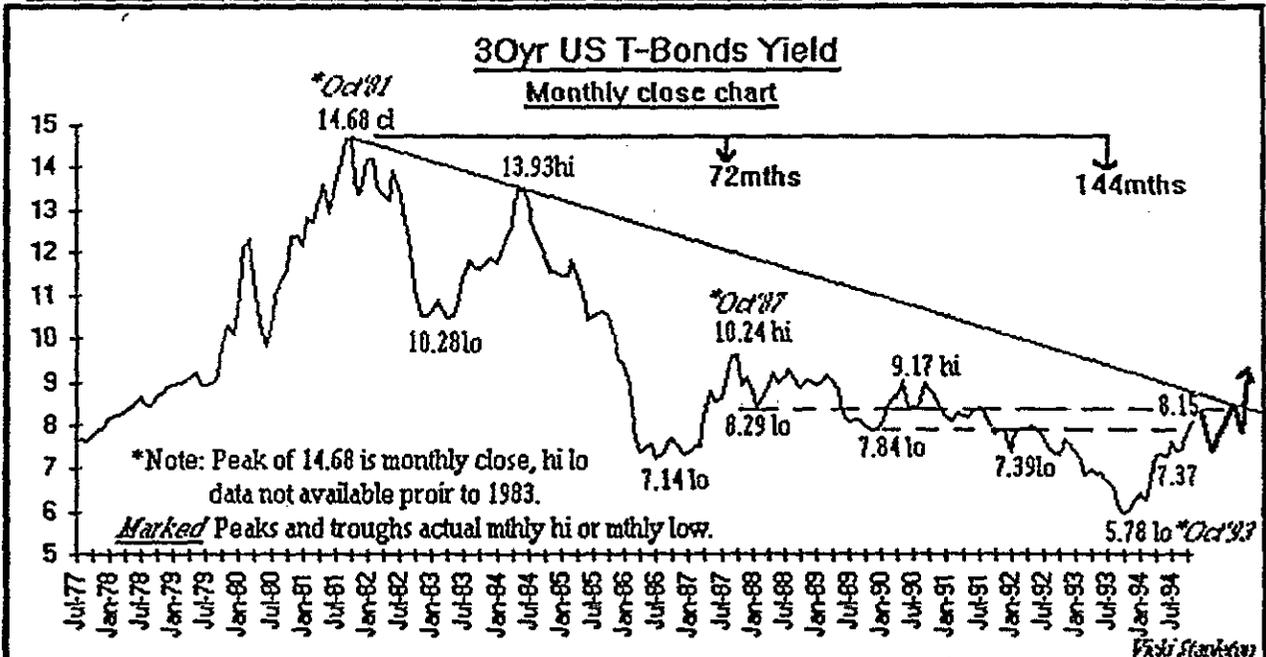
Retracements 10.24% - 5.78% are 1/2 - 8.01% (exceeded) and .618 - 8.53%
Retracement 14.68% - 5.78% (approx. Hi) .382 - 9.17%   *Minor Gann date 8.11.94 on Futures.
US T-Bond Futures Retracements from lo 5505(Sep'81) to hi 12210(Sep'93) .382 9622 (lo 9601).

As you can see Yield have entered a strong resistance zone 8.01-8.29 should hold, otherwise most upside short term 8.53 (.618) also 12 yr downtrend approx.
Whilst higher yields of 9.17% + 10.23 expected on close above downtrend, expect stunted pullback to 7.37-7.25% (worst case 7.00%) favoured first.   9.11.94

JAPAN 10YR BENCHMARK BONDS
Weekly close data to 4.11.94

RETRACEMENTS
7.92% - 3.11%
.618 - 6.08
1/2 - 5.51
.382 - 4.94 approaching
1/4 - 4.31 ✓

Down 39 mths

Up 39mths
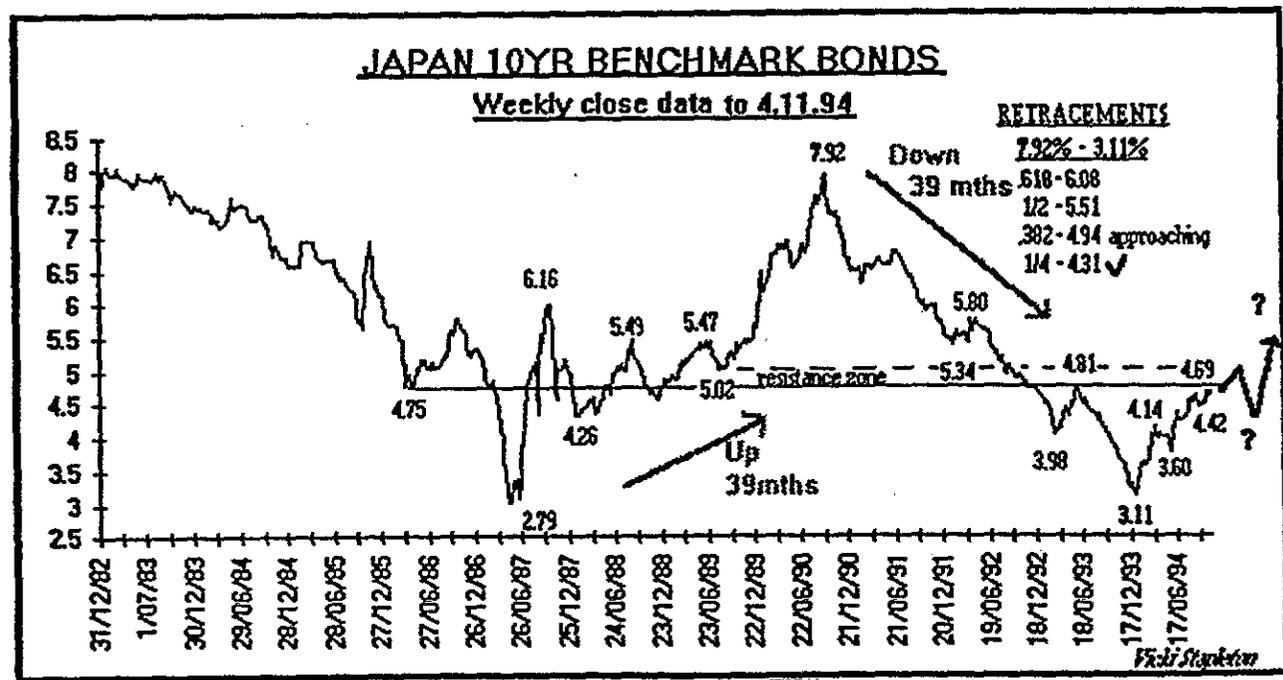
Yields stalling as approaches overhead resistance zone 4.75%-5.02% (.382-4.94%), this zone may hold short term, however any pullback in yield expected to be minimal, good support 4.14 - 3.90% should hold, may see volatile range develop between these resistances and supports over next six months, before move towards 5.51% + 6.08% levels considered.   9.11.94

UK BENCHMARK BONDS
Daily Close data to 4.11.94

Retracements 16.39%-6.37%	Retracements 12.45%-6.37%
.618 - 12.56	*.618 - 10.12
1/2 - 11.68	1/2 - 9.41
*.382 - 10.20	.382 - 8.69 ✓
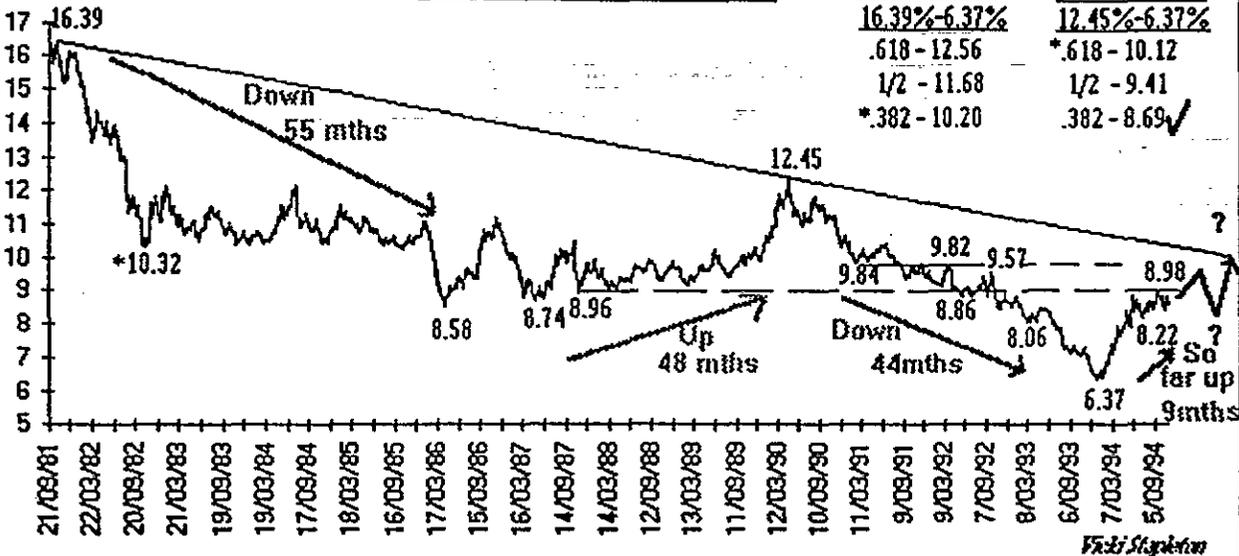
Rise in yield stalling at initial resistance 8.96/9.00%, has retraced a over .382 of fall from Apr'90 hi 12.45%
suggests upside maybe limited to 9.41 if exceeded 13 yr downtrend approx 10.00% should hold short term.
Corrective pullback towards 8.22% possibly 8.00% expected to consolidate over next 6 mths.

Long Gilt Futures appear to be building a base above 50 % support 9828 (from lo Apr'90 to hi Dec'93),
this support was broken by less than 4 days trade.   9.11.94

FRENCH 10YR BENCHMARK BONDS
Weekly close data to 4.11.94

RETRACEMENTS 11.93% - 5.60%	RETRACEMENTS 10.67% - 5.60%
.618 - 9.51	*.618 - 8.73 approaching
* 1/2 - 8.76	1/2 - 8.13 ✓
.382 - 8.01 ✓	.382 - 7.53 ✓
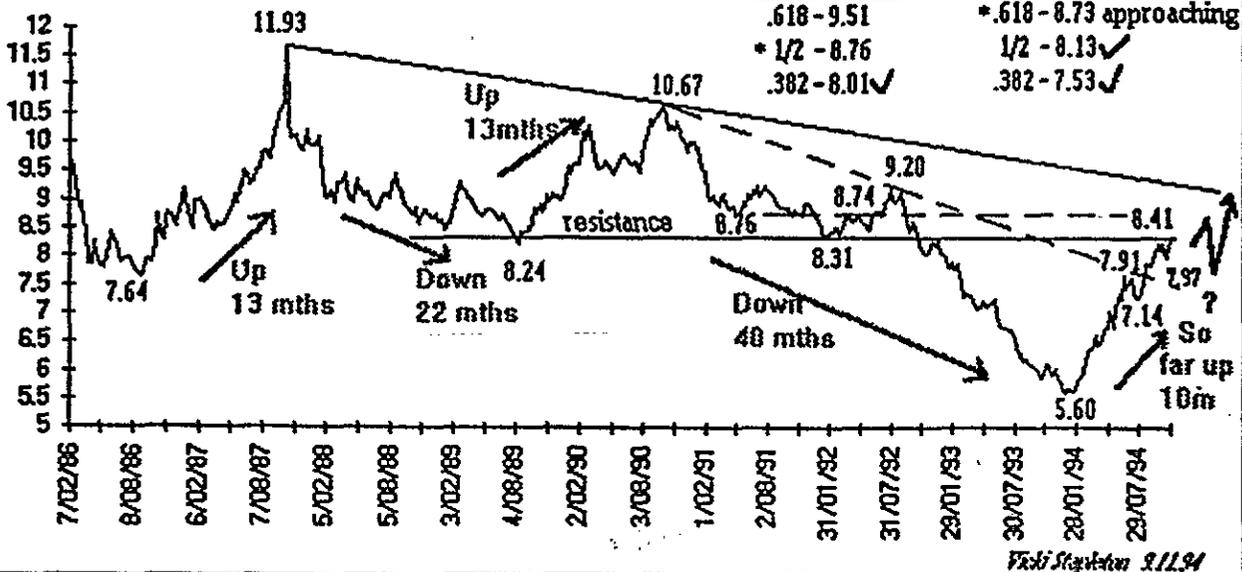
Rise in yields to 8.41% has retraced over 55% of fall from Sep'90 hi 10.67% in 10 mths, upside limited.
Move above 8.41% strong overhead resistance 8.73-8.76% (also .618 from Sep'90 + 1/2 from Oct'87),
most upside can consider short term. Corrective fall in yield expected over next 3-6mths, back to
7.91% possibly 7.35 worst case 7.00%.
Potential for yields to move above downtrend targeting 9.20% + 9.50% possibly 10%, however
to early to consider.
Notional Bond Futures .618 support from lo Sep'90 - hi Jan'94, 10929 exceeded, BUT NOT on a close basis.

GERMAN 10YR BENCHMARK BONDS
Daily Close data to 4.11.94

	Retracements 10.80%-5.23%	Retracements 9.12%-5.54%
	.618 - 8.67	.618 - 7.75 ✓
	1/2 - 8.01	1/2 - 7.31 ✓
	.382 - 7.35 ✓	
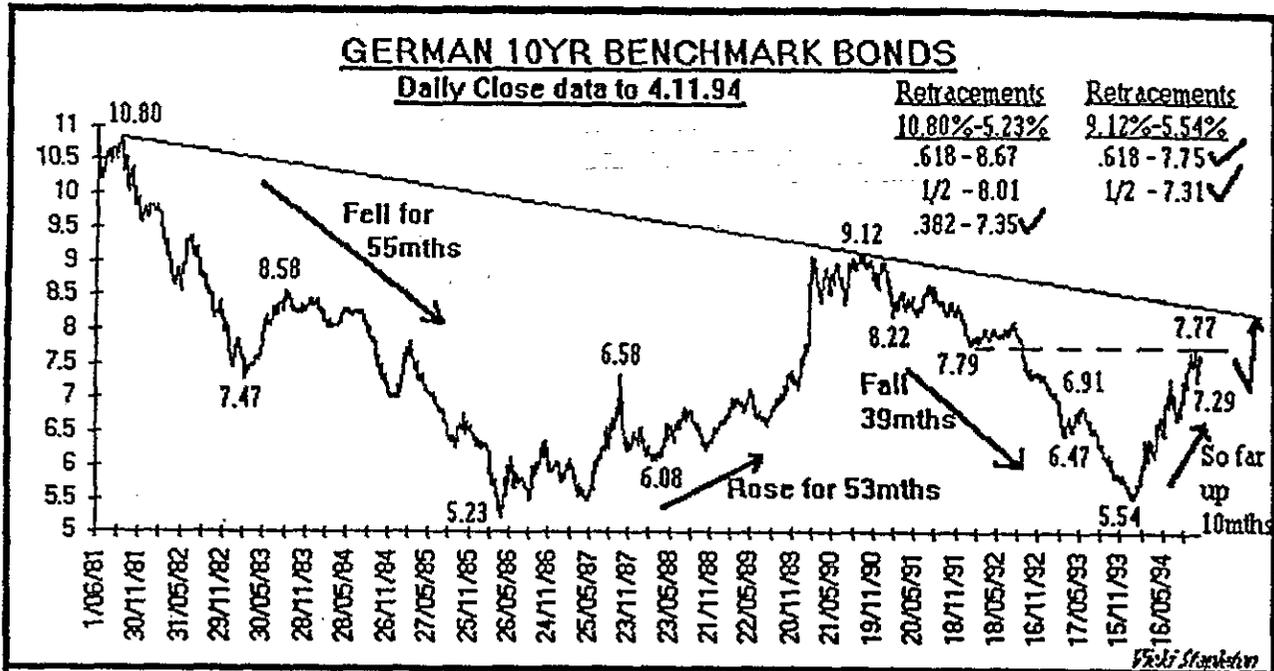
10mth rally in yields to 7.77% has retraced .618 of fall from Sep'90 hi 9.12%, + over .382 of fall from Sep'81 hi 10.80%, tooo far tooo fast, now stalling below resistance 7.79, if exceeded most I can see short term 8.01% (downtrend approx 8.20%).

Favor small fall in yields to consolidate over next 3-6mths, good support 7.29 + 6.91 worst case 6.65%, before move above downtrend targeting 8.67% with potential to test peak of 9.12%.

G.G.Bund Futures contract low 7984 (Feb'90) hi 10148 (Jan'90) .618 support 8816 exceeded only briefly on a close basis, now well above.

World Long Bonds markets approaching major resistance, with relating Futures markets consolidating above major Fibonacci supports, suggesting limited upside in yield short term (*some may be topping now*), looking for a period of 3 - 6 months of corrective consolidation

Trend remains bearish (higher in yield), however corrective consolidation expected before higher levels considered.

Monitor closely.

Vicki Stapleton

Postscript to 'A Beginners Guide to the Elliott Wave Analysis System' from the September edition - by Bernhard Liedtke

In my article, I discussed the Elliott Wave trading system at a beginners level and used it to try to predict the future movements of the All Ordinaries Index (AOI). The article was written in June 94 and the last updated paragraph, in July. Now, at the 3rd of November 94, I wish to add a further update. The AOI triangle I discussed in the article is displayed here, on a log scale, using daily data.

My interpretation of the triangle so far: the A wave was probably a zigzag with an expanded flat 'b' wave. The B wave was a triple zigzag, with the orthodox end occurring at the point shown, due to a failed intra-day 5th wave. The C wave was a zigzag also. The D wave was tricky as it wasn't a zigzag. It was most probably an expanded flat, as its 'c' wave was a 5. (The 'b' wave of this flat is allowed to break out of the top of the triangle line because it is not a turning point.) The E wave is now either finished or nearly finished, as it may still go a little higher. It is the most complex of them all as there are a few possible interpretations of its internal structure from intra-daily data.

From what I have read, E waves may just fail to reach or exceed the triangle line. The final fall from a triangle is usually swift and travels about the distance of the widest part of the triangle (my calculation of this is around 180 points with a target of just under 1900). I don't have enough confidence to predict how long it will take to reach this target, or what patterns will form after this fall. My interpretation of the movement of the AOI from its February 94 top to the start of this triangle is a complex of corrective patterns, which probably makes this triangle a giant 'X' wave. So I expect some similar corrective patterns may make up the downward leg. Also, the fact that the AOI is going up during the E wave and my advance/decline indicator is going down (a strong non-confirmation) supports the possibility of a further fall. My confidence in the Elliott Wave System will definitely be strengthened if this prediction completes as expected.

Please note that my views are not given as trading advise, but rather should be used by beginners as a way to assess the suitability of this trading system to their trading strategy.

Anatomy of a Trading Range
by Jim Forte

In the following article I will discuss the analysis of a Trading Range, employing terms and principles developed by Richard Wyckoff in the 1920's and 30's and more recently by the Stock Market Institute. In technical analysis, there are a variety of methods used to analyze trading range formations and forecast the expected direction and extent of the move out of a trading range. Most practicioners of technical, whether familiar with the Wyckoff method or not, will be able to relate many of the points and principles being discussed to those they are already familiar with.

Much of Wyckoff's analysis and working principles were based on what he identified as three fundamental laws:

1)   The Law of Supply and Demand ..... which simply states that when demand is greater than supply, prices will rise and when supply is greater than demand, prices will fall.

2)   The Law of Cause and Effect ......postulates that in order to have effect you must first have a cause and effect will be in proportion to the cause. This law's operation can be seen working, as the force of accumulation or distribution within a trading range works itself out in the subsequent move out of that trading range. Point and Figure chart counts can be used to measure this cause and project the extent of its effect.

3) The Law of Effort vs Results ....helps us evaluate the relative dominance of supply vs demand when considering relative strength, comparative price progress, and trading volume.

An objective of Wyckoff analysis is to aid in establishing a speculative position in correct anticipation of a coming move where a favourable reward/risk ratio exists (at least 3 to 1), to justify taking that position. Trading Ranges (TR's) are places where there is relative equilibrium between supply and demand. It is here within the TR that dominant and better informed interests conduct campaigns of accumulation or distribution in preparation for the coming move. It is this force of accumulation or distribution that can be said to build a "cause" which unfolds in the subsequent move.

Successful understanding and analysis of a trading range offers a special opportunity to identify trading opportunities with potentially very favourable risk/reward parameters. To be successful, however, we must be able to correctly anticipate the direction and magnitude of the coming move out of the trading range. Fortunately, Wyckoff offers us some guidelines and basic, models by which we can examine a trading range.

A preview of guidelines and model schematics presented on the next page, along with the accompanying explaination of the terms and principles represented in the schematics, will go a long way to further the reader's understanding of the text.

It is through the identification and analysis of the price and volume action and certain principles in action within the various phases of the TR that the trader can become aware and conclude that supply or demand is becoming dominant and correctly anticipate the coming move. Stated differently, it is through this process that we can distinguish accumulation / reaccumulation from distribution / redistribution.

The Wyckoff method employs bar charts along with certain terms and principles in action to determine the expected direction and timing of the coming move. It also employs point and figure chart counts to aid in projecting the extent of the move.

For those interested in exploring the point and figure charts, references are available from the Wyckoff Stock Market Institute and from other sources on technical analysis. Our emphasis here will be primarily on the analysis of bar chart formations.

Accumulation - (Page)

Schematic # 1 is a basic Wyckoff model for

Idealized Cycle

DISTRIBUTION AREA

SUPPLY GREATER THAN DEMAND

DEMAND GREATER THAN SUPPLY

PRICE LINE

ACCUMULATION AREA

CAUSED BY GREED

OVERBOUGHT

PRIMARY GROWTH TREND

PRICE LINE

OVERSOLD

CAUSED BY FEAR
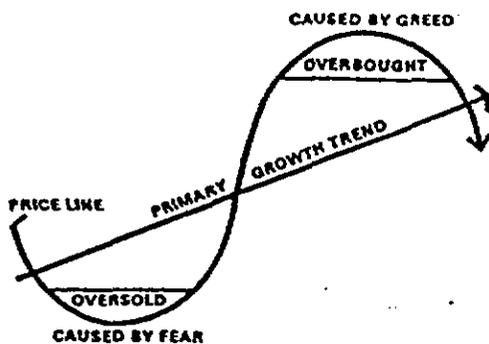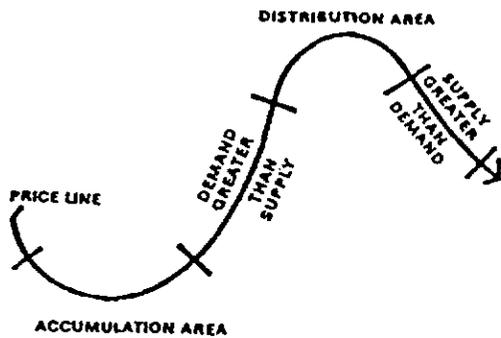
Conception of Primary Market Phases

Distribution

Markdown

Reaccumulation

Redistribution

Markup
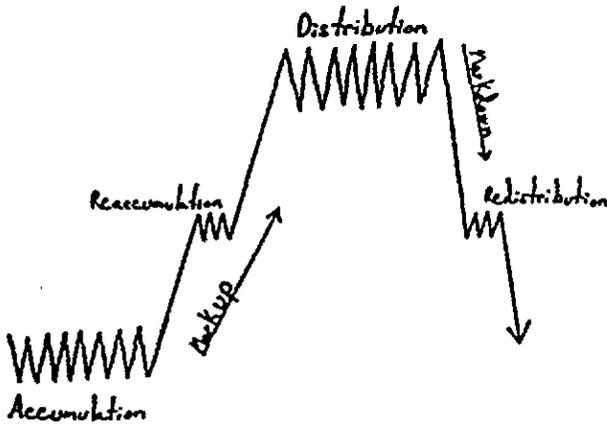
Accumulation

Accumulation: The establishment of an investment or speculative position by professional interests in anticipation of an advance in price.

Markup: A sustained upward price movement.

Distribution: the elimination of a long investment or speculative position.

Markdown: A sustained downward price movement.

accumulation. While this model does not offer us a schematic for all the possible variations in the anatomy of the TR, it does provide us a representation of the important Wyckoff principles often evident in an area of accumulation and the

identifiable phases used to guide our analysis through the TR toward our taking of a speculative position.

Phase A

In Phase A, supply has been dominant and it appears that finally the exhaustion of supply is becoming evident. This is illustrated in Preliminary Support (PS) and the Selling Climax (SC) where widening spread often climaxes and where heavy volume or panicky selling by the public is being absorbed by larger professional interests. Once exhausted an Automatic Rally (AR) ensures and then a Secondary Test (ST) of the selling climax. This Secondary Test usually involves less selling than on the SC and with a narrowing of spread and decreased volume. The lows of the Selling Climax (SC) and the Secondary Test, and the high of the Automatic Rally (AR) initially set the boundaries of the trading range. Horizontal lines may be drawn here to help us focus our attention on market behaviour in and around these areas.

It is also possible that Phase A can end without dramatic spread and volume; however, it is usually better if it does, in that more dramatic selling will generally clear out all the sellers and clear the way for a more pronounced and sustained markup.

When a TR represents ReAccumulation (ie: a trading range within a continuing upmove), we will not have evidence of PS, a SC, and ST as illustrated in phase A of Schematic # 1. Phase A will instead look more like Phase A of the Basic Wyckoff distribution schematic (ie. Schematic # 2, shown on Page   ); but none the less, Phase A still represents the area of the stopping of the previous move. The analysis of Phase B through E would proceed the same as is generally advised within an initial base area of accumulation.

Phase B

In Phase B, Supply and Demand on a major basis are in equilibrium and there is no decisive trend. The clues to future course of the market are usually more mixed and elusive; however, here are some useful generalisations.

In the early stages of Phase B the price swings tend to be rather wide and volume is usually greater and

more erratic. As the TR unfolds, supply becomes weaker and demand stronger as professionals are absorbing supply. The closer you get to the end or to leaving the TR, volume tends to diminish. Support and resistance lines (shown as horizontal lines A,B,C and D on the Accumulation Schematic # 1) usually contain the price action in Phase B and will help define the testing process that is to come in Phase C. The penetratrations or lack of the TR enable us to judge the quantity of supply and demand.

In Phase C the stock goes through a testing process. The stock may begin to come out of the TR on the upside with higher tops and bottoms, or it may go through a downside spring or shakeout, breaking previous supports. This latter test is preferred, given that it does a better job of cleaning our remaining supply from weak holders and creates a false impression as to the direction of the direction of the ultimate move. Our Schematic # 1 shows us an example of this latter alternative.

Phase C

Accumulation Schematic
Phases A thru E: Phases through which the Trading Range passes as conceptualized by the Wyckoff method and explained in the text.

Lines A & B define support of the Trading Range.
Lines C & D define resistance of the Trading Range.

(PS) Preliminary Support...is where substantial buying begins to provide pronounced support after a prolonged downmove. Volume and spread widen and provide a signal that the downmove may be approaching its end.

(SC) Selling Climax...the point at which widening spread and selling pressure usually climaxes and heavy or panicky selling by the public is being absorbed by larger professional interests at prices near a bottom.

(AR) Automatic Rally...selling pressure has been pretty much exhausted. A wave of buying can now easily push up prices which is further fueled by short covering. The high of this rally will help define the top of the trading range.

(ST's) Secondary Test(s)...revisit the area of the Selling Climax to test the supply/demand balance at these price levels. If a bottom is to be confirmed, significant supply should not resurface, and volume and spread should be significantly diminished as the market approaches support in the area of the SC.

The "CREEK"...is an analogy to a wavy line of resistance drawn loosely across rally peaks within the trading range. There are, of course, minor lines of resistance and more significant ones that will have to be crossed before the markets journey can continue onward and upward.

Springs or Shakeouts...usually occur late within the trading range and allows the market and its dominant players to make a definitive test of available supply before a markup campaign will unfold. If the amount of supply that surfaces on a break of support is very light (low volume), it will be an indication that the way is clear for a sustained advance. Heavy supply here will usually mean a renewed decline. Moderate volume here may mean more testing of support and to proceed with caution. The spring or shakeout also serves the purpose of providing dominant interests with additional supply from weak holders at low prices.

Jump Across the Creek (JAC)...is a continuation of the creek analogy of jumping resistance and is a good sign if done on good spread and volume - a sign of strength (SOS).

Sign of Strength (SOS)...an advance on good (increasing) spread and volume.

Back Up (BU) to a Last Point of Support (LPS)...a pull back to support (that was resistance) on diminished spread and volume after a SOS. This is a good place to initiate long positions or to add to profitable ones.

Note...a series of SOS's and LPS's is good evidence that a bottom is in place and Price Markup has begun.

Until this testing process, we cannot be sure the TR is accumulation and must wait to take a position until there is sufficient evidence that mark-up is about to begin. If we have waited and followed the unfolding TR closely, we have arrived at the point where we can be quite confident of the probable upward move. With supply apparently exhausted and our danger point pinpointed, our reward/risk favourable.
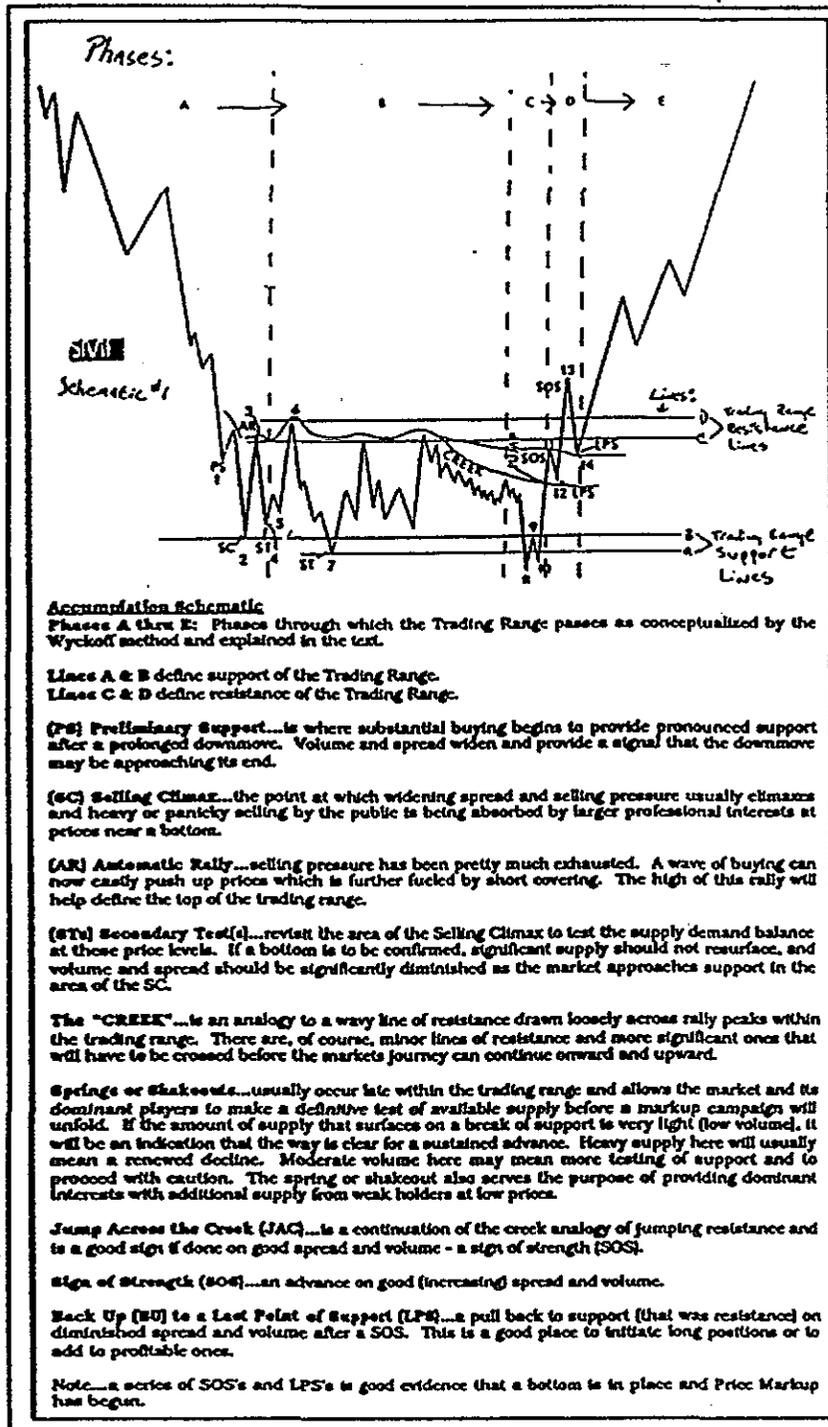
The shakeout at PT 8 on our Schematic # 1 represents our first prescribed place to initiate a long position. The secondary test at PT 10 is better since a low volume pullback and a specific low risk top or danger point at 8 gives us greater evidence and more confidence to act. A sign of strength (SOS) here will bring us into Phase D.

Phase D

If we are correct in our analysis and our timing, what should follow here is a consistent dominance of demand over supply as evidenced by a pattern of advances (SOS's) on widening spreads and increasing volume, and reactions (LPD's) on smaller spreads and diminishing volumes. If this pattern does not occur,, then we are advised not to add to our position and look to close our original position until we have more conclusive evidence that markup is beginning. If our stock obliges us and progresses as stated above, then we have additional opportunities to add to our position.

Our aim here is to initiate a position or add

to our position as the stock or commodity is about to leave the trading range. At this point, the force of accumulation has built a good potential and could be projected by using the Wyckoff point and figure method (or perhaps another method of the readers own choosing.)

We have waited at this point to initiate or add to our positions in an effort to increase our likelihood of success and maximise the use of our trading capital. On our Schematic # 1, this opportunity comes at point 12 on the "pullback to support" after " jumping resistance". (In Wyckoff terms, this is known as "Backing Up to the Edge of the Creek" after "Jumping Across the Creek".) Another similar opportunity comes at point 14, a more important point of support and resistance.

In Phase D, the mark-up phase blossoms as professionals begin to move up the stock. It is here that our best opportunities to add to our position exist, (as just delineated) before the stock leaves the TR.

Phase E

In Phase E, the stock leaves the TR and demand is in control. Setbacks are unpronounced and short lived. Having taken our positions, our job here is to monitor the stock's progress as it works out its force of accumulation. At this points 8, 10, 12 and 14, we may take positions and use point and figure counts from these points to calculate price projections and help us to determine our reward/risk prior to establishing our speculative position. These projections will also be useful later in helping us target areas for closing out or adjusting our position

Remember our Schematic # 1 shows us just one idealised model or anatomy of a trading range encompassing accumulation. There are many variations of this accumulation anatomy, and we addressed some of these considerations earlier. The presence of a Wyckoff principle like a SC doesn't confirm that accumulation is occurring in the TR, but it does strengthen the case for it. However , it may be accumulation, redistribution, or nothing. The use of Wyckoff principles and phases identify and define some of the key considerations for evaluating most any trading range and help us determine whether supply or demand is becoming dominant and when the stock appears ready to leave the trading range.

Distribution - (Page   )

Accompanying our discussion of distribution are schematics of two variations of the Wyckoff model for distribution, Schematic #2 and #3. While these models only represent two variations of the many possible variations in the patterns of a distribution TR, they do provide us with the important Wyckoff principles often evident in the area of distribution and the phases SMI uses to guide our analysis through the TR toward taking a speculative position.

Much of this discussion and analysis of the principles and phases of a TR preceding distribution are the inverse of a TR of accumulation, in that the roles of supply and demand are reversed.

Here the force of "jumping the creek" (resistance) is replaced by the force of " falling through the ice" (support). Given this, I will not repeat all the points made earlier, but rather emphasis those areas where the differences merit discussion and where additional points need to remember that distribution is generally accomplished in a shorter time period as compared to accumulation.

Phase A

In Phase A, demand has been dominant and the first significant evidence of demand becoming exhausted comes at point # 1 at Preliminary Supply (PSY) and at point #2 at the Buying Climax (BC).(Refer to both Schematic # 2 and #3.) It often occurs on wide spread and climatic volume. This is usually followed by an AutomaticReaction (AR) and then a Secondary Test (ST) of the BC, usually on diminished volume. This is essentially the inverse of Phase A in accumulation.

As with accumulation, Phase A in distribution may also end without climatic action and simply evidence. exhaustion of demand with diminishing spread and volume.

Where Re-Distribution is concerned (ie. a TR within a larger continuing downmove), we will see the stopping of a downmove with or without climatic action in Phase A. However, in the remainder of the TR the guiding principles and analysis within Phases B thru E will be the same as within a TR of a Distribution market top.

Phase B

The points to be made here about Phase B are the same as those made for Phase B within Accumulation, except clues may begin to surface here of the supply/demand balance moving toward supply instead of demand.
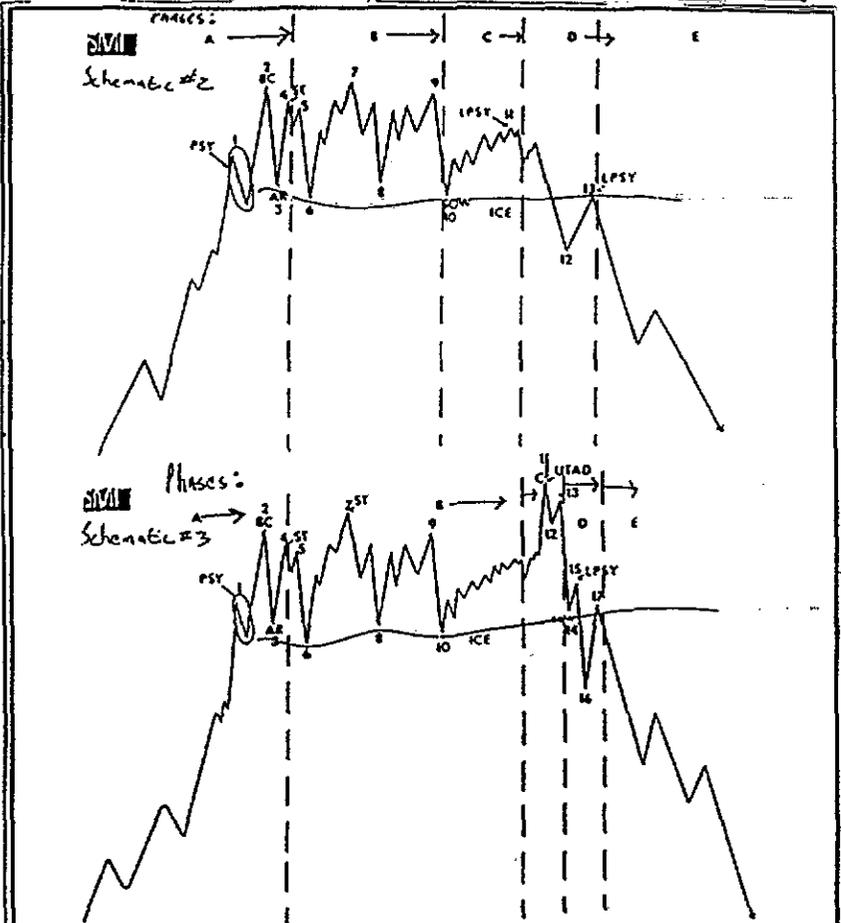
Phase C

One of the ways phase C reveals itself after the standoff in Phase B is by the "sign of weakness" (SOW) is usually accompanied by significantly increased spread and volume to the downside that seems to break the standoff in Phase B. The SOW may or may not "fall through the ice", but the subsequent rally back to point #11, a "last point of supply" (LPSY) is usually unconvincing and is likely on less spread and/or volume.

Point #11 on both Distribution Schematics #2 and #3 give us our last opportunity to cover any remaining longs and our first inviting opportunity to take a short position. Even a better place would be on the rally testing point #11, because it may give us more evidence (diminished spread and volume) and/or a more tightly defined danger point.

Looking now at Schematic #3, Phase C may also reveal itself by a pronounced move upward breaking through the highs of the TR. This is shown at point #11 as an "Upthrust After Distribution" (UTAD). Like the terminal shake out discussed in accumulation, this gives a false impression of the direction of the market and allows further distribution at high prices to new buyers. It also results in weak holders of short positions surrendering their positions to stronger players just before the downmove begins. Should the move to new high ground be on increasing volume and "relative narrowing spread" and then return to the average level of closes of the TR, this would indicate lack of solid demand and confirm that the breakout to the upside did not indicate a TR of accumulations but rather a formation of distribution.

A third variation not shown here in schematic would be an upthrust above the highs of the trading range and quick fall back into the middle of the TR, but where the TR did not fully represent

Distribution Schematics

Schematics #2 & #3 show us two model variations of a distribution Trading Range.

Phases A thru E...phases through which the Trading Range (TR) passes as conceptualized by the Wyckoff method and explained in the text.

(PSY) Preliminary Supply...is where substantial selling begins to provide pronounced resistance after an upmove. Volume and spread widen and provide a signal that the upmove may be approaching its end.

(BC) Buying Climax... is the point at which widening spread and the force at buying climaxes and heavy or urgent buying by the public is being filled by larger professional interests at prices near a top.

(AR) Automatic Reaction...with buying pretty much exhausted and heavy supply continuing, an AR follows the BC. The low of this selloff will help define the bottom of the Trading Range (TR).

(ST) Secondary Test (s)...revisit the area of the Buying Climax to test the demand/supply balance at those price levels. If a top is to be confirmed, supply will outweigh demand and volume and spread should be diminished as the market approaches the resistance area of the BC.

(SOW) Sign of Weakness...at point 10 will usually occur on increased spread and volume as compared to the rally to point 9. Supply is showing dominance. Our first fall on the ICE holds and we get up and try to forge ahead.

The ICE...is an analogy to a wavy line of support drawn loosely under reaction lows of the Trading Range. A break thru the ICE will likely be followed by attempts to get back above it. A failure to get back above firm support may mean a "drowning" for the market.

(LPSY) Last Point of Supply...(Point #12/Schematic #3): after we test the ICE (support) on a SOW, a feeble rally attempt on narrow spread shows us the difficulty the market is having in making a further rise. Volume may be light or heavy showing weak demand or substantial supply. It is at these LPSY's that the last waves of distribution are being unloaded before markdown is to begin.

Point #13/Schematic #3: after a break thru the ICE, a rally attempt is thwarted at the ICE's surface (now resistance). The rally meets a last wave of supply before markdown ensues.

LPSY's are good places to initiate a short position or to add to already profitable ones.

(UTAD) Upthrust After Distribution...like the Spring and Terminal Shakeout in the trading range of Accumulation, a UTAD may occur. It is a more definitive test of new demand after a breakout above the resistance line of the trading range and usually occurs in the latter stages of the trading range.

If this breakout occurs on light volume with no follow thru or on heavy volume with a breakdown back into the center of the trading range, then this is more evidence that the TR was Distribution, not Accumulation.

This UTAD usually results in weak holders of short positions giving them up to more dominant interests and also in more distribution to new buyers before a significant decline ensues.

distribution. In this case, the evidence is a TR that may be too wide to fully represent distribution, and there

will be a lack of concentrated selling except in the latter portions of the TR.

Phase D

Phase D arrives and reveals itself after the tests in Phase C show us the last gasps or the last hurrah of demand. In Phase D, the evidence of supply becoming dominant increases either with a break through the "ICE" or with a further SOW into the TR after an upthrust.

In Phase D, we are also given more evidence of the probable direction of the market and the opportunity to take our first or additional short positions. Our best opportunities are at points 13, 15, and 17 as represented on our Schematics # 2 and # 3. These rallies represent "Last Points of Supply" (LPSY) before a markdown cycle begins. Our "averaging in" of the set of positions taken within Phases C and D as described above represent a calculated approach to protect capital and maximise profit. It is important that additional short positions be added or pyramided only if our initial positions are in profit.
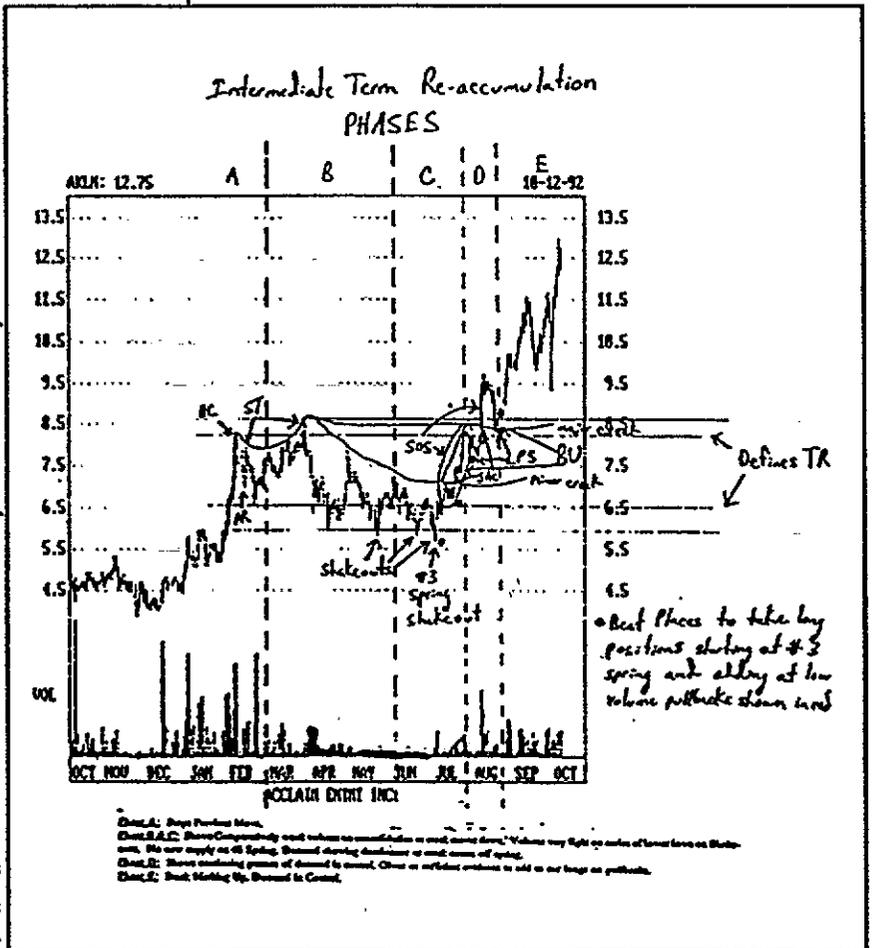
Phase E

In Phase E, the stock or commodity leaves the TR and supply is in control. Rallies are usually feeble. Having taken our positions, our job here is to monitor the stock's progress as it works out its force distribution.

When analysing a TR, we are first seeking to uncover what the law of supply and demand is revealing to us. However, when individual movements, rallies, or reactions are not revealing with respect to supply and demand, it is important to remember the law of "effort verses result". By comparing rallies and reactions within the trading range to each other in terms of spread, volume , time, and price, additional clues may be given as to the stock's strength, position, and probable course.

Together with the law of cause and effect, we can appreciate the importance of the TR to give us the sufficient "cause" and opportunity for trading profit. It will also give us the ability with the use of figure charts to project the extent of the coming move and allow us to determine those trading opportunities which favourably meet or exceed our reward/risk parameters.

In addition the model schematics provided here, the following are some empirical examples of real world trading ranges, where Accumulation - ReAccumulation proceeded a Markup, and Distribution preceded a markdown. While these empirical examples may not fit the idealised schematics exactly, I have identified and annotated on each of the chart examples, the Wyckoff principles in action and the five Wyckoff phases of a trading range.
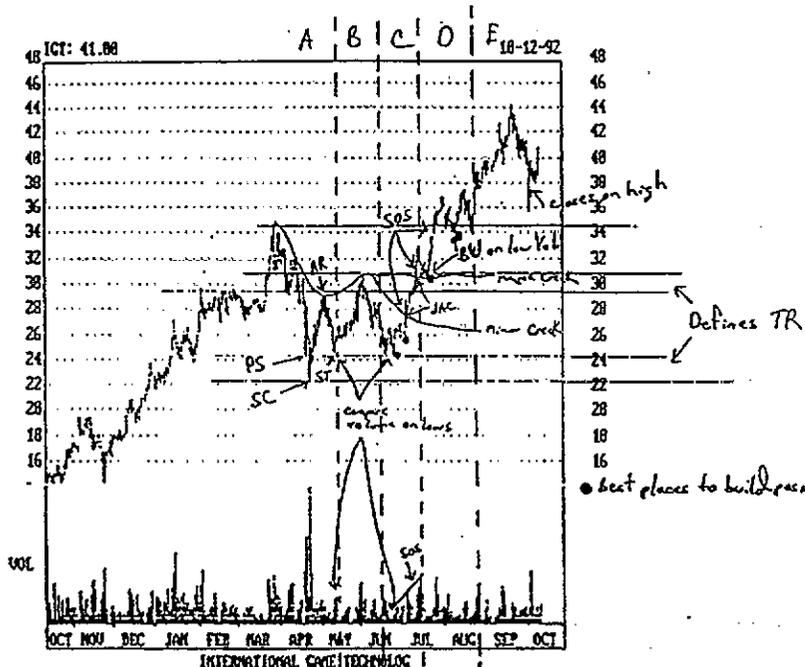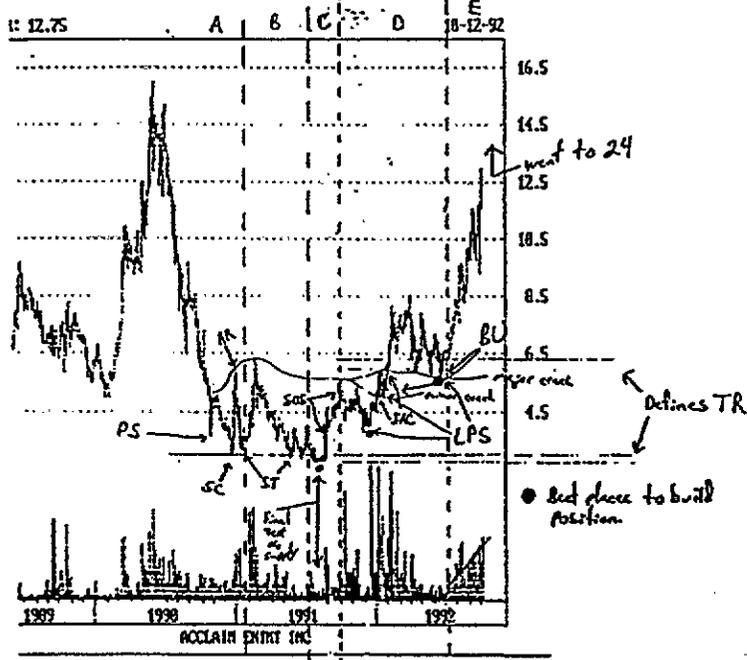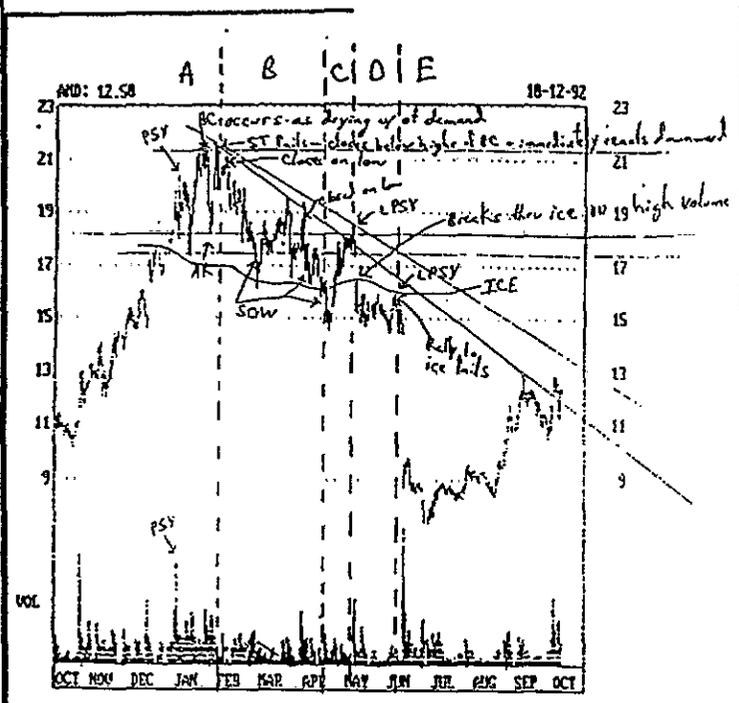
Intermediate
ReAccumulation
PHASES

INTERNATIONAL GAME TECHNOLOG

Long Term Accumulation
Phases

ACCLAIM ENTRT INC

Distribution Phases

Phase A   Shows us PSY and Push to new highs(BC) on falling volume. ST fails and closes below BC high. The subsequent reaction downward immediately proceeds. The next attempt, a few days later, is on poor volume and cannot reach previous highs.

Phase B   Gives us some early clues that supply is in control. Bearish activity is evident showing a SOW on increased volume and the rallies on comparitively low volume indicating a lack of demand. Phase B also shows a break through the TR Support Lines. Subsequent rallies are also on poor volume. Additional Breaks of Support line on even higher volume.

Phase C   We break through the ice and manage to break above it, however, volume is unconvincing. We can only rise to meet resistance at the supply line and the bottom of our initial trading range. This gives us a LPSY and an opportunity to take a short position with a well defined risk just about the previous high at 19½.

Phase D   We fall through the ice again, but on significantly higher volume. We have no rallying power and a feeble attempt to reach the ice.

Phase E   Markdown accelerates and supply is in control.

Distribution Phases

Phase A: We see the up-move stopped by PSY and the BC. We have an AR and an ST

Phase B   In Phase B relative equilibrium on low volume. No clear indications seem revealed but a #3 spring before the up-thrust.

Phase C   As in our #3 Schematic, MTD however shows us a UTAD and then quickly returns to the trading range. The UTAD follows the right side of the TR in Phase C.

Phase D   Shows a progression of declines and rallies with higher volume on the down swings. A Supply Line is evident. MDT breaks through the ice.

Phase E   Our rally back to the ice fails and markdown accellerates

The ATAA would like to express our appreciation to Jim Forte and the Technical Securities Analysts Association of San Francisco (TSAA) for permission to reproduce this article.

SFE Statistics

Product Specification

Historical Data

Daily Data

SFE Daily data is currently available from 1992 onwards and includes Trading Floor and SYCOM daily summaries including first, high, low, last, settlement price, volume, open interest and volatility. The data is in ASCII comma delimited format and is free of charge. Where applicable a processing fee of A$5 per disk is charged.

Tick Data

SFE Tick (or trade by trade) data is a record of time, price and volume for every deal. This data is sourced directly from the verbal record of each trade as it occurs in SFE's trading pits and is thus price and time accurate. It is currently available from 1993 onwards at a cost of A$10 per contract per month with generous volume discounts available.

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The SFE Yearbook is a comprehensive summary of the trading year and operation of Sydney Futures Exchange. The Yearbook contains statistical tables and charts and other information making it an invaluable tool for all market participants. Some features include:
- Volume, deals & lotting factors
- Open Interest
- Nominal $ Value
- Mandatory settlements & deliveries
- EFP & FO trades
- Locals' trading activity
- Overview of the year
- Contract specifications
- Holidays and trading day exceptions
- Record volumes
- Derivative exchange rankings
- SFE Members & Quote Vendors

The Yearbook is priced at $25 per copy with generous volume discounts available.

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The SFE Quarterbook is a brief summary of SFE markets which serves as a through-the-year supplement to the SFE Yearbook. The Quarterbook contains a variety of statistics such as: highlights of the quarter, price volume and volatility charts, Locals' trading activity, overnight price risk and open-interest.

Other Reports

The SFE Statistics department provides annual subscriptions to a range of trading reports:

- **Daily Trading Report** - Includes the daily first, high, low, last, settlement, volume and open interest per contract.

- **Weekly Trading Report** - Includes daily settlement price, weekly and lifetime high and low, week start and end open interest and daily and weekly volumes for all futures contracts.

- **Monthly Volume & Open Interest Report** - Gives the current months' volume and open interest and current and previous year's cumulative volume per contract.

- **Monthly Option Price Volatility Report** - Gives the central volatility (for the at-the-money strike) for the spot month option contracts on a daily basis for the month.

- **Special Requests** - Other reports are available on request. Please inquire about customised reports.

All enquiries please contact Katie in the Statistics Department:
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SFE QUARTERBOOK
SEPTEMBER 1994

HIGHLIGHTS OF THE QUARTER

- On 26 September 1994, SFE launched another 4 *INDIVIDUAL SHARE FUTURES* on BTR Nylex, M.I.M, Westpac and Western Mining.

- *INDIVIDUAL SHARE FUTURES* have traded an average of 324 contracts per day with an open interest of 3,403 per day since inception.

- SFE implemented *SPAN® MARGINING* on 22 August 1994. ("SPAN" and "Standard Portfolio Analysis of Risk" are trademarks of the Chicago Mercantile Exchange. The Chicago Mercantile Exchange assumes no liability in connection with the use of SPAN by any person or entity.)

- At 4:00pm on Friday 2 September 1994, SFE *SURPASSED 1993 VOLUME* of 21,481,096.

- *DAILY VOLUME* in the third quarter averaged 100,495 contracts on the floor and 10,426 contracts on SYCOM.

- 10-Year Bond futures set a *RECORD VOLUME* on the trading floor of 65,263 contracts on 12 September (breaking the previous record of 61,990 contracts on 11 March 1994).

- *SYCOM VOLUMES* were up 99% compared to the same quarter in 1993. In particular, 10-Yr Bond volumes were up 110%, 3-Yr Bond volumes were up 83%, 90-Day Bill volumes were up 73% and SPI volumes were up 125% (after adjusting for the effect of the downsizing).

- *TOTAL CLEARED VOLUME* in the third quarter consisted of: pit volume = 79%; EFP volume = 9%; SYCOM volume = 9% and non-traded volume (mandatory settlements, options exercised and deliveries) = 3%.

- Daily average futures *OPEN INTEREST* in the third quarter: SPI = 76,546; 90-Day Bills = 389,585; 3-Yr Bonds = 172,941 and 10-Yr Bonds = 127,099.

- *LOCALS' VOLUME PER PIT* (own-account and give-up) as % total in the third quarter: SPI futures & options = 19%, 90-Day Bill futures = 17%, 90-Day Bank Bill options = 17%, 3-Yr Bond futures = 22%, 10-Yr Bond futures = 23% and Bond options = 16%.

- Third quarter *LOTTING FACTORS* (average number of lots per deal) were 16.8 and 16.0 for the trading floor and SYCOM respectively.

- For a one basis point price move, the *TICK VALUE* for the 90-Day Bank Bill is $11.91 (at 93.00), 3-Yr Bond is $26.19 (at 90.00) and 10-Yr Bond is $64.82 (at 89.500).

- *DAILY AVERAGE PRICE RANGE* (difference between the trading floor high and low for the spot month futures contract).

PRICE RANGE	All Ords SPI	90-Day Bills	3-Year Bonds	10-Year Bonds
Q1 94	31	0.04	0.10	0.104
Q2 94	32	0.06	0.16	0.153
Jul 94	27	0.10	0.15	0.136
Aug 94	21	0.06	0.13	0.112
Sep 94	19	0.06	0.12	0.130

- *AVERAGE OVERNIGHT PRICE RISK* (absolute difference between the previous day's close and next day's open price on the trading floor for the spot month futures contract).

PRICE RISK	All Ords SPI	90-Day Bills	3-Year Bonds	10-Year Bonds
Q1 94	16	0.02	0.06	0.073
Q2 94	13	0.04	0.11	0.100
Jul 94	10	0.07	0.06	0.076
Aug 94	13	0.04	0.06	0.076
Sep 94	10	0.04	0.09	0.064

- *SFE RANKED* 12th largest derivative exchange in the world for the first six months of 1994.

- *INTERNATIONAL FUTURES CONTRACT RANKINGS* in the first six months of 1994: All Ords SPI=10th (share index); 90-Day Bills=8th (short term interest rate); 3-Yr Bonds=12th and 10-Yr Bonds=11th (medium to long term interest rate).

OTHER BITS OF INFO

- The Statistics department is running a *COMPETITION* to celebrate the *10 YEAR ANNIVERSARY* of 10-Year Bond futures contract, which started trading on 5 December 1984. All you have to do is correctly guess what the 10-Year Bond futures volume[1] will be on Monday 5 December 1994 and we'll give you a bottle of *1984 vintage Penfolds Grange Hermitage*. Lodge your entries with Katie on tel: 256-0421 or fax: 256-0451.

  (Competition Rules: 1. Volume is defined as floor traded futures volume, which includes EFPs, published in the Daily Trading Report; 2. Only one entry per person; 3. All entries must be unique; 4. The closest entry will win, in the event of a tie the understated volume will win; 5. The winner will be notified on 6 Dec 1994 and published in the Dec 94 Quarterbook; 6. Entries close 4:30pm Friday 2 Dec 1994.)

- The first in a series of *STATISTICAL WALL CHARTS* titled "SFE Interest Rate Futures Contracts" have just rolled off the production line. These glossy 594x841mm charts show SFE Bill and Bond prices since inception, contract specifications, volume and open interest figures. A limited number of copies are available to Members free of charge.

- *DAYLIGHT SAVING* ends on 30 October 6:30am Sydney time will correspond to: 4:30pm* New York; 3:30pm* Chicago; 9:30pm* London and 6:30am Tokyo. (* Denotes previous day.)

- Futures and Options spot month contract *EXPIRY DATES*.

All Ords SPI F&O	30 Dec 94	WBC Share F	25 Jan 95
BHP Share F	29 Dec 94	WMC Share F	29 Dec 94
BTR Share F	29 Dec 94	90-Day Bill F	8 Dec 94
MIM Share F	25 Jan 95	90-Day Bill O	2 Dec 94
NAB Share F	27 Oct 94	3&10-Yr Bond F&O	15 Dec 94
NCP Share F	24 Nov 94	Wool F	1 Nov 94

- If you have any comments or suggestions about information you would like to see included in the *QUARTERBOOK* please contact Gwenda on 256-0625.

FUTURES VOLUME & OPEN INTEREST

ALL ORDS SPI

90-DAY BANK BILLS

3-YEAR BONDS

10-YEAR BONDS
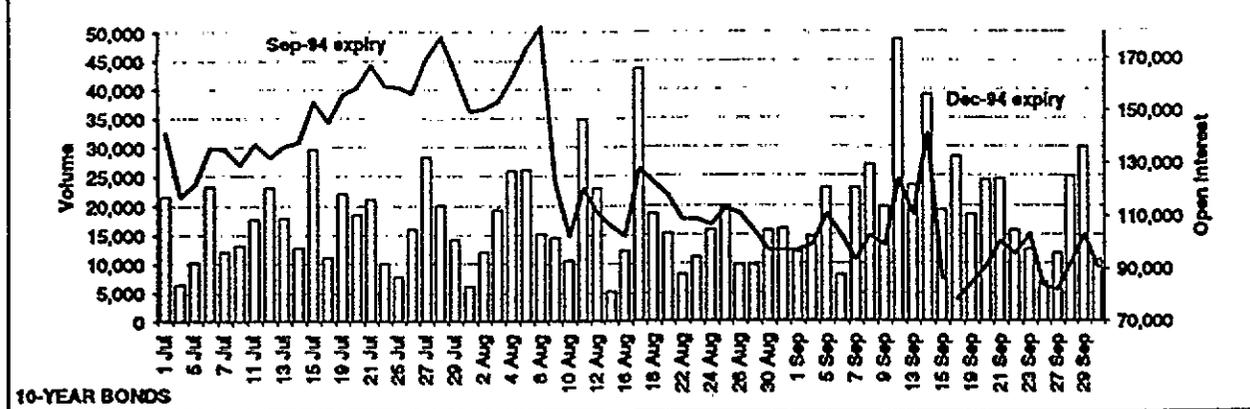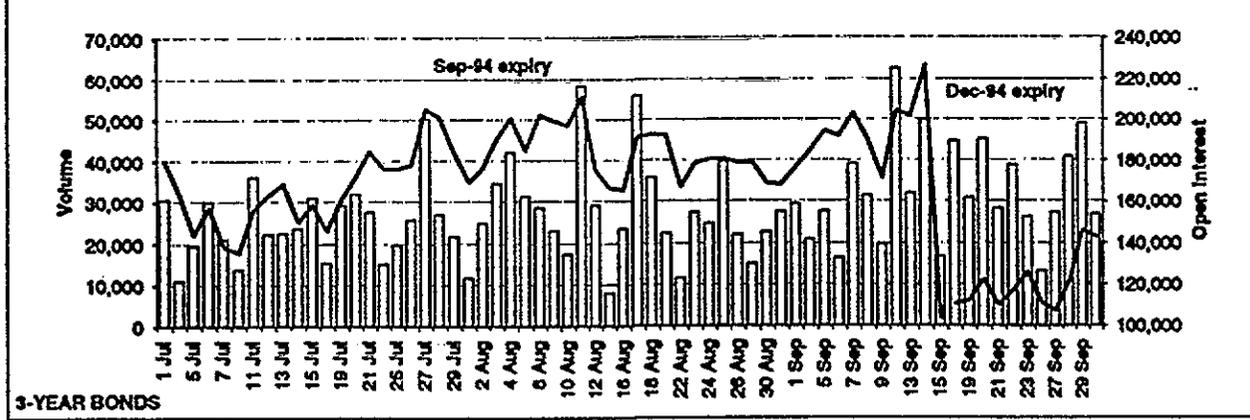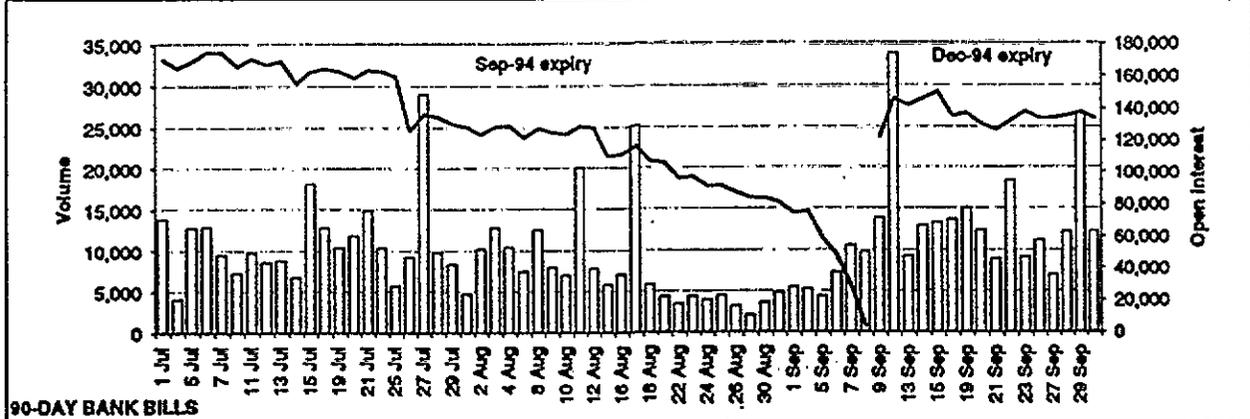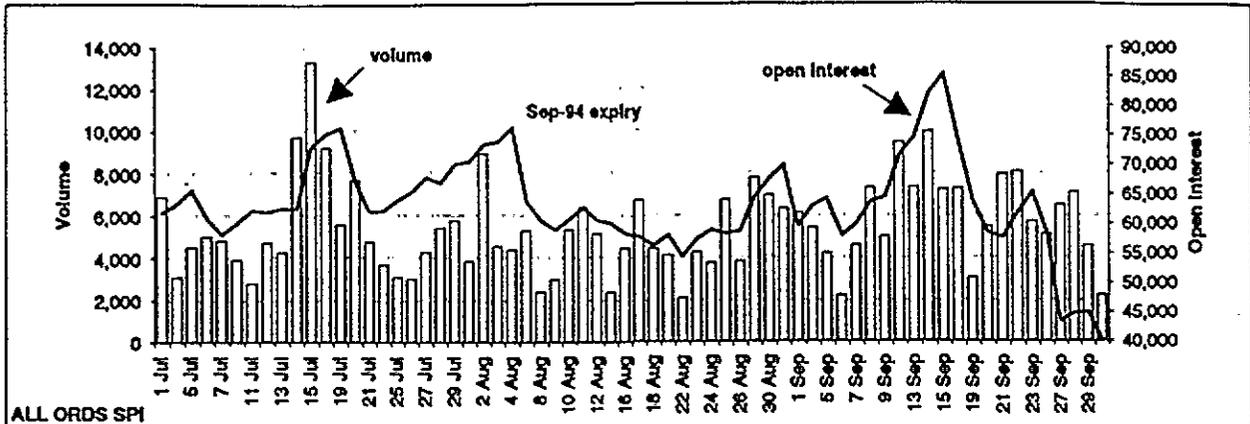
"Volume" is daily trading floor volume for the spot month futures contract.
"Open Interest" is the number of open contracts measured at the end of the trading day for the spot month futures contract.

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SETTLEMENT PRICE & VOLATILITY

ALL ORDS SPI

90-DAY BANK BILLS

3-YEAR BONDS

10-YEAR BONDS
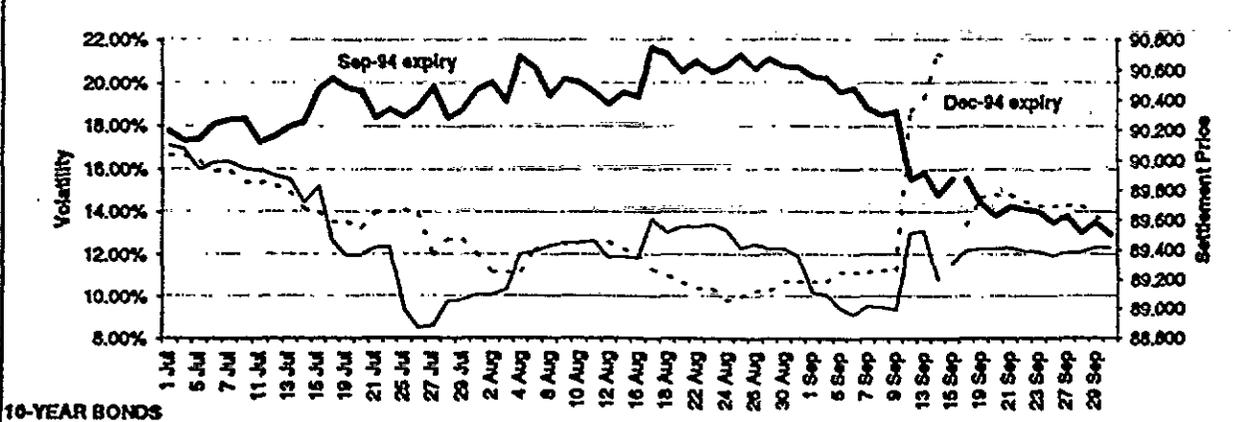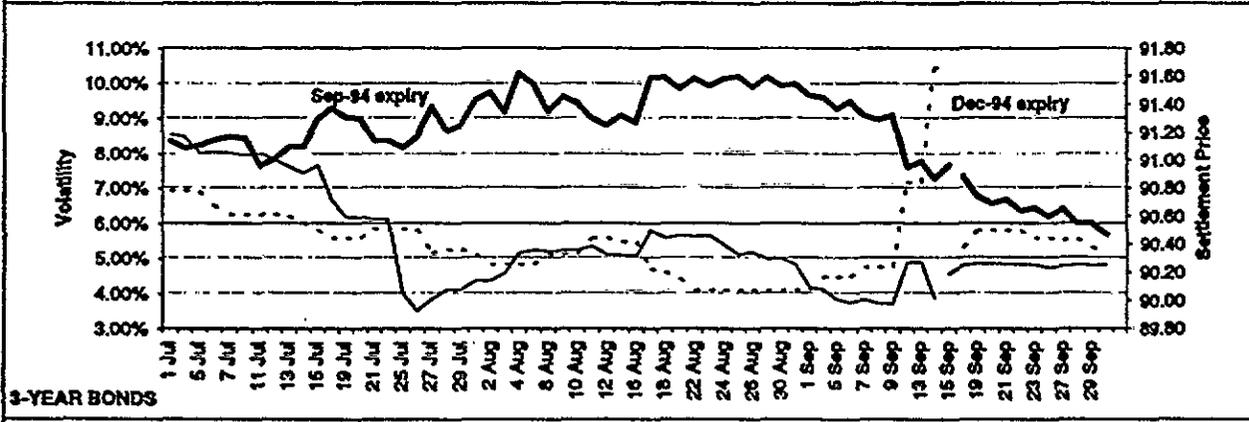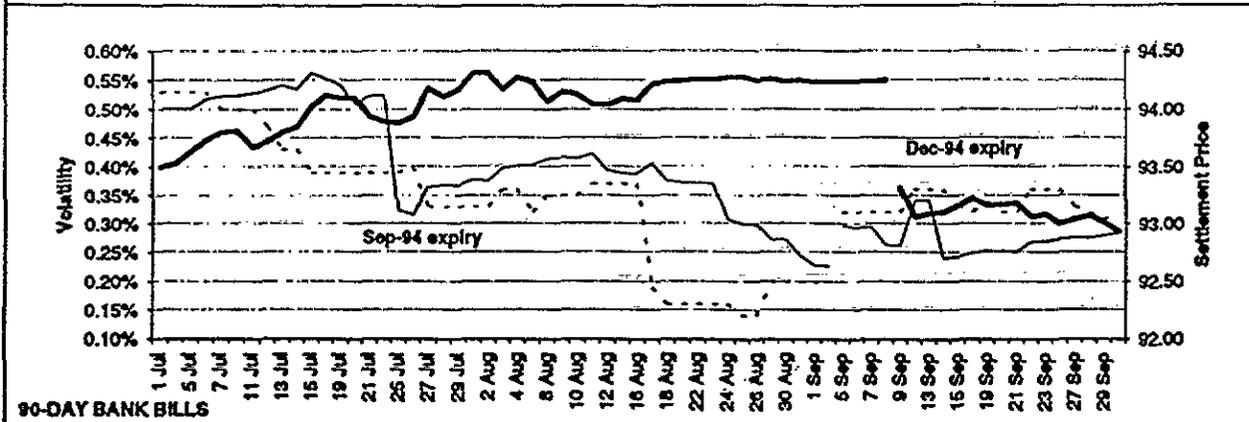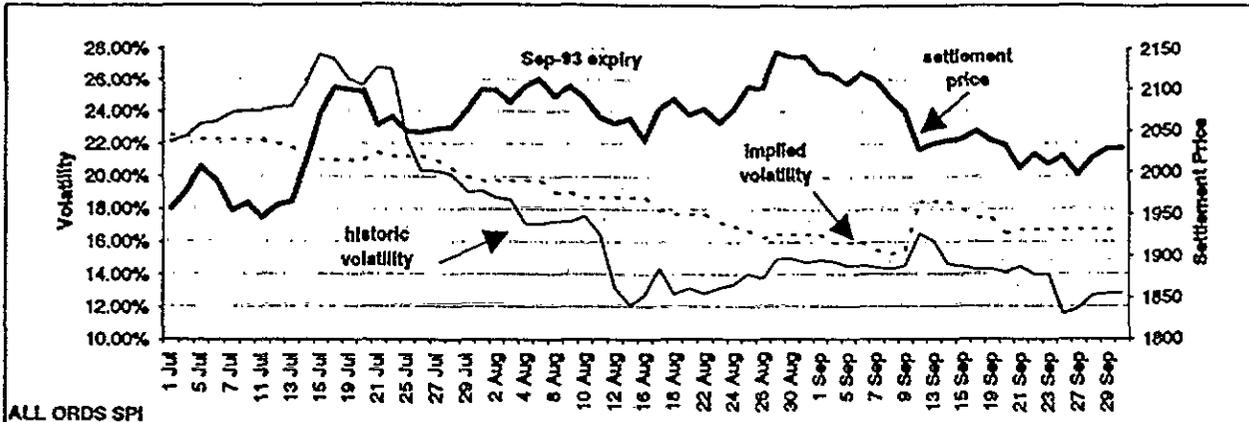
"Settlement Price" is the average of the closing bid and offer for the spot month futures contract.
"Implied Volatility" refers to central volatility for the spot month contract as supplied by market participants at the close of business each day.
"Historic Volatility" is an annualised standard deviation (over 20 days) of daily changes in the price of the underlying spot month futures contract.

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QUARTERLY TRADING STATISTICS

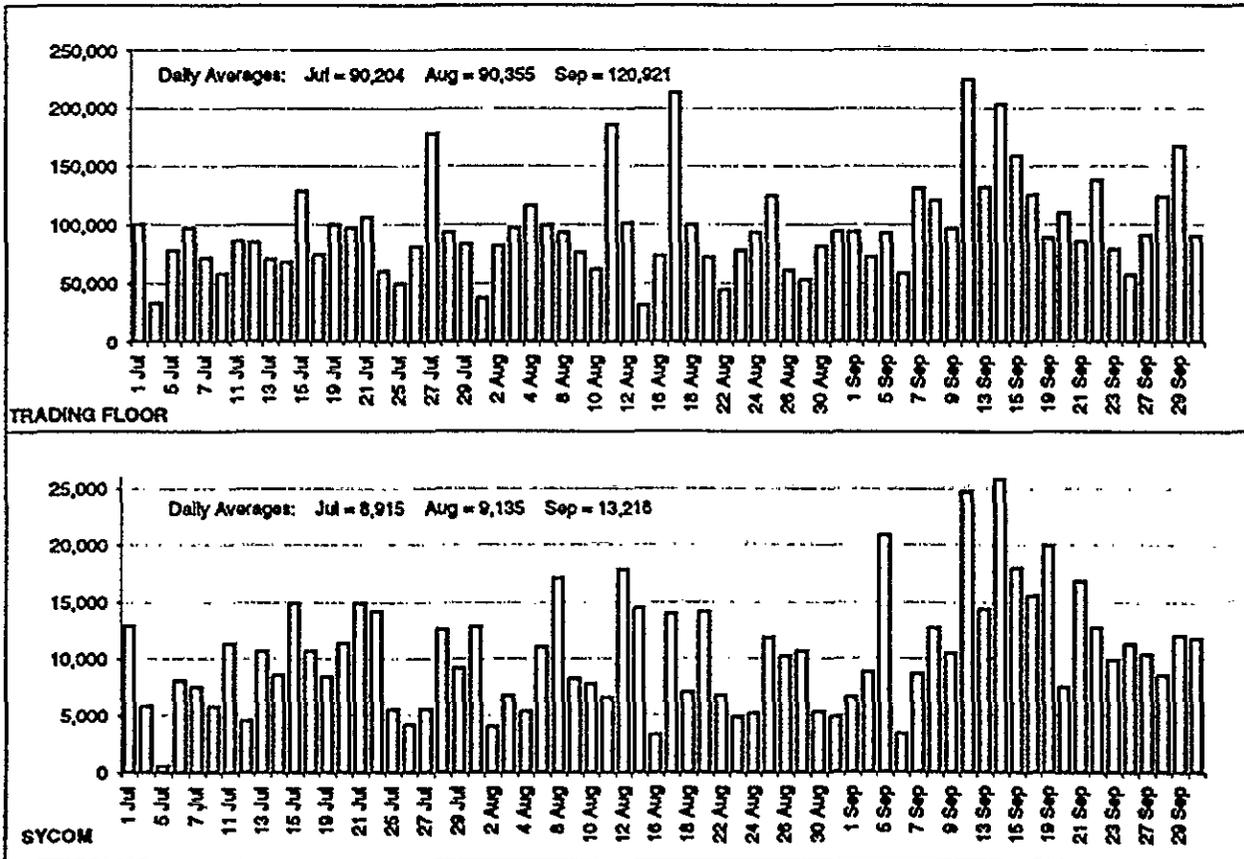| 3RD QTR	JULY 1994 (21 days)			AUGUST 1994 (23 days)			SEPTEMBER 1994 (22 days)			JAN - SEP 1994 (189 days)		
	FLOOR	SYCOM	TOTAL	FLOOR	SYCOM	TOTAL	FLOOR	SYCOM	TOTAL	FLOOR	SYCOM	TOTAL
FUTURES												
All Ords SPI	207,904	8,519	216,423	123,837	10,209	134,046	191,961	17,797	209,758	1,897,498	125,113	2,022,611
BHP Shares	1,168	0	1,168	1,111	0	1,111	2,930	0	2,930	10,951	52	11,003
BTR Shares	n/a	n/a	n/a	n/a	n/a	n/a	21	0	21	21	0	21
MIM Shares	n/a	n/a	n/a	n/a	n/a	n/a	310	0	310	310	0	310
NAB Shares	1,506	5	1,511	157	2	159	185	0	185	4,263	20	4,283
NCP Shares	2,592	0	2,592	1,317	15	1,332	534	0	534	6,351	67	6,418
WBC Shares	n/a	n/a	n/a	n/a	n/a	n/a	106	0	106	106	0	106
WMC Shares	n/a	n/a	n/a	n/a	n/a	n/a	89	0	89	89	0	89
90-Day Bills	601,202	54,824	656,026	666,409	56,185	722,594	699,817	76,978	776,795	6,415,212	498,489	6,913,701
3-Yr Bonds	526,025	66,090	592,115	641,017	73,863	714,880	879,091	94,450	973,541	6,845,913	716,191	7,562,104
10-Yr Bonds	359,430	51,305	410,735	392,466	66,339	458,805	609,086	93,485	702,571	4,694,139	646,214	5,340,353
Wool*	254	0	254	369	0	369	554	0	554	3,687	0	3,687
Total	1,700,081	180,743	1,880,824	1,826,683	206,613	2,033,296	2,384,684	282,710	2,667,394	19,878,540	1,986,146	21,864,686
OPTIONS												
All Ords SPI	44,911	2,236	47,147	59,349	450	59,799	63,372	1,638	65,010	630,183	17,609	647,792
ONO SPI	n/a	0	0	n/a	0	0	n/a	0	0	n/a	7	7
90-Day Bills	82,224	1,250	83,474	95,211	300	95,511	95,661	1,500	97,161	704,069	6,223	710,292
3-Yr Bonds	23,876	2,225	26,101	32,761	10	32,771	51,135	1,000	52,135	390,093	6,765	396,858
ONO 3-Yr Bonds	n/a	0	0	n/a	50	50	n/a	450	450	n/a	1,328	1,328
10-Yr Bonds	43,188	102	43,290	64,156	1,375	65,531	65,409	100	65,509	617,920	5,995	623,915
ONO 10-Yr Bonds	n/a	665	665	n/a	1,315	1,315	n/a	3,357	3,357	n/a	13,935	13,935
Total	194,199	6,478	200,677	251,477	3,500	254,977	275,577	8,045	283,622	2,342,265	51,862	2,394,127
TOTAL	1,894,280	187,221	2,081,501	2,078,160	210,113	2,288,273	2,660,261	290,755	2,951,016	22,220,805	2,038,008	24,258,813

"FLOOR" volume includes EFPs, mandatory settlements, deliveries and options exercised. "SYCOM" Sydney Computerised Overnight Market.
"ONO" Overnight Option. '* Wool includes delisted contracts.

FUTURES & OPTIONS DAILY VOLUME

Daily Averages: Jul = 90,204 Aug = 90,355 Sep = 120,921

TRADING FLOOR

Daily Averages: Jul = 8,915 Aug = 9,135 Sep = 13,216

SYCOM

Charles H Dow Award

In may 1995, Dow Jones Telerate, Inc and the Market Technicians Association, Inc will present the Second Annual Charles H Dow Award for the best paper on technical analysis that breaks new ground and/or best expounds the principles of technical analysis in the tradition of Charles H Dow. This Award is open to all persons interested in submitting a paper.

The guidelines are:

- The previous work may be either original or a significant extension of a previous known work.
- Practical and useful application of the work are desired
- The subject matter should bbe of general interest, and not be limited to one market, a specialised indicator, or an arcane subject.
- The strength and clarity of writing are superior.
- Articles that have previously been commercially published are not eligible.

The recipient of the Award will be given a plaque and an opportunity to discuss the winning paper at the Market Technicians Association's Annual Seminar, and the paper will be published in *Barron's* The paper which won the 1994 Award was published in a speecial section of the June 27, 1994, issue of *Barron's.*
Judging for the Award will be done by members of Dow Jones Telerat's technical analysis group and of *Barron's* Editorial Staff and the Editor of the MTA Journal.

The Award is a unique opportunity for personal recongnition by a large audience of market professionals. ATAA members have the opportunity to present their ideas and further their professional standing.

Persons interested in submitting a paper should obtain the Award Guidelines and Standards by writing to Editor, MTA Journal, Suite 4447, One World Trade Center, New York, New York 10048.
Phone: 212- 912 0995   Fax: 212- 912 1064

The last date for submissions is Tuesday, February 28, 1995.

ATAA Annual Guessing Competition
Your chance to guess/forecast the closing prices of the three instruments listed below for the close of trading on the 31st October 1995.   This competition is open to all financial members.

- **Instruments:**

- **Gold**

- **Australian Dollar**

- **All Ordinaries Index**

| Name .... |
| Company... |
| Forecasts: Gold   .... |
| Australian Dollar .... |
| All Ord's   .... |

Copy or cut out this application. All entries should be mailed to ATAA Competition, GPO Box 2774, Sydney NSW 2001 to arrive no later than 31 December 1994.

Stock Picking
by Joe Ross

I was telling my students here in the Bahamas about a great way to pick stocks. They suggested that I address the subject in the material for Australia. It may seem to be a strange way to do things, but what works, works. I don't try to fix it.

Many years ago when I was living in the Ozark mountains of Missouri, I came across an outfit named WalMart. When they opened their store in St. Robert, MO they soon drove all the little shopkeepers out of business. Within a couple of years they were the dominant retailer for miles around.

Having no real competition, they proceeded to rape the locals by charging ridiculously high prices for everything they carried. I detested them for this. They were making a fortune, and I resented it. What a fool I was! I could have shared in the WalMart fortune. I should have bought WalMart stock. I would have made 50 times my investment by now. But I didn't do it.

At the beginning of my trading career, for lack of something to do during the day, I took training in computers at IBM. With a year of programming and systems experience under my belt I struck out on my own to do contract programming. This enabled me to position trade and have a respectable occupation during the day. I could keep my own hours and take on jobs as I pleased. I learned and worked with IBM computers and also with many other makes of that day.

Amazingly, apart from superior marketing, IBM had inferior hardware and software compared with their competitors. I came to loathe IBM. I was witness to the most flagrant lying and deceit by their marketing personnel. Often their misrepresentations resulted in the destruction of entire data processing departments and the ruination of the lives and careers of those in management who believed them.

The prices IBM charged, and their corresponding profitability, were obscene. Those who had the good sense to invest in IBM made hundreds of times their original investments. My own disgust with them blinded me to the profitability of sharing in those obscene profits.

I guess because of my poor background I had always been for the little guy and the small business person. I had resented big business and the corruption and politics I found there. What did I learn from all this?
When you see a company growing and profiting, making a ton of money based on having something everyone wants, or thinks they need, invest in that company.

We all see examples in our own communities. Yes, even in a small town out in the middle of the Missouri Ozarks. We also see situations in which we exclaim, These guys must be making a fortune. Look around. Who's making it in your area? Which companies are getting filthy rich making outrageous profits? Which companies have a license to steal? When you find them, start investing in them. Three such companies are of fairly recent vintage. Office Depot, Home Depot, and Circuit City. Another is Waste Managment. You don't need an expert to tell you which companies are hot, which companies are making money.

Once you have located one or more potential dynamos, begin charting their stock prices. You're

going to have to excuse this next chart of Waste Management, because in our move to the Bahamas we were unable to get stock market data for a period of weeks. However, you can see enough for me to give you the idea.

In February, prices for WMX fell dramatically on bad news about the economy and the company's prospects for making a profit.

Current chart of Waste Management

S&P 500 Futures Index

But as you can see from the above charts on this page WMX (which has a license to steal) is steadily moving upward while the Stock Market itself, as reflected in the S&P 500 futures (next chart), is going nowhere.

Start looking around you for good stocks. Housewives and high school students using simple common sense and observation have consistenly outperformed the greatest of gurus when trading stocks.

TRADING BY THE BOOK REVISITED

Some of you will recall the 20 week oscillator shown throughout much of Trading by the Book. I used it to show me the long term trend in the market. It charted the difference between two moving averages. Actually, that oscillator was one and the same with the MACD histogram. At the time I wrote TBB I was unable to show you how it really looked.

People have asked me, do you actually still use *that? Have you moved onto other things. The answer is I still do use that! Now I use it to filter trades for Optures and Futions. That can still serve as a filter for Optures and Futions trades. It can give a strong indication of a relatively safe place to be a seller of options as well as to enter an initial position or add on to an existing position. The remainder of this issue will show some examples.*
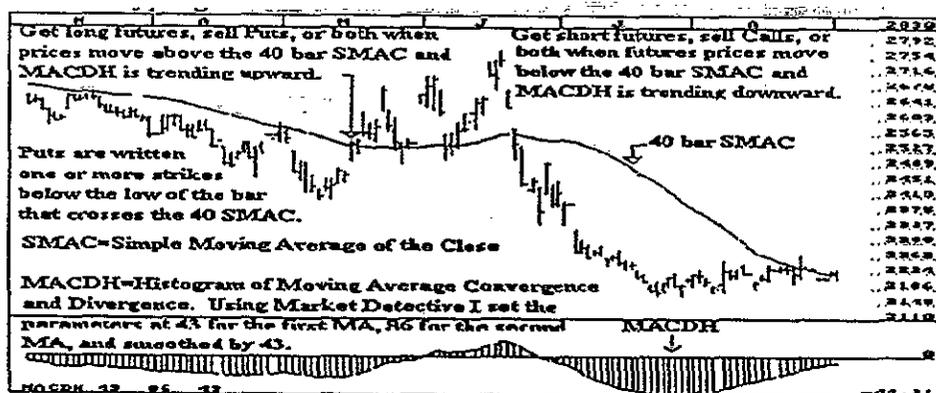
MACD histogram measures the difference between two exponential moving averages. By using 43, we are stretching the weekly oscillator out over the daily price bars. Since there are 4 1/3 weeks in a month, 43 approximates the number of daily bars in a two month time period, i.e., 10 weeks. 86 approximates the number of daily bars in a four month time period, i.e. 20 weeks. These are sufficient in length to pick up and register most real trends. The third parameter set to 4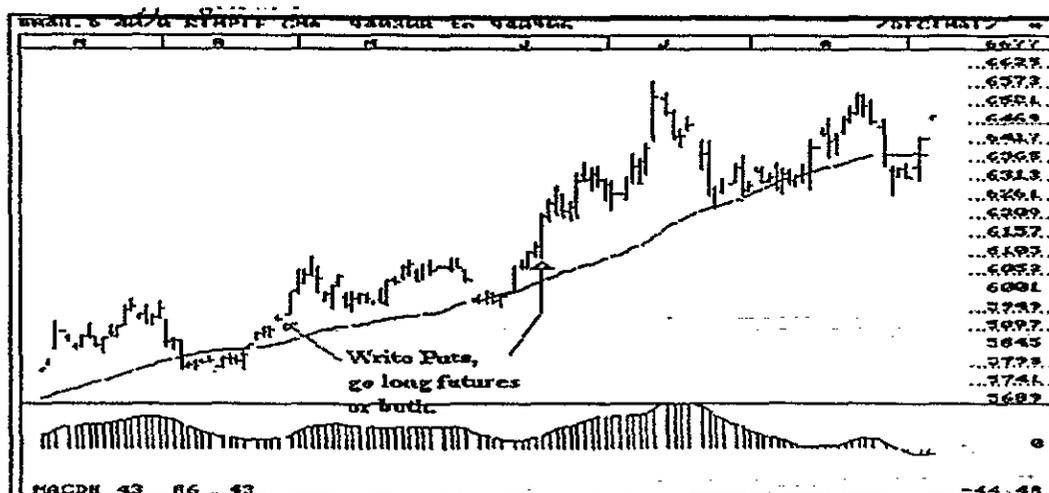3, is the number of bars over which to smooth a moving average of the difference between the first and second exponential moving averages, i.e., 43 and 86. I may have been out of my mind when I came up with this but it works wonderfully well. When prices penetrate a 40 bar simple moving average of closes, the risk is low when going with the long term trend of the histogram.

Care should be taken that both indicators are indeed trending. If there is divergence between the two indicators it means a Trading Range is in effect or is imminent. You can take advantage of divergence by writing Strangles, i.e., write a Call above the market and a Put below the market.

Should you choose to go long futures, use the Put premium for your stop. Always prepare a defense should the trade not work in your favor. Prepare your defense ahead of time, so you will know exactly what to do if things don't work out.

Plan to protect futures profits by using a trailing stop. Tighten the stop if either or both of the indicators flatten out or one becomes divergent to the other. Remember that the Puts (Calls in a downtrend), are working for you by their loss of value due to time and distance. Therefore it is okay to sell them as long as you can obtain at least moderate premiums.
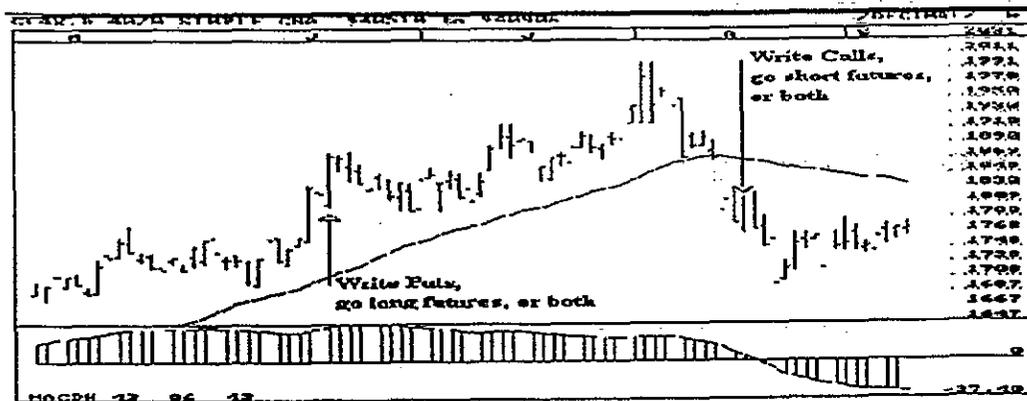
You can play with this concept and even try other indicators.

Personally, I am happy to get my piece of the market when everything is right. I long ago realized I can never get it all. There is always a temptation to get in sooner and catch more of the move. But again, I'm content with what I get when I get it. If you can consistently get your piece of the action you will be a winner.

Making money in the market is making a direct effort to not lose money. Having money in life is a function of how much money you can keep. When he was young and scratching out a living, John Templeton determinedly saved 50% of everything he made. This wonderful habit resulted in his building one of the worlds great financial empires.

Resolve to not be greedy. Resolve to not try to get it all. Be satisfied with signals that ensure that you have a reasonable chance at winning. The plan for every contingency that could possibly upset that chance.

Joe Ross can be contacted on 0011 1 512 259 0727 or fax 0011 1 512 259 0747 for further information. He has been a professional trader for over 30 years and brings a wealth of experience to the subject of trading. He will address the February 1995 Sydney and Melbourne meetings of the Australian Technical Analysts Association.

Cycle Analysis

Following the interest shown in Bruce Davenport's work as demonstrated in the last issue we enclose a further review of his work

17 November 1994

Western Mining Corporation   (WMC)

Last Sale $7.55

Weekly Cycle

Conclusion:
Prices correcting to $6.79 to $6.49 with cycle low in early January 1995, and then up-trend to resume.

Comment:
While prices remain above the trend-line at $7.36 the trend is considered up. There is a possible target of $9.37. However, the dominant cycle of 49 weeks indicates that prices are in a topping area. If the swing low of $7.36 is penetrated the preferred price target is $6.79 to $6.49. Refer to support and resistance levels listed below. Once price penetrates a support/resistance level, generally it will test the next level.

Both the 19 weekly and 49 weekly cycle are in the down sector of their respective cycles. The next low is due early January 1995.

Cycle analysis considers 2% price action to be random in nature, 75% relates to fundamentals, and the remaining 23% is cyclical. Cycles are generally measured from significant lows.
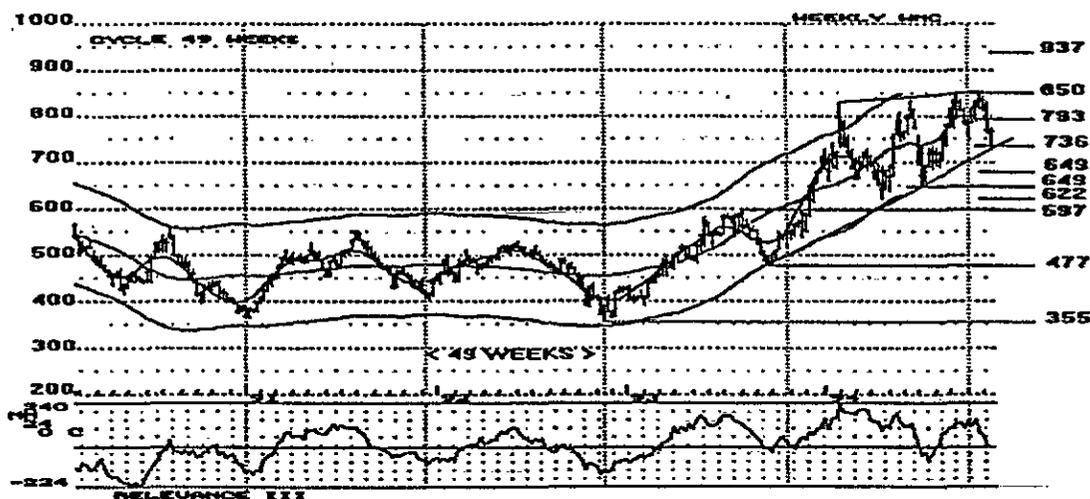
Weekly Western Mining Corporation Graph.

Cycle Structure

Average Cycle Period	Date of Last Turning Point	Time Since Last Turning Point	End of Cycle	Est. Price Trend within Cycle.
19 (± 1) Weeks	Top - W.E. 28th Oct 1994	3 Weeks 16% along	10th Mar 1995	Down
49 (± 3) Weeks	Top - W.E. 7th Oct 1994	6 Weeks 12% along	15th Sep 1995	Down

Summation: Prices correcting to $6.79 to $6.49 with cycle low in early January 1995, and then up-trend to resume.

Resistance Levels: 7.61 7.73 7.93 8.08 8.50 9.37
Support Levels: 7.36 7.28 6.94 6.79 6.49 6.22 5.97
Stop-loss: Short positions stop is currently 7.92

Videotape Library

The ATAA has established a collection of videotapes that members may borrow. The videotapes are in VHS format and are available for loan to ATAA members free of charge. 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 each tape and return it within one week. Members consistently taking too long to return video tapes may be dropped from the waiting list for further borrowings.

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

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

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

The tapes currently available for loan are:

Schwager: What it Takes to be a Great Trader
Elder: Technical Analysis in 52 Minutes
Elder: MACD and MACD-Histogram
Elder: Relative Strength Index (RSI)
Appel: Day Trading with Gerald Appel
Elder: Directional System
Elder: Triple Screen Trading System
Elder: Elder Ray
Elder: Stochastic
Elder: Williams % R
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
Pring: Momentum 1 - Basic Principles of Momentum Interpretation
Pring: Momentum 2 - Selected Indicators 1
Pring: Momentum 3 - Selected Indicators 2
Bierovic: How to Increase your Trading Profits with Synergy
Bierovic: How to Synergise Oscillators with Trend Indicators
Bierovic: How to Manage your Account, Your Trades and Yourself

If you would like to borrow any of the videotapes, contact Colin Nicholson to be placed on the waiting list on (02) 436 1610, or write to him at 3 Eastview Street, Greenwich NSW 2065

Australian Technical Analysts Association Inc
Application for Membership

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

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

....

Address:..

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

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

Facsimile:...

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

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

....

....

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

....

Membership is by payment of annual subscription of $100.00.

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

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

(1)   Members joining between July 1 and December 31 receive a copy of all Newsletters published in that period.

(2)   Members joining between January 1 and June 30 are credited with the remainder of the current year free, such that their initial subscription covers membership up to June 30 of the   year following the year in which they join.

For information call the Honorary Secretary, Colin Nicholson (02) 436 1610; or Victorian Chairman Paul Simmons (03) 497 3551.   Please mail the Application Form with a cheque for $100 to:

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

Make cheques payable to Australian Technical Analysts Association Inc.

Australian Technical Analysts Association Inc

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

*   To establish personnel contacts between analysts both inside and outside of Australia with a view to promoting the theory and practice of technical analysis,

*   To help raise the level of community awareness and respect for technical analysis,

*   To provide meetings and encourage the interchange of materials, ideas and information in order to add to the knowledge of its members and

*   To encourage the highest standards of professional ethics and competence among technical analysts

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

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

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

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

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

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

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

For further information, contact the Honorary Secretary, Colin Nicholson on (02) 436 1610 or Paul Simmons in Melbourne on (03) 497 3551.