



ROBERT
KRAUSZ'S

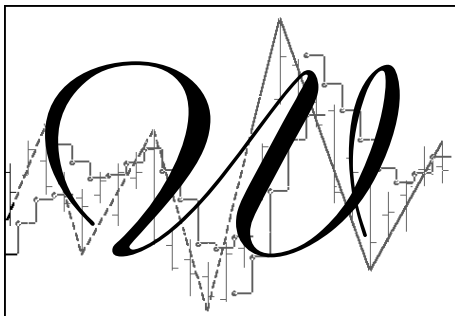
FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 1

PREMIER ISSUE

NEW GANN SWING CHARTIST™ DYNAMIC FIBONACCI CHANNELS™



Welcome to the first issue of the FIBONACCI TRADER JOURNAL. The driv-

ing force behind this publication is twofold. First, to show you how to get the most out of the unique tools found in the FIBONACCI TRADER program. Second, to teach you Multiple Time Frames applications using these unique tools, which should help improve your trading.

While the format is not cast in concrete, the first few issues will cover basic and advanced concepts. Since my book *A Gann Treasure Discovered* was published, many questions have come in. You will be the beneficiaries of these queries. We will also show strategies not covered in the book.

Starting with the very basics of Gann Swing Charting (this issue) we will work our way up to intraday plans for the S&P 500 and the T-bonds. We want to keep both the real beginners and the pros happy. But please remember we have only eight pages.

By the way, your names will never be sold or rented, as that's not our game. Also, no outside advertisements will appear, although we may have a guest writer contribute an article. However, these will be only from traders who are in my opinion on the reality wavelength.

In addition, when the new 32-bit version of the FIBONACCI TRADER program is available you will get this important update free of charge. More on this subject in the next issue. Subscribers will also benefit when we release

any add-on to the FT as you will get a discount off the regular price.

What about concepts or methodologies that don't embrace Fibonacci techniques or the use of multiple time frames? Yes, occasionally we may cover some truly exceptional idea or dis-

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I can only try to teach you how to fish. So no Holy Grail is promised or offered.

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cuss a book that we feel strongly about and would be beneficial to you. In all cases we will publish the name, address, price, etc. Then, if you so desire you may contact them directly. The FTJ will not be involved as a distributor.

So what is the goal of the FTJ? I feel that a multiple time frame approach to stock or commodity markets can give a trader or investor the edge that we all seek. We will strive to help you achieve that edge, but as always, check everything out for yourself! Spoon feeding you will not help you to be consistent. I can only try to teach you how to fish. So no Holy Grail is promised or offered.

Another subject important to us is trading psychology. Some of you are aware that I have worked with over 500 traders at a psychological level. This work has convinced me that trading is 75% psychological and 25% methodology. I will address this problem from time to time. This is too important to be ignored.

So these are the concepts and the ground rules. Please be patient, let's get a few issues under our belt. In the future we plan to cover commodities, financials, stocks, and some overseas markets, as we have FT users on all five continents. For example, in Australia there are SPY traders, and in Germany, the DAX and the Bund are favorites. In the United Kingdom, the FTSE is traded.

Our traders are located through out the world. Fibonacci Traders are located in Australia, Austria, Belgium, China, Egypt, France, Germany, Hong Kong, Holland, India, Israel, Italy, Malaysia, Philippines, Russia, Saudi Arabia, Singapore, Turkey and the United States.

So let's get started with this issue. We begin with a four part series covering basic Gann Swing ideas. This first part will explain the basic definitions, an important step to building a solid foundation in using the Fibonacci Trader. And second, we introduce two intraday strategies. One for T-bond futures using a 10-minute/50 minute/Daily trading setup in real time. The second is an S&P 500 9 Minute/45 Minute/Daily Plan. We will walk you through how to set up each plan for multiple time frame applications including the unique settings.

This first set of intraday plans is an example of what will be included every month in the FIBONACCI TRADER JOURNAL. This month's is a rather unusual channel technique called the DYNAMIC FIBONACCI CHANNEL™. It's not complicated but read the text carefully.

I wish you excellent trading,

Robert Krausz, Mh. BCHE

THE NEW GANN SWING CHARTIST

Some ten years ago, I put out the word that I was interested in purchasing original W. D. Gann material, especially his courses. All trails led to nowhere until last year when the universe rewarded my persistence right on my doorstep.

Some of you may know that Joe Rondinone was the last trader taught by Gann. You can imagine my astonishment when Rondinone asked me if I was interested in some original Gann courses that he bought from Gann back in 1955. Rondinone explained that the courses were typed on W.D. Gann's letterhead, not in the usual printed format. Also, they were signed and dated by Gann in his purple ink.

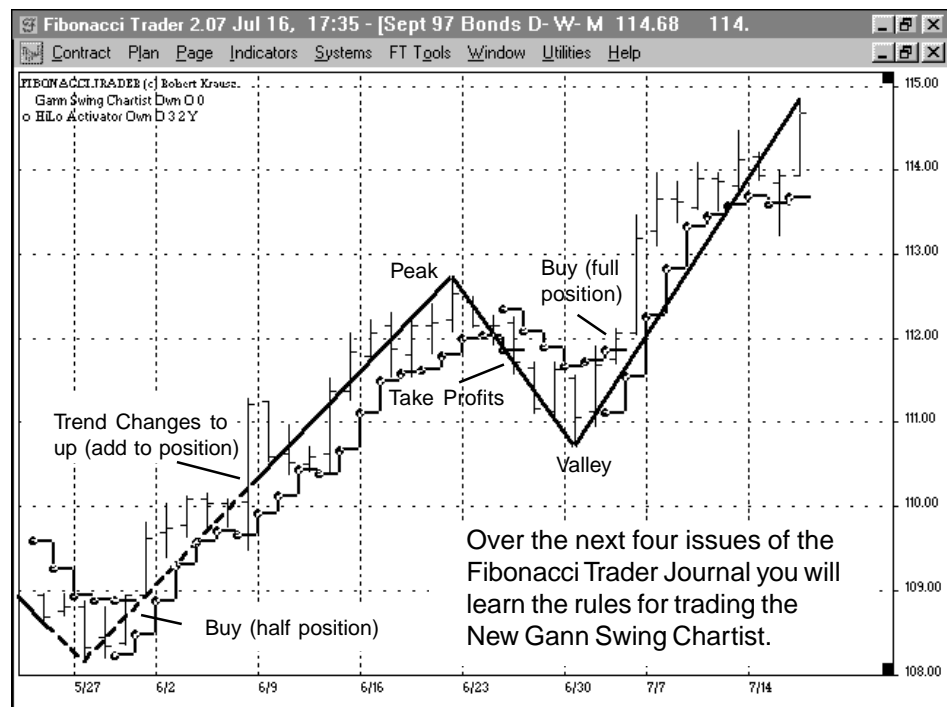
I worked my way through the well-worn pages, making notes as I went along. One method though, caught my eye. It was the "Mechanical Method and

Trend Indicator for Trading Grains". Given my personal approach to trading, this method was given priority. Can you imagine my surprise when I came to pages 11 and 12 and saw that Gann had altered some of his original calculations and signed these alterations in his usual purple ink? And what did Gann write? Very simply: "Use 2 day charts and rules better than 3 day. Signed W. D. Gann.

Charting by hand, I performed a back test of the T-Bond futures markets and proved to me that W. D. Gann's new Two Day Swing Concept provided two pieces of vital information: First, the trend direction and second, the



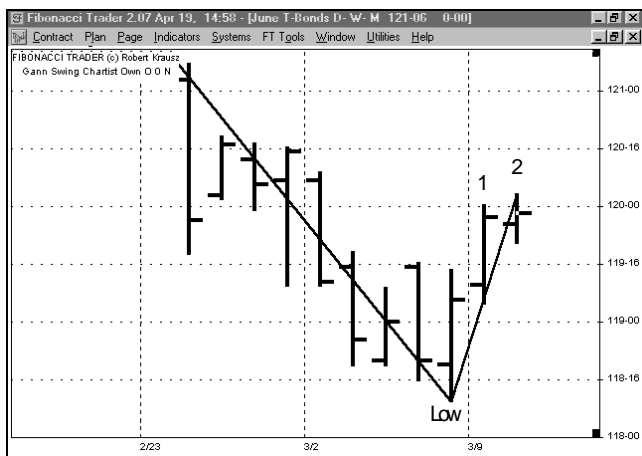
The original Gann manuscript was altered, and signed by Gann with his distinctive purple ink.



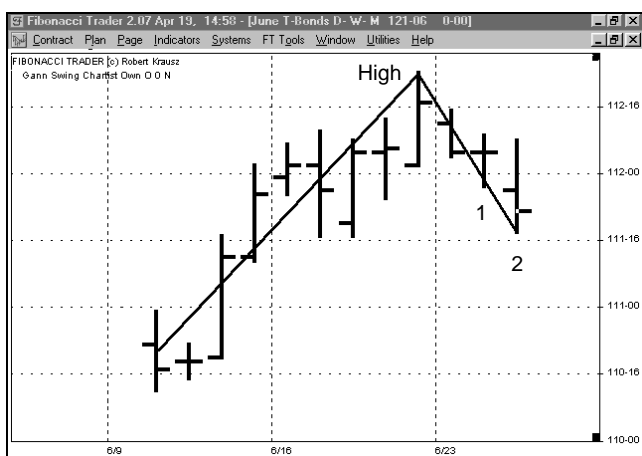
Fibonacci Trader plots the key indicators automatically.

points of support and resistance. The manner was simple, yet brilliant, and is the basis for what follows in the next four issues of the FTJ. So let's establish the basic definitions for the New Gann Swing Chartist.

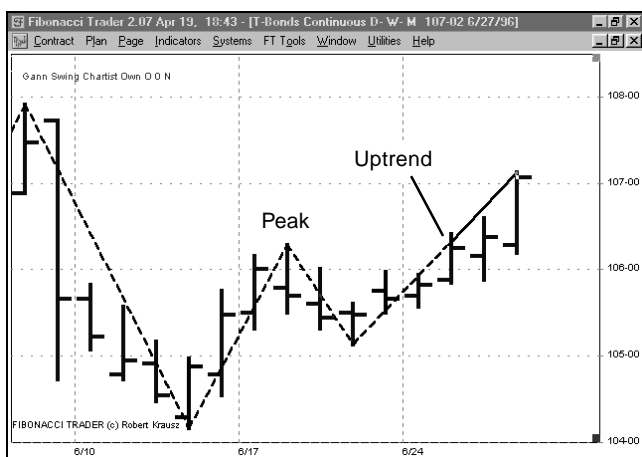
DEFINITIONS



The upswing begins after the second consecutive higher high.



The down swing begins after the second consecutive lower low.



The trend changes to up after a peak is passed.

Upswing: From Down to Up. The first definition is the upswing. The swing direction can only change to up if the market makes two consecutive highs. Looking at the figure to the left, you can see that bar number 1's high is the first consecutive high, and the bar number 2 is the second consecutive high. The placement of the lows is not considered. Fibonacci trader will automatically plot a line indicating an upswing. Whenever there is not a consecutive high the Fibonacci Trader will plot a white line. Outside days and subtle points will be covered in Issue II.

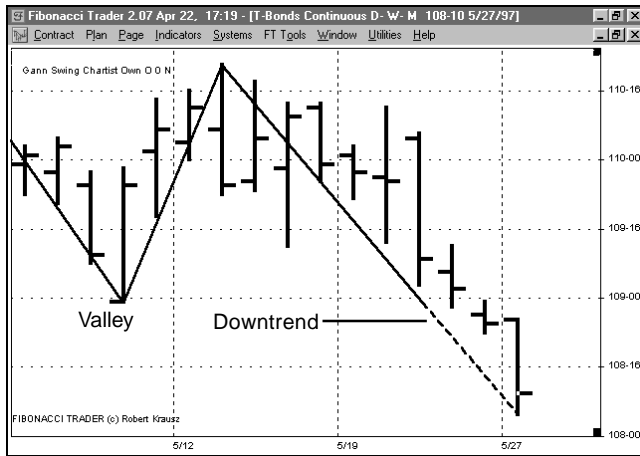


Downswing: From Up to Down. The downswing direction can change to down only if the market makes two consecutive lower lows. Looking at the figure to the left, you can see that bar number 1's low is the first consecutive low, and the bar number 2 is the second consecutive low. The placement of the highs is not considered. Fibonacci Trader will automatically plot a line if there is a consecutive lower low. Whenever there is not a consecutive low the Fibonacci Trader will plot a white line. Outside days and subtle points will be covered in Issue II.

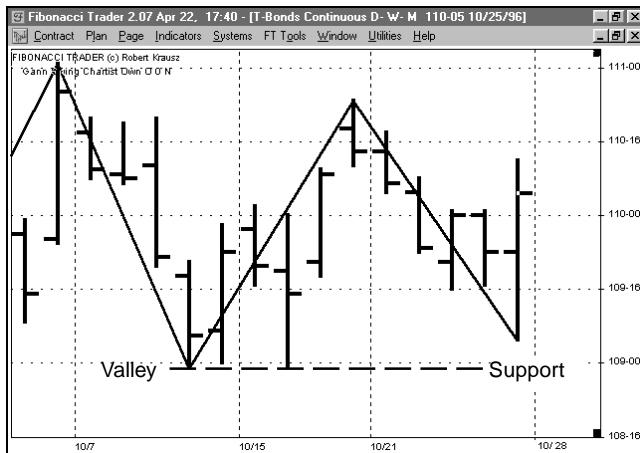


UPTREND: Trend Change from Down to Up. First, a dashed line indicates a downtrend. A solid line indicates an uptrend. To change from a downtrend to an uptrend, the trend must have been down, as indicated by the dashed line. A peak is formed by an upswing followed by a down swing. If this peak is passed on the upside, the trend changes from down to up. The Fibonacci Trader will automatically change the Gann Swing Line to a solid green color when the peak is passed. The market does not have to close above the peak to change the trend to up.

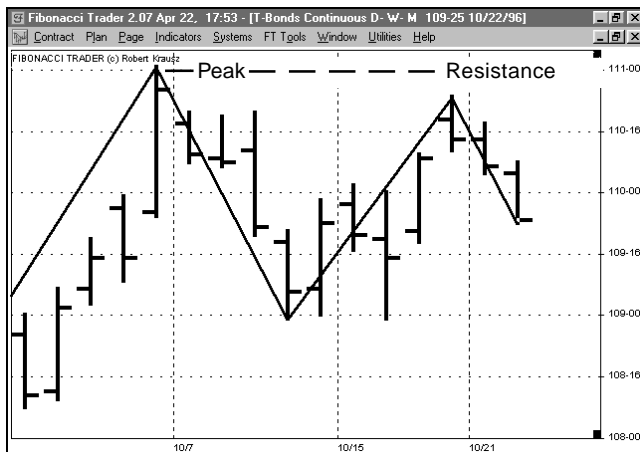
DEFINITIONS



The trend changes to down when the previous valley is taken out, and the trend was up.



A clearly defined valley will act as support. As long as the market does not fall below the valley, support is holding.



The previous peak will be resistance.

DOWNTREND: Trend Change from Up to Down. The solid line denotes an uptrend. A dashed line indicates a downtrend. To change from an uptrend to a downtrend, the trend must have been up, as indicated by the solid line. A valley is formed by a downswing followed by an upswing. If this valley is passed on the downside the trend changes from up to down. The Fibonacci Trader will automatically change the Gann Swing Line to a dashed red line when the valley is passed. The market does not have to close below the valley to change the trend to down.

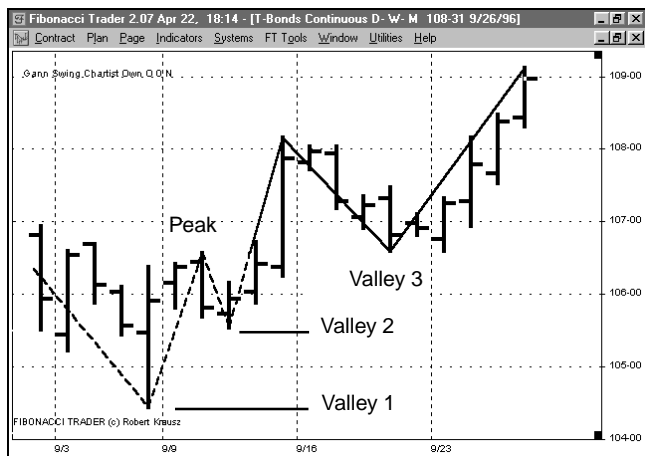
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SUPPORT: Support is the Valley of the Previous Clearly defined Swing. As long as prices do not penetrate below the valley point, support is considered to be holding. This valley point is actually the low of the previous completed downswing, and followed by an upswing. If prices penetrate below the valley, then support may be failing. The support or valley level can occur whether the market is in an uptrend or a downtrend.

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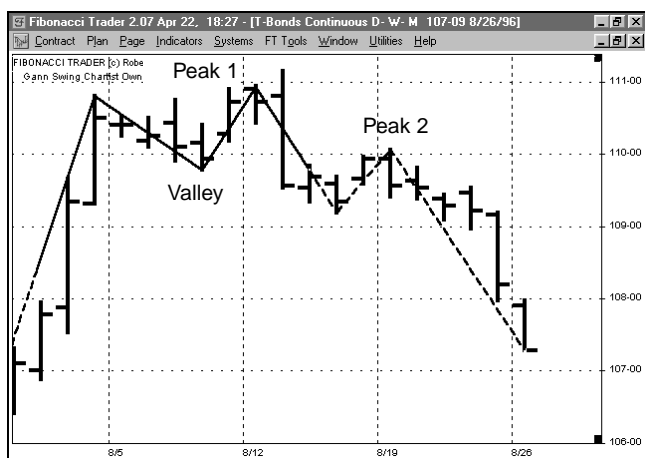
RESISTANCE: Resistance Is the Peak of the Previous clearly defined Swing. As long as prices do not penetrate above the peak point, resistance is considered to be holding. This peak point is the high of the previous completed upswing, and followed by a downswing. If prices penetrate breakout above the peak, then resistance may be failing. The resistance or peak level can occur whether the market is in an uptrend or a downtrend.

DEFINITIONS



Rising valleys can indicate the beginnings of an uptrend.

Rising Valleys: An uptrend is a series of rising valleys. Notice in the chart to the left that the first valley concluded the low downswing. Next the market rallied and formed a peak. Then valley 2 formed, which is higher than valley 1. Finally, the market moved above the peak, signaling a change from the downtrend to the uptrend. Interestingly, valley 3 was a retest of the last peak (resistance). This is classic technical analysis in action.



Declining peaks can indicate a top.

Dropping Peaks: A downtrend will begin after the formation of the highest peak, and will be a series of dropping peaks. Looking at the chart to the left you can see that the market formed a peak, while in an uptrend, and then fell below the previous valley. Dropping below the previous valley changed the trend from up to down. After breaking below the valley, peak number 2 formed, which was lower than peak 1. This series of dropping peaks was more evidence of a downtrend in force.



DYNAMIC FIBONACCI CHANNELS

This is the first indicator we will discuss using multiple time frames. The examples we examine are T-bonds 10 minute/50 minute/Daily the S&P 500 9 minute/45 minute/Daily, both are using real time data. Please create one or both plans:

I will discuss how to set up the various channels for the T-bonds first. The set up for the S&P 500 varies slightly.

T-BONDS	S&P 500
OWN = 10 MINUTES	OWN = 9 MINUTES
NEXT = 50 MINUTES	NEXT = 45 MINUTES
HIGH = DAILY	HIGH = DAILY

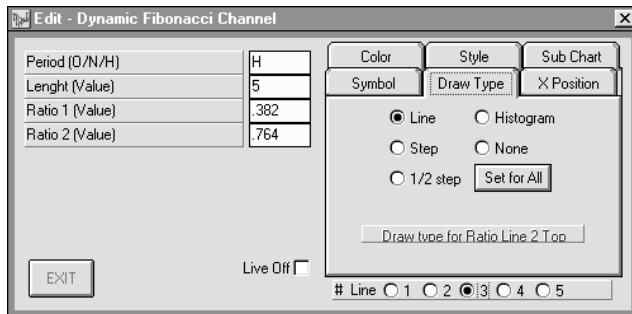
First, create three Dynamic Fibonacci Channels – one for each time period. Click on the Dynamic Fibonacci Channel in the indicator window, and add the indicator three times. Next, modify each channel for the setup of multiple time frames by clicking on the Edit button, and changing each channel's settings. Use the following values, one setup for the Own Time Period, one setup for the Next Time Period, and

one setup for the High Time Period.

PERIOD	O	PERIOD	N	PERIOD	H
LENGTH	5	LENGTH	13	LENGTH	5
RATIO 1	.382	RATIO 1	.382	RATIO 1	.382
RATIO 2	.786	RATIO 2	.786	RATIO 2	.786

Click on the edit button and change each of the three channels to one the above values.

To plot each channel we use only the Ratio 2 Line. All other lines are not shown as they are not needed. Select Draw Type which controls which lines are plotted.



Set lines 3 and 4 to Line in the Draw Type window.

Lines 3 and 4 are the only ones, i.e., the Ratio 2 = .786, we will use. Lines 1, 2, and 5 should be off by clicking on the "none" field. You can adjust lines 3 and 4 colors of your own choice.

The example above is for the High Time Period, follow the same routine for the Next Time Period making sure that only the top and bottom lines of this channel are showing. The third channel we plot is for the Own time period (10 Minutes). This is our focus bar i.e., the time period we are actually trading. The final setup should look similar to Chart #1. Next is the S&P plan.

S&P 500 9 MINUTE/45 MINUTE/DAILY PLAN

Use the same setup of the channels except the High Time Period is:

PERIOD	H
LENGTH	3
RATIO 1	.382
RATIO 2	.786

Your chart for the S&P 500 should show all three channels as per chart #2. It would be best to save these setups in Systems so you only have to define each setup only once.

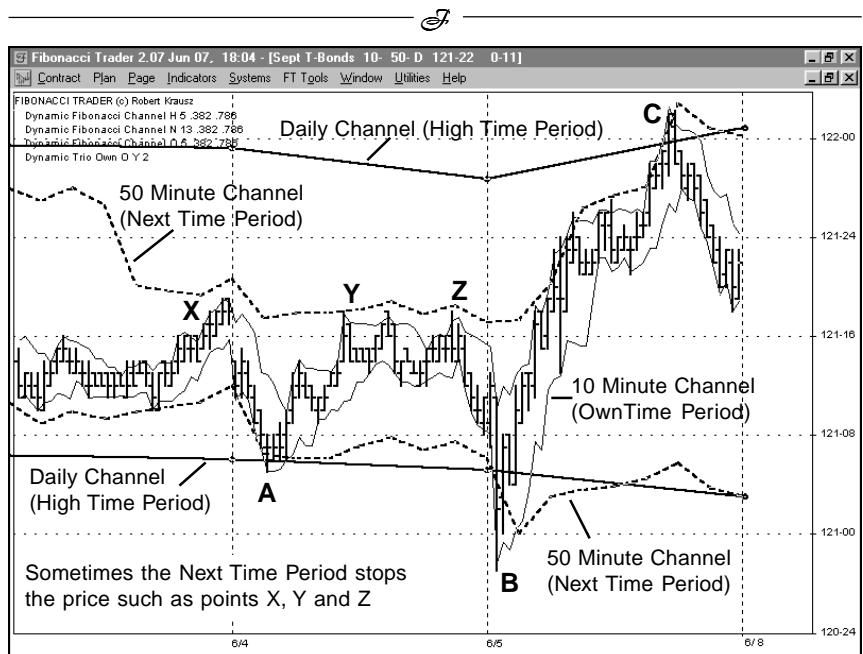


Chart 1: T-bonds 10 Minute Bars. Notice how the market reversed at the Daily Dynamic Fibonacci Channels at points A, B and C. Points A and B are potential buy setups, while point C is a possible sell setup.

Two questions come to mind: First, what does this all mean, and second, how do we use it?

These multiple time frames tend to define “extremes of price moves.” It can be useful to define potential termination of price moves. This may help us anticipate a possible trend reversal in areas where the three channels meet. In Chart #1 points A and B are potential buy setups, while point C is a possible sell setup. In Chart#2, the S&P, points A and B are potential buy setups and point C is a possible sell setup.

In our next issue we will go into how and why on a trade by trade basis. Our entry trigger will be the Own Period Dynamic Trio. Please set it to “wait for the close = yes.” This allows us to take action (if we desire) in areas of potential price termination as defined by our Fibonacci Channels. Using this exclusive Fibonacci Trader tool we now have a possible intraday/short term strategy, which if properly developed may become a nice trading plan. Look at the arrows shown in Chart #3. Please practice this concept and do a back test. By the next issue you will be ready to plug this into a plan with rules, money management, etc. Can you use this concept for Daily Bars? How about trying Daily/Weekly/Monthly Dynamic Fibonacci Channels?

I wish you super trading.

Robert Krausz, MHBCHE.

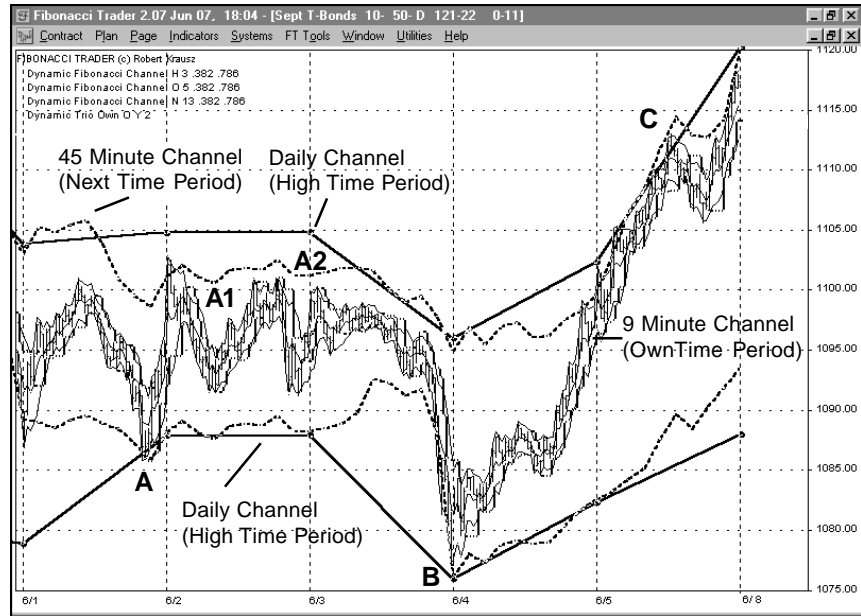


Chart 2: S&P 9 Minute Bars. Occasionally there is not enough energy to drive prices all the way to the High (Daily) Channel but it is stopped by the Next Time Period Channel, in this case the 45 Minute upper Band at points A1 and A2.

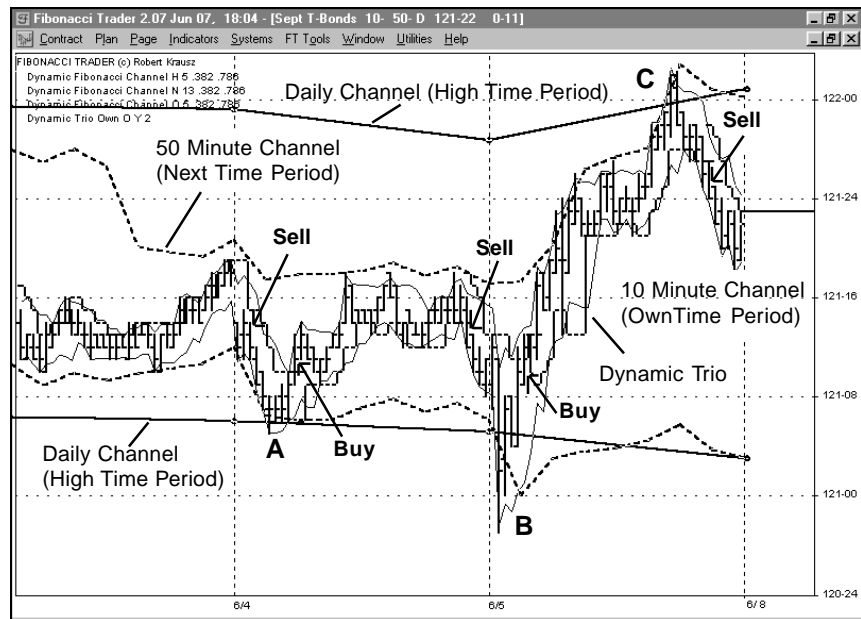


Chart 3: T-bonds 10 Minute Bars. Tests of support or resistance at the Dynamic Channels can be combined with the Dynamic Trio for trading.

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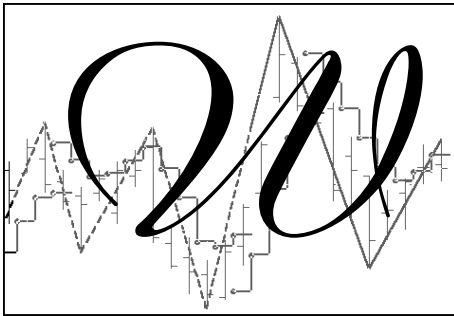
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 2

NEW GANN SWING CHARTIST™ DYNAMIC FIBONACCI CHANNELS™



ell, we have survived the first issue, and we are late with the second issue because

I was working with some bankers in Europe. The sudden interest in trading stocks by people who were never before involved tells me to look out for a man with the red flag. In one of our future issues I will cover longer term concepts.

Now for some good news. The 32 bit Fibonacci Trader program is being beta tested. In fact, some of the intraday charts in this issue are screen captures from the new version. The new 32 bit is not only faster, there are other new features as well. The Y2K problem is solved. I hope that the data vendors will be able to say the same thing. This 32 bit upgrade will be free, except for a \$50 charge for shipping & handling, as the manual and the on-line help will be totally redone. Watch for an announce-

ment at our Web site.

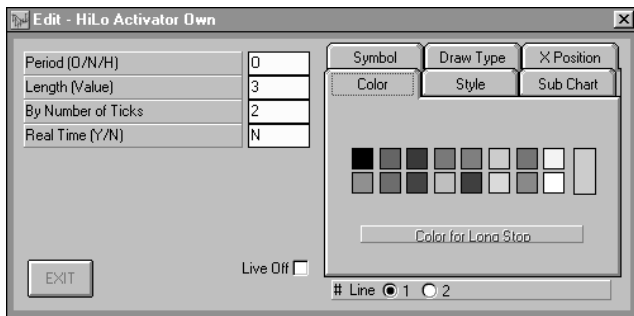
This month the FTJ has two sections. First, is a section on rules for the Gann Swing Charting and second is daily rules and intraday examples following up from the last issue using Fibon Channels.

We will carry on with the same format as most of our subscribers are happy with it.

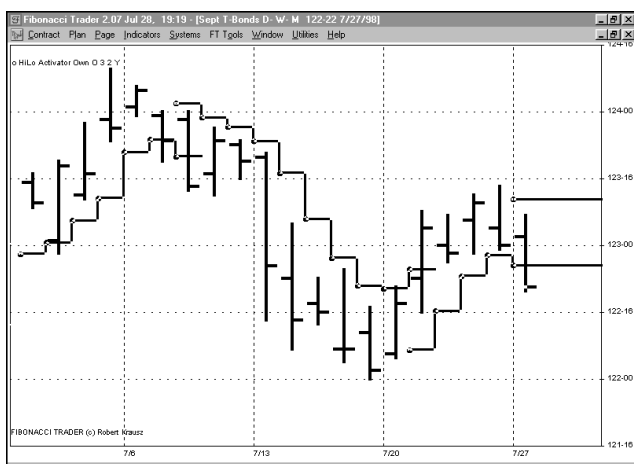
Some of the concepts that I am presenting need detail, therefore some of the future issue may be devoted to just one technique, but will be explored in great detail. Please do some research on your own and find variations on ideas presented here that suit your own mindset. The Gann swing Plan, as shown here is doing well. We are up 80% on capital. I will be sending all subscribers a full report. The returns are based on the Professional Plan. This plan will be covered in issues to come.

I wish you excellent trading,

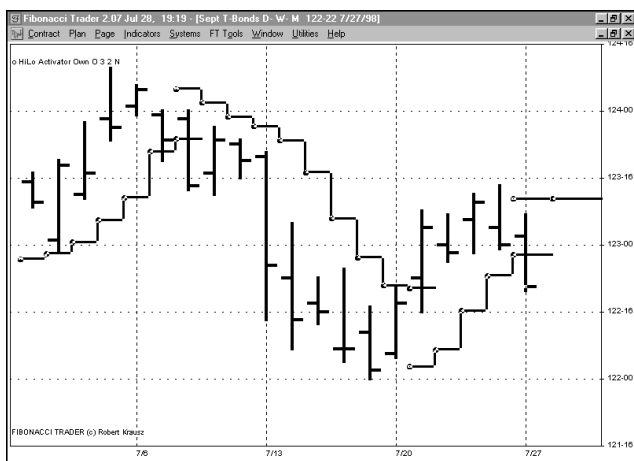
Robert Krausz, MH, BCHE



HiLo Activator: From the Edit window you can set the HiLo Activator colors, lookback period, and to plot Real Time or End-of-Day.



Real-Time HiLo Activator: The plot is a horizontal line on the live or current bar. You can see the plot follows the market higher until the market closes below the sell stop, and then the buy stop line appears.



End-of-Day HiLo Activator: Click "N" in the Real Time (Y/N) and the End-of-Day version is applied to the chart. Now the horizontal line is plotted one day forward, and is a fixed value for the entire next day. The sell stop switches to a buy stop if the market closes below the sell stop line.

THE HILO ACTIVATOR

This simple tool will act as our basic entry trigger as well as a trailing stop. You will see the application of this indicator when we look at the rules for the New Gann Swing Chartist Basic Plan.

The HiLo Activator is a simple moving average of the highs or lows plotted in an unusual manner. The sell stop is calculated by adding the last three period's lows together, and then divide the sum by three. The result is then plotted in step formation, that is, once the calculation is found it is plotted as a horizontal line below the market. If the market closes below the HiLo Activator sell stop then the horizontal plot will switch to a buy stop, based on the three period average of the highs, and follows the market down. With practice you will see that the HiLo Activator will indicate that the market is in an trend, following the market higher or lower in the step formation.

For Real-Time the plot is a horizontal line on the live bar. For End-of-day, which is the setting used in the Basic Plan, the HiLo Activator is plotted one day forward, so that we have a horizontal price point to act with tomorrow.

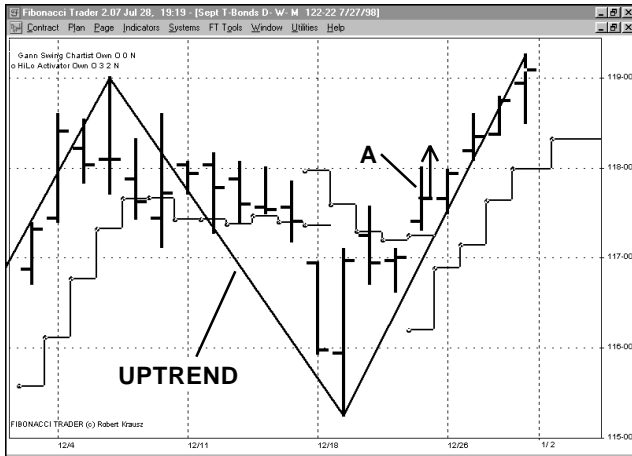
NEW GANN SWING CHARTIST BASIC PLAN

The Basic Plan, originally published in my book *A W. D. Gann Treasure Discovered*, is presented on the next three pages. There is an example of each of the long or short entry rules, and the specific rule is presented below the example. This plan trades only with the trend. That is, for long positions the Gann Swing Chartist must show an uptrend (solid line) and for short positions the Gann Swing Chartist must show a downtrend (dashed line). For an explanation of an uptrend and downtrend see the first issue of the FIBONACCI TRADER JOURNAL.

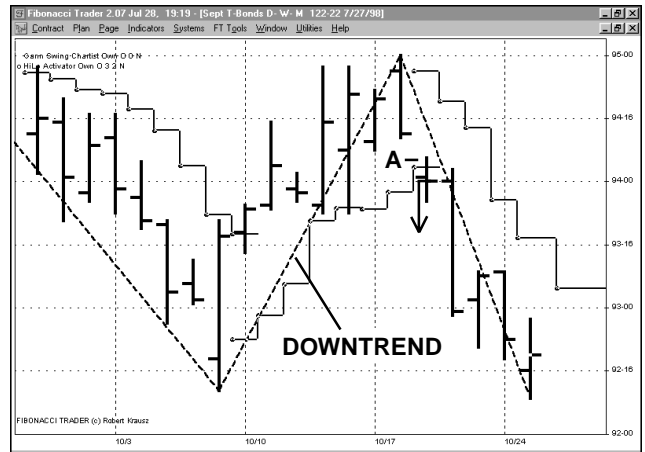
There are three sets of entry rules for longs or shorts, and two sets of exit rules. In this plan you use whichever rule is activated first. Occasionally, more than one rule applies. Before I continue discussing this plan I want to take a moment to discuss the importance of developing a trading plan.

Let me ask you: Would you consider building a house without an architectural plan? Of course not! The lack of a plan would lead to chaos. The same lack of planning by the neophyte trader leads to the same results, except in this case the chaos leads to a complete loss of trading capital. Of course, you may believe that the markets seem to be changing everyday and cannot be viewed within the framework of

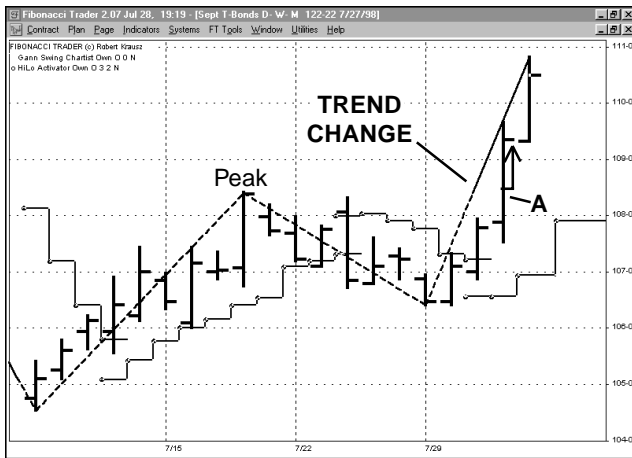
ENTRY RULES



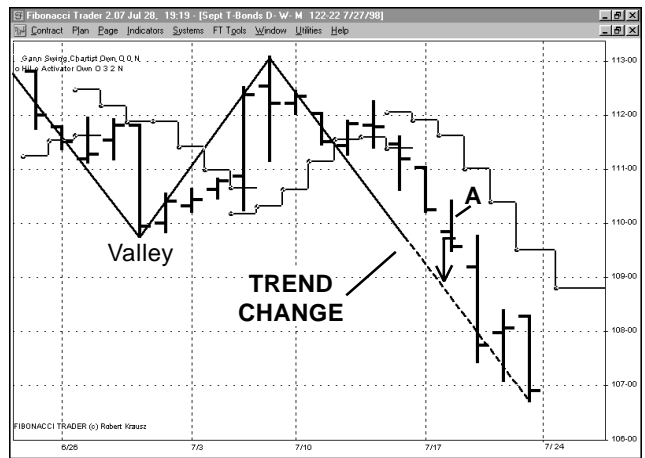
Buy Rule #1: Buy on Bar A providing the Gann Swing Chartist shows an uptrend (solid line). The buy signal occurs on Bar A when prices close above the HiLo Activator.



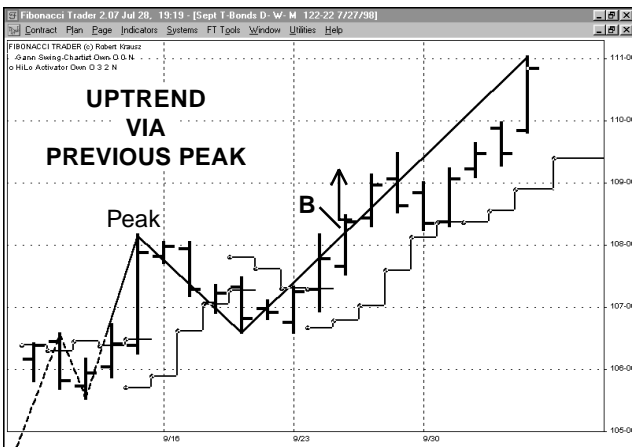
Sell Rule #1: Sell on Bar A providing the Gann Swing Chartist shows a downtrend (dashed line). The sell signal occurs on Bar A when prices close below the HiLo Activator.



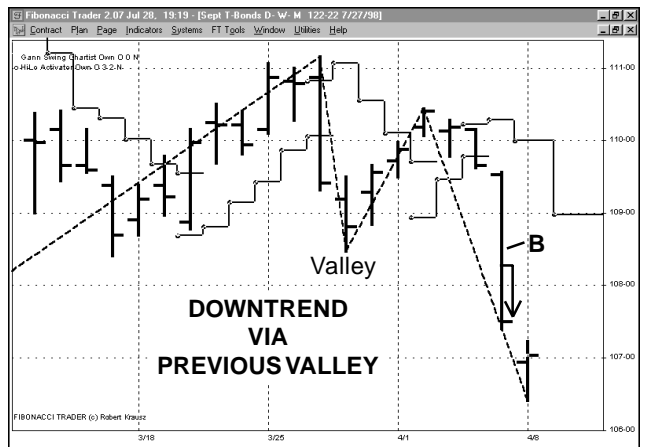
Buy Rule #2: Buy on Bar A when prices surpass the previous peak providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a dashed line to a solid line as the trend changes from down to up.



Sell Rule #2: Sell on Bar A when prices drop below the previous valley providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a solid line to a dashed line as the trend changes from down to up.



Buy Rule #3: The Trend is up (swing line is solid). You can buy when prices surpass the previous peak providing the HiLo Activator sell stop is below the bars. Action is taken intraday. The buy signal occurs on Bar B. Use two ticks pass the previous peak for the Treasury Bonds.



Sell Rule #3: The Trend is down (swing line is dashed). You can sell when prices surpass the previous valley providing the HiLo Activator buy stop is above the bars. Action is taken intraday. The sell signal occurs on Bar B. Use two ticks pass the previous valley for the Treasury Bonds.

a plan. But for me, after 20 years of trading, I find it impossible to trade without a plan that has fixed rules.

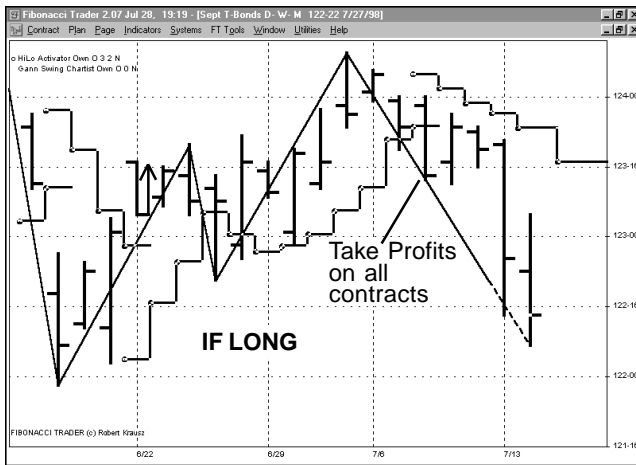
What constitutes a good trading plan? A valid trading plan must have some minimum components to earn the right to be called valid. At the simplest level, a plan must have:

- Market direction (for example, the overall trend).
- Tradable trend (the immediate swing).
- Support and resistance levels.
- Action points (entry-exit-pyramid rules).
- Money management techniques.

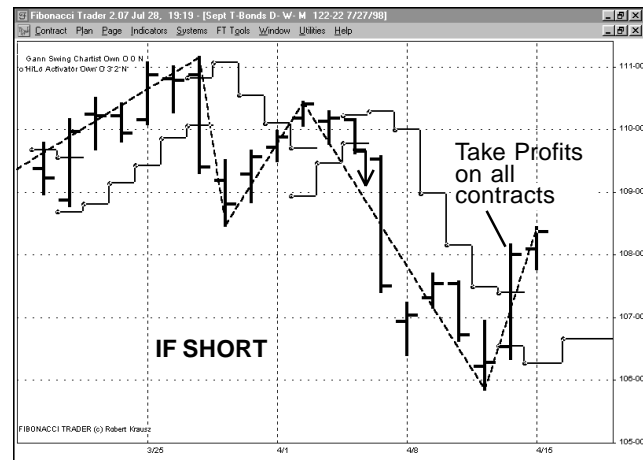
The money management should include capital requirements, stop loss and stop/reversal rules, as well as profit protection rules.

Reviewing each of the examples and rules of the Basic Plan on these pages you will see that we use the definition of a trend based on the Gann Swing Chartist method. For example, Buy Rule #1 requires the Gann Swing Chartist to be in an uptrend, and we use the HiLo Activator as our action point. The HiLo Activator is set to End-of-Day for all of the rules in the Basic Plan. So we have the market direction, the

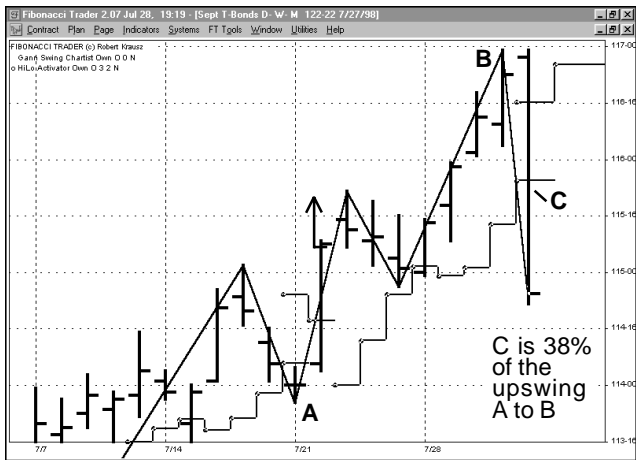
PROFIT PROTECTION RULES



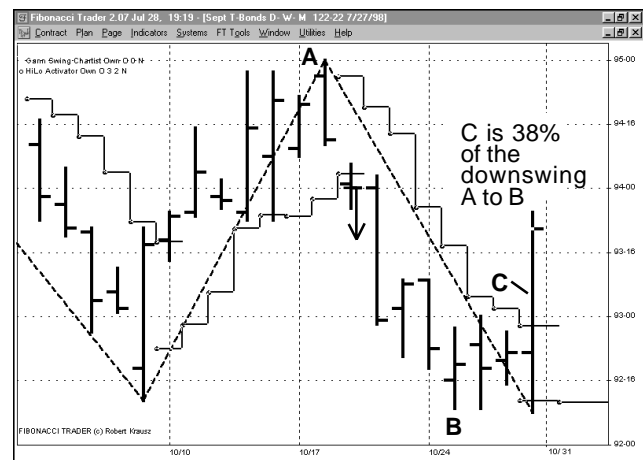
Profit Protection If Long Rule #1: If prices close below the HiLo Activator Sell Stop then close out all long positions. This happens on Bar A.



Profit Protection If Short Rule #1: If prices close above the HiLo Activator Buy Stop then close out all short positions. This happens on Bar A.



Profit Protection If Long Rule #2: If prices retrace 38% of the upswing A to B then close out all existing positions at point C. The price must be below the HiLo Activator Sell Stop by two ticks. Do not wait for the close of the day.



Profit Protection If Short Rule #2: If prices retrace 38% of the downswing A to B then close out all existing positions at point C. The price must be above the HiLo Activator Buy Stop by two ticks. Do not wait for the close of the day.

tradable trend and the action point. Now, for our stop loss or profit protection rules we use the HiLo Activator for exiting the trades for the first set of exit rules, and for the second set, we add a percentage retracement factor. Again, use whichever rule applies first.

The last concern is the amount of capital required, and for this plan we trade three contracts, and our starting capital is \$30,000. There is no pyramiding in this plan. Now we have all of the components for a trading plan.

Here, I have presented a set of fixed rules for entering and exiting the market. Why is this that important?

Because now we can take the set of rules and back test the rules over the last five years or more of market history and determine whether or not the trading plan is valid. I know that just because the plan worked in the past is no guarantee that the plan will work in the future but I do guarantee that if the plan failed in the past then it will not work in the future.

Take these rules and check it out for yourself. You can use it as a stand alone system or you can blend it with your own plan and tools. Next month I will walk you through some recent trades from the Professional Plan.

DYNAMIC FIBONACCI CHANNELS

First, we will begin with discussing the application of the Dynamic Fibonacci Channels™ (DFC) using daily bars of the September S&P 500 futures contract. In the last issue of the FTJ I pointed out that one could use the DFC concept for the daily bars as well as the intraday bars. To use the DFC for the daily bars you can plot daily, weekly, monthly channel lines but the daily and weekly channels will suffice (use the default settings for both, and of course set the period to "N" to plot the weekly channel). Chart 1 is an example of the daily and weekly plots of the DFC.

So what do we look for? Watch for the daily and weekly DFCs to come together as a potential sell situation. Note, I said look to sell, not selling Gung Ho just

because the daily and weekly DFC top bands have touched. Why? Because in a strong uptrend, as in Chart 1, the daily bars can slide along the weekly's top band for an extended period. Therefore, what is needed is some kind of indicator that not only tells us that this is in fact may be a price extreme, but the same indicator should trigger an entry for a short sale.

For this we will borrow the HiLo Activator from the Gann Swing Chartist plan. How will we combine the HiLo Activator and the Dynamic Fibonacci Channels? In an up trending market we look for the upper bands of the channels to touch and then act only if prices close below the HiLo Activator sell stop. On Chart 1 this occurs on bar Y.

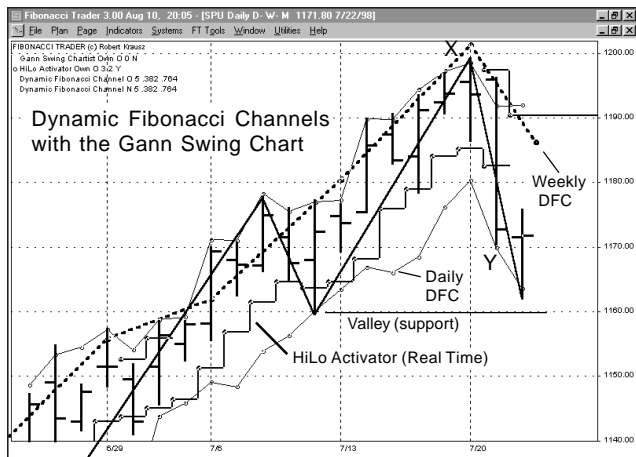


Chart 1: S&P 9 Minute Bars. On 7/21 the weekly Dynamic Fibonacci Channel (DFC) smashed down and the day closed below the HiLo Activator Sell stop shown on bar Y.

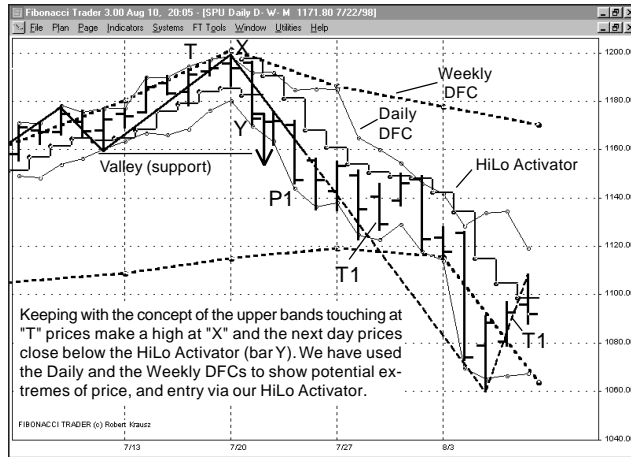


Chart 2: S&P 9 Minute Bars. Combining the tools in the FT program can be useful. In this case, we combine the Gann Swing Chart Professional plan as per my book: A W. D. Gann Treasure Discovered.

Please note the weekly DFC's very sharp change to a down direction on this very same bar. This is a useful confirmation (for the moment) of a potential end to the trend run up. We will borrow not only the HiLo Activator but use the Gann Swing Plan (Professional Plan rules from *A W. D. Gann Treasure Discovered*) in combination with the Dynamic Fibonacci Channel™ Strategy.

On Chart 1 the market formed a peak at point X, and on 7/21 prices engaged the HiLo sell stop, closing below it at approximately the 1172.80 level. This was a possible short, but if you were following the rules of the Gann Pro-Swing Plan you would sell three contracts on the next day when prices took out the low of 7/21 by two ticks at approximately the 1170.50 level, depending at what price you were filled.

Still following the Gann Swing Plan you could have pyramided (added) one contract on 7/23 as prices passed the previous valley (at approximately 1159, point P1 in Chart 2), which changed the trend from up to down. This action is based on the Pyramid Points Rule #1 from the Professional Plan. Now we are short four contracts.

We hit a target via Target Rule #1 on the close of 7/28 and took profits on one contract at 1135.50, marked as T1 on Chart 2. We are still short three contracts. Note how the HiLo Activator buy stop holds the high of the days 7/30 and 7/31 as well as the daily DFC on 7/31.

As the market proceeded downwards was there any way to reenter with more short positions? Yes. But we will cover that subject in the next issue. Returning to Chart 2, the market makes a low on 8/5 and the slope of the Gann Swing Line turns up. On the close of 8/6 we hit an additional target level (Target Rule #1) at the 1029.50 level and cover an additional contract. On the close of Friday 8/7 (as I write this), the plan is still short two contracts. The short positions are protected by Profit Protection Rules #1 and 2.

All of the Gann Swing Rules applied here are from my book *A W. D. Gann Treasure Discovered*. Except here in the FTJ, I introduce using the

rules applied to the S&P 500, which was not covered in mybook. This month I also will show how to use the Dynamic Fibonacci Channels. You can see from these three weeks of activity in the September S&P 500 futures contract the potential from combining tools in the Fibonacci Trader program. By the way, my book has received great reviews in the newsletters *Financial Cycles* and Cliff Drokes *Leading Indicators*. To them I say many thanks. Now, let's look at some intraday techniques.

INTRADAY TRADING THE S&P

First, make sure your settings for the Dynamic Fibonacci Channels is set up as detailed in the first issue of the FTJ. Chart 3 is a 9/45/Daily plan of the September S&P 500 futures contract. At points 1 and 2 the upper bands of all three DFC's channels are touching. This is a potential sell setup. Point 3 is not as good as the daily channel was not touched. The market peaked at approximately a 50% retracement of the decline from point 2 to point F.

As I stated earlier, referring to the daily charts 1 and 2, we can't place trades simply because two or more of the upper or lower bands have touched each other. We need an additional tool to use in combination with the Dynamic Fibonacci Channels. Let's begin discussing one technique with a look at chart 4.

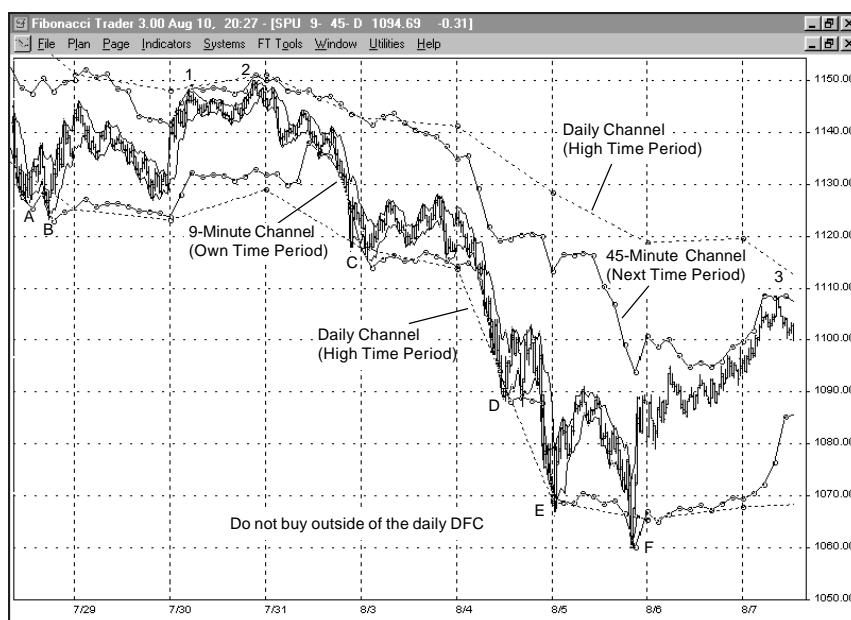


Chart 3: S&P 9 Minute Bars. At points 1 and 2 the upper bands of all three channels are touching. This is a potential sell set up. Points A through F represent potential buy set ups as the Next DFC touches the High DFC.

When trading a short time frame, such as the 9 minute S&P or the 10 minute T-bond bars you are very likely to see a lot of vibration or noise. A directional filter becomes necessary to define the trend so you can set up rules to trade with the trend or counter trend. Trading with the trend or counter trend is a personal choice. And yes, I know that if I wait for specific set ups, I will miss some nice moves, but that is my choice. If I miss a nice move occasionally, so be it.

For identifying the trend direction I will use the High Time Period Dynamic Trio (DT) plotted in step formation. This is the Daily Dynamic Trio in the 9/45/Daily plan. When the market closes below the Daily DT sell stop the DT buy stop appears above the 9-minute bars. At that point the emphasis of the trading plan should be to trade from the short side. In chart 4 this occurs on 7/21. And in fact, as I write this on 8/8 the daily DT is still above the market. This situation indicates that we should sell the rallies. We use the Dynamic Trio (Next), i.e., the 45-minute DT as an entry trigger, and as an exit action point for profits or to limit losses.

Looking at chart 5, we show chart 4 again except both the Next and High Dynamic Trio, as well as the High (Daily) Dynamic Fibonacci Channel are plotted. You can see that rallies labeled 1 and 2 met the Daily DFC upper band. At point X the 9-minute bar closed below the 45-minute Dynamic trio sell stop, and it kept you in the trade until point Y.

At point Y you may reverse to a long position because the lower band of the DFC was touched at point F.

Both trades were profitable, but the long position established at Y after point F is a contra trend trade. Why?

Because the market was still trading below the directional filter, i.e., the Daily Dynamic Trio buy stop.

Chart 6 shows two additional contra trend trades at points K and Z, as well as the trade at point Y. Look



Chart 4: S&P 9 Minute Bars. To establish the tradable trend plot the Daily Dynamic Trio (High Time Period). On 7/21 the S&P 500 closed below the Daily Dynamic Trio Sell Stop and the Buy Stop appeared.

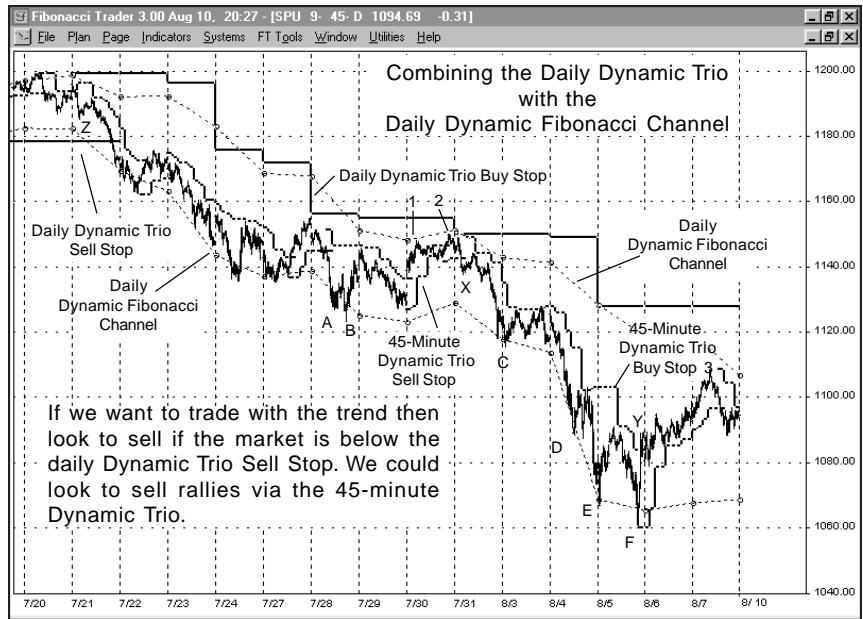


Chart 5: S&P 9 Minute Bars. If you place the Daily Dynamic Channels along with the High and Next Dynamic Trio one can easily see where the retracements occur. As prices bounce off of the upper band of the Daily Dynamic Channel we may look to sell when the 9-minute bar closes below the 45-minute DT.

carefully at trades K and Z. For both set ups the Next and Daily Dynamic Fibonacci Channels had touched, and the 9-minute bars closed below the Next Dynamic Trio. The trade labeled K on 7/20 was a loser. After the two channels kissed, and the 9-minute bar closed below the 45 minute DT sell stop the market rallied during the latter part of the day and closed back above the 45-minute DT buy stop.

At set up point Z (7/21) the upper bands had touched each other and the 9-minute bars closed below the 45-minute DT signaling a short position. By the end of the day the market traded lower, and with a close below the Daily Dynamic trio sell stop a down trend was indicated.

Chart 7 shows a closer view of the trade at point Y. We went long on the close of 8/5 at approximately 1088.50. The trade was a contra trend trade as the Next and High DFC touched each other at point F, and the market closed above the 45-minute (Next) DT. I tend to take profits (or losses) on the first close of the 9-minute bar below the Next (45-minute) DT sell stop. This occurred at point M on 8/7 at approximately 1095.50.

So the routine should be clear:

- 1) Wait for the two upper bands or two lower bands to touch each other, especially for a contra trend trade.
- 2) Enter on the close past the 45-minute DT, i. e., wait for the DT buy or sell stop to flip directions.
- 3) Use the Daily DT (High period) to define the trend and pay attention to it as a trend filter. For example, you may choose to only trade with the trend.

More details will be presented in the next issue of the Fibonacci Trader Journal.

I wish you super trading.

Robert Krausz, MH, BCHE

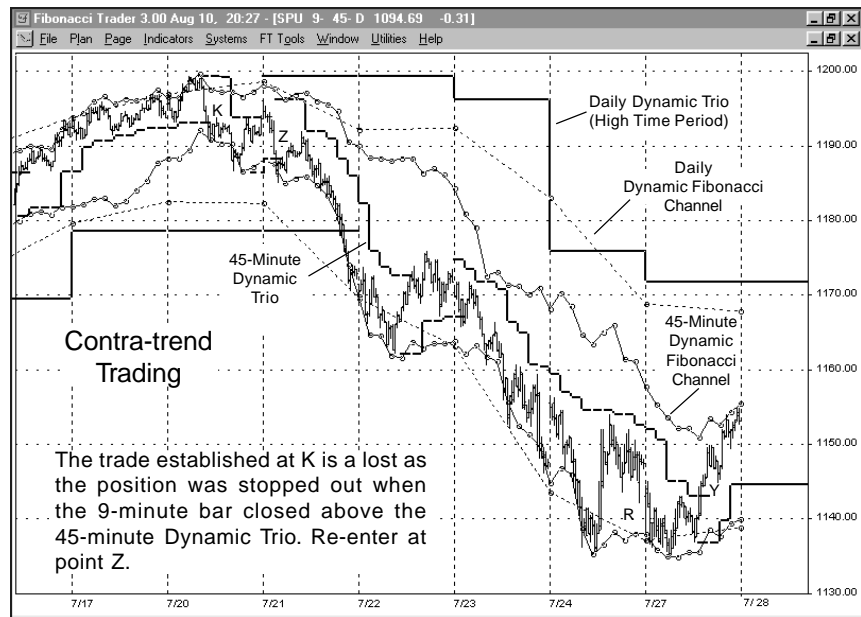


Chart 6: S&P 9 Minute Bars. This chart shows two contra-trend trades at point K and at point Z. Both times the 45-minute Dynamic Channel touched the Daily Dynamic Channel and the 9-minute bar closed below the 45-minute Dynamic Trio Buy stop.

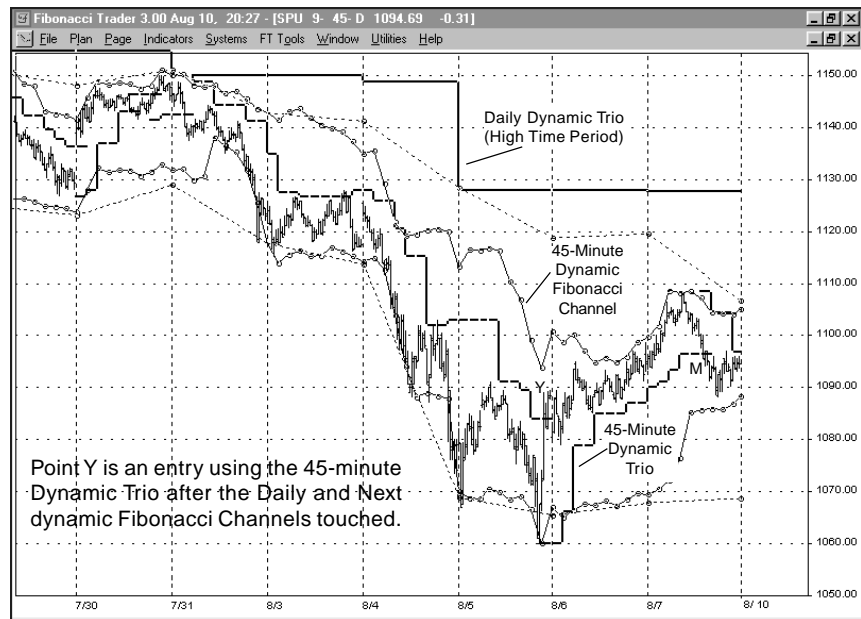


Chart 7: S&P 9 Minute Bars. Wait for the two upper or lower Daily and Next Dynamic Fibonacci Channels to touch before a contra-trend trade.

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 FIBONACCI TRADER CORPORATION, 757 SE 17TH STREET, SUITE 272
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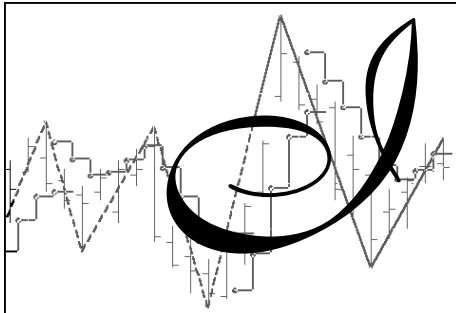
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 3

THE PROFESSIONAL GANN SWING PLAN™



In our last issue I mentioned that a man with a red flag was waving a warning concerning the stock market. Well, he certainly waved it with gusto. Be prepared for more of the same.

These are volatile times and this is when we technicians get paid for our homework and attention to details. And speaking of details, many of you spotted the typos on page 5 of the last issue. The titles of Charts 1 and 2 should have read daily S&P 500, not 9 minute bars. Be that as it may, the techniques discussed were effective. Check out the FT Web site and you will see a nice trade in the S&P, intraday, using the Dynamic Fibonacci Channels, etc.

Two more housekeeping thoughts: We have received some suggestions and one change we have made is to include both the page and issue number at the foot of each page. Finally, the 32 bit Fibonacci Trader program is almost ready. We are waiting for

the new manual, a key part to the upgrade. The actual release date and details will be posted at our Web site, and we will also notify you by snail-mail.

In our premier issue I said that now and then I would bring to your attention a valuable service or product I have found could aid you. Mark Douglas' new book *Trading in the Zone* falls into that category. I have read it, and I can only say one thing: Buy it! His approach to the mental game of trading is the real thing. As I stated in my interview in *New Market Wizards*, trading is 75% mental. And *Trading in the Zone* is better than Douglas' first book, *The Disciplined Trader*. Read it, practice it. The book is not cheap at \$150.00, but it is worth every penny. PAS, Inc. has it in stock. Call 512 443-5751.

Now onto the topic of this issue. As you can see by the title, this issue focuses on the Professional Swing Plan for trading T-bond futures. The rules originally appeared in my book *A W. D. Gann Treasure Discovered*. Those of

you who bought the book do not need to be concerned. As a reader of the FT Journal you will be privy to nuances and ideas that were not discussed in the book, plus we are showing the current performance for this year.

Why focus on this plan in particular? Because the plan up to date has been rather robust with no losing year during the 8 and 1/2 year back test. The

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Can you adopt the best features of this plan for trading your favorite market?

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plan has held up well in this year's volatile markets. Look the table below, as well as on page 8. I have included tables showing the up-to-date performance, as well as the last two months trades on a chart with the rules for the trades. Of course, I cannot guarantee that the plan will continue to perform at the same rate in the future.

This plan is not complicated, considering that we are using real-time data. The results are reasonable

because it contains the important elements for a mechanical trading plan:

- A) Fixed Rules
- B) Multiple year back test
- C) Dynamic in nature
- D) Money management
- E) Clear definitions of trend and change in trend
- F) Clear definitions of support and resistance
- G) Entry and exit points
- H) Profit protection rules and targets

This approach has been why this plan has achieved over an 80% return on capital with a 7% maximum drawdown on a \$30,000 account for this year (January 1 to October 7) before commissions. You may deduct what you like for commissions.

Why T-bonds? This is a very liquid contract, and no matter how many FT users trade, it is very unlikely to upset the rhythm of this plan.

Can you adopt the best features of this plan for trading your favorite market or your style of trading? I think that you know the answer. However, you must check it out very carefully. Defy human nature, do the

Continued on page 8

✍

1998 NEW GANN SWING CHARTIST™ PROFESSIONAL SWING PLAN DAILY T-BONDS

Beginning Equity	\$30,000.00	Ending Equity	\$56,437.50
Total Net Profit	\$26,437.50	Gross Loss	(\$10,781.25)
Gross Profit	\$37,218.75	Percentage Profitable	63%
Total No. Trades	30	No. Losing Trades	11
No. Winning Trades	19	Largest. Losing trades	(\$2,343.75)
Largest Winning Trade	\$8,656.25	Average Losing trade	(\$980.11)
Average Winning Trade	\$1,958.88	Average Trade	\$881.25
Ratio Average Win/Loss	2.00	Max. Consecutive Losses	3
Max. Consecutive Drawdown (%)	6.89%	Largest Consecutive Drawdown	(\$2,343.75)
		Notes: 1) Initial A/C Size = \$30,000	
Return on account	88%	2) Pyramids only 1/3 of original position	
Profit/Drawdown ratio	11.28	3) commissions not included	

THE PROFESSIONAL GANN SWING PLAN (REAL TIME) FOR T-BOND FUTURES

The Professional Plan is very different compared to the Basic Plan. With the Professional plan the emphasis is on trading in harmony with the daily rhythm of the markets. A market can be compared to a river, and trading is all about following the direction and speed of the river. The markets, like the river, will always take the course of the least resistance. The goal of the plan is to do the same. Commissions are inexpensive compared to the losses that mount up from being on the wrong side of the market.

This plan requires discipline. Accurate and consistent execution calls for vigilance and full focus. You must not marry your positions; change direction if the market demands it. That is why this is called the professional plan. Here is a list of the major differences from the Basic Plan:

- 1) This plan trades both with the trend and against the trend.
- 2) Profit Protection rules are used so hard-earned profits are not given back to easily.
- 3) We take profits at what I call Target Points on part of our total position. Each new trade is 3 contracts. Note: These target points are market denominated and not some arbitrary money amount dreamed up by me or you.
- 4) You can pyramid (add) to your position under specific conditions.
- 5) Re-entering the market if you exited (via the rules) too early is an integral part of the plan.
- 6) The HiLo Activator of the Weekly bars plotted onto the Daily bars becomes a functional rule for this plan. This introduces you to the concept

of Multiple Time Frames and how useful they can be for mechanical trading plans.

DAILY CHECKLIST

A daily check list is a valuable tool for managing your trading during market hours. You should develop your own. Study the rules and review the trades before you develop your daily checklist. Yes, it is work but the time spent mastering the plan will lead to greater confidence and designing your own checklist will make trading a more natural process because you will be following your own work.

Before you design your checklist review the trades in the back track. This will help you to handle the pressure of trading, when things are going against you. You will know that if you had four or five consecutive losses, the plan still went on to recoup and you survived. When it occurs in real trading (as surely it will) you will not be shocked.

Second, and this is more important of the two; through the process of repetition the subconscious will slowly start accepting the validity of the plan. By hand, perform a multi-year back track, applying the rules on a bar by bar basis. Now you will know the plan inside out, and you will know the level of adversity that is simply a part of the ups and downs of trading.

So what should be on the checklist? What rules seem the most important to you? That is the key. Go through the rules and place them in your own order. This will enable you to personalize the plan. The next set of pages are the rules for the Professional Gann Swing Plan.

THE PROFESSIONAL PLAN RULES (FOR T-BONDS)

10/20 MINUTE RULES

Wait each morning until the first 10 minute bar is complete, and then use a stop 2 ticks above or below for the signal. If there is an economic report of any kind than wait for the first 20 minute bar to complete, and use a 2 tick penetration before taking action.

TREND TRADING

Qualifier To Buy

1. Gann Swing Chart should show a solid (green) line.

Entry Rule (to Buy)

1. Go long on close above HiLo Activator by two ticks for the T-bonds.
2. Go long if prices surpass the previous peak.

Qualifier to Sell.

1. Gann Swing Chart should show a dashed (red) line.

Entry Rule (to Sell)

1. Go short on the close below HiLo Activator by two ticks for the T-bonds.
2. Go short if prices drop below the previous valley.

CONTRA TREND TRADING

Qualifiers To Buy

1. Gann Swing Chart should be a Dashed line.
2. Close above the HiLo Activator.

Entry Rule (to Buy)

1. Go long when prices pass the high of the bar that closed above the HiLo Activator. (This does not have to be the next day's bar.)

Qualifiers To Sell

1. Gann Swing Chart should be a solid line.
2. Close below the HiLo Activator.

Entry Rule (to Sell)

1. Go short when prices pass the low of the bar that closed below the HiLo Activator. (This does not have to be the next day's bar.)

SPECIAL ENTRY RULE

(Long or short)

Qualifier To Buy

The daily bar closes 3 ticks below the Next HiLo Activator.

Entry Rule (to Buy)

Go long on the next bar that reverses by a 3 tick penetration back above the Next HiLo Activator (the Weekly). Do not wait for the market to close.

Qualifier to Sell.

The daily bar closes 3 ticks above the Next HiLo Activator.

Entry Rule (to Sell)

Go short on the 3 tick penetration back below the Next HiLo Activator. Do not wait for the close.

Note: The Next (Weekly) HiLo Activator is plotted in Line Formation (step formation is not needed.)

SPECIAL STOP & REVERSE RULE

1. If long, stop & reverse 2 ticks past nearest valley, unless normal entry rule is hit 1.
2. If short, stop & reverse 2 ticks past nearest peak unless normal entry rule is hit 1.

RE-ENTRY RULE

If a Profit Protection point is hit (See Profit Protection Rule) but there is no reversal signal, then re-enter the market intraday when 1) the most recent isolated high or low is passed by 2 ticks, or 2) the most recent previous peak or valley is passed by 2 ticks, or 3) the high or low of the bar that broke the HiLo Activator is passed by 2 ticks.

Waiting for a close past a previous peak or valley is optional; the trading plan results are based on not waiting for the close.

TARGETS

(Use whichever is hit first)

1. Take profits on 1/3 of your positions on the close of the first bar that causes the slope of the swing to change. This rule applies even if the trade is a loss. Keep taking profits on each signal (This is optional, I only use this rule once).
2. Take profits on 1/3 of your contracts if price hits Next periods HiLo Activator (the weekly). Use either Rule 1 or 2.

PYRAMID RULES

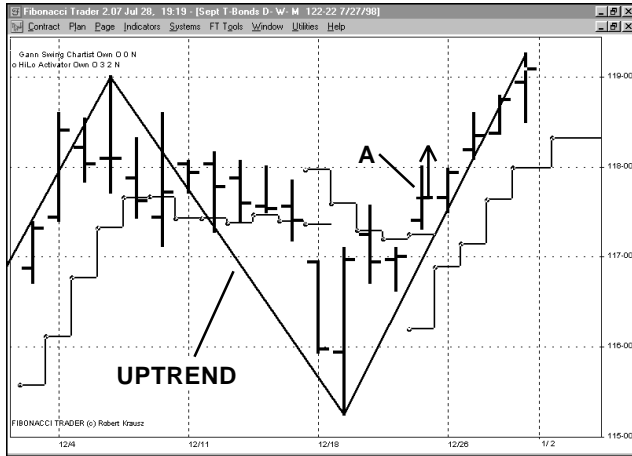
1. Pyramid (add) 1/3 of your original position at a Trend change point (ie: If long and the Swing Chart changes to a Solid Line).
2. Pyramid (add) 1/3 of your original position when a previous peak or valley is taken out intraday.

PROFIT PROTECTION RULES

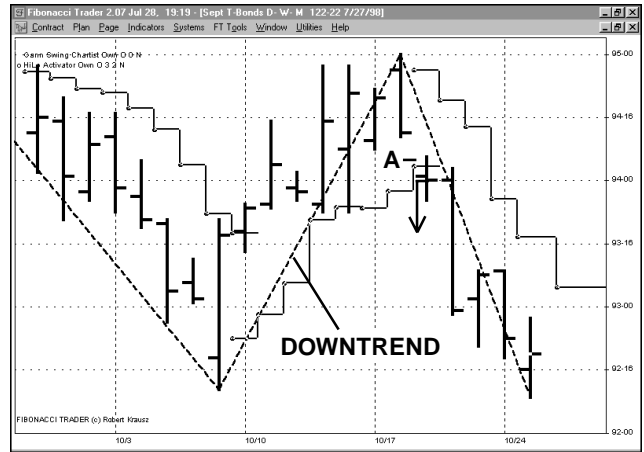
(use whichever is hit first)

1. Any 38.2% retracement of the previous swing.
2. Any 2 tick penetration of the Daily HiLo Activator.

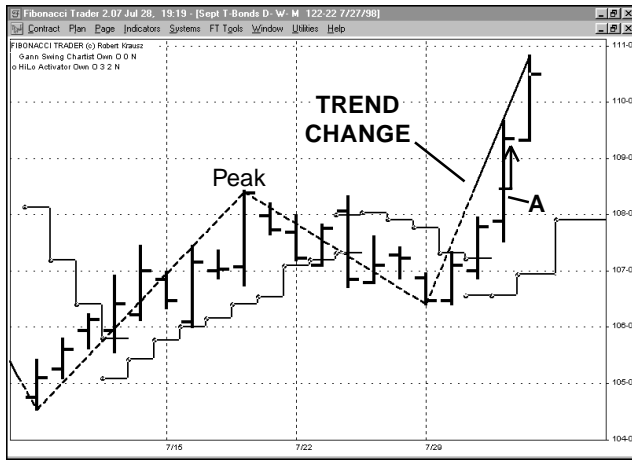
ENTRY RULES



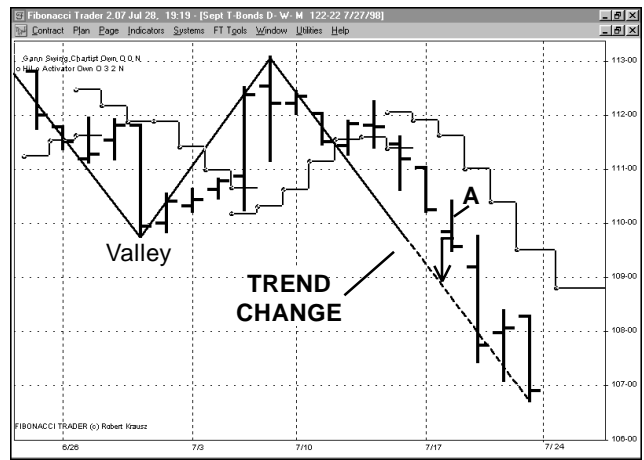
Buy Rule #1: Buy on Bar A providing the Gann Swing Chartist shows an uptrend (solid line). The buy signal occurs on Bar A when prices close above the HiLo Activator.



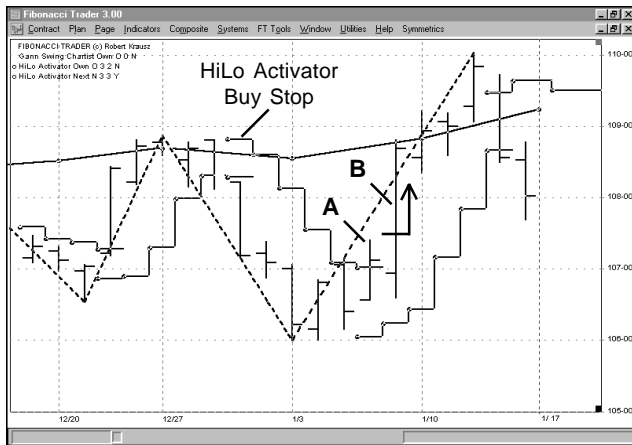
Sell Rule #1: Sell on Bar A providing the Gann Swing Chartist shows a downtrend (dashed line). The sell signal occurs on Bar A when prices close below the HiLo Activator.



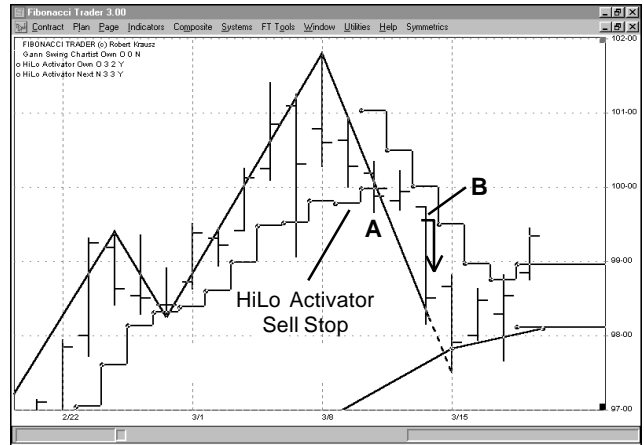
Buy Rule #2: Buy on Bar A when prices surpass the previous peak providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a dashed line to a solid line as the trend changes from down to up.



Sell Rule #2: Sell on Bar A when prices drop below the previous valley providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a solid line to a dashed line as the trend changes from down to up.



Contra Trend Trading (Buy): The Gann Swing line is dashed. You can buy when prices rise two ticks above the high of the bar that closes above the HiLo Activator Line. Action is taken intraday. The buy signal occurs on Bar B. You can enter after bar B as long as the high of bar A is taken out.

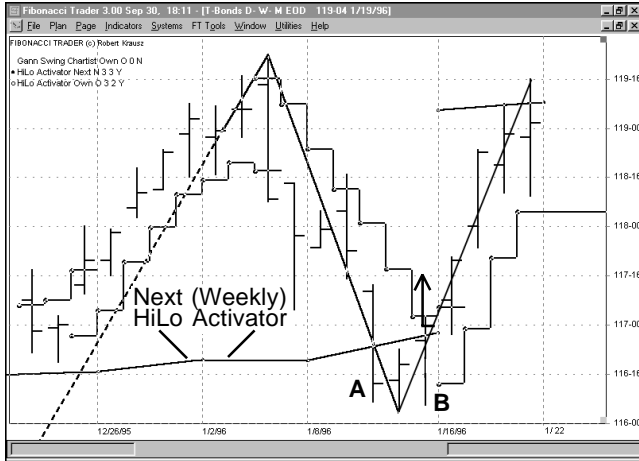


Contra Trend Trading (Sell): The Gann Swing line is Solid. You can buy when prices falls two ticks below the low of the bar that closes below the HiLo Activator Line. Action is taken intraday. The sell signal occurs on Bar B. You can enter after after bar B as long as the low of bar A is taken out.

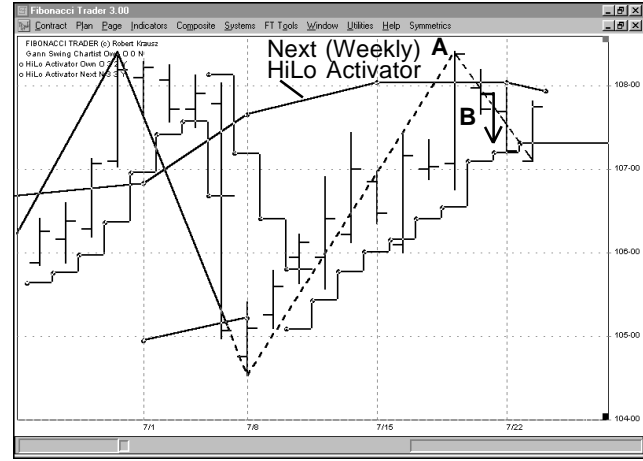
SPECIAL ENTRY RULES

This set of rules introduces incorporating the Next time periods HiLo Activator into our trading plan. As our plan is a Daily/Weekly/Monthly plan, the Next time periods uses weekly bars for calculations. Therefore, the weekly highs and lows are the basis for the

Next HiLo Activator. When setting up the indicator go to Draw Type and select Line. We do not use the Step formation for the Next, as we do for the Own HiLo Activator. Here the Weekly HiLo Activator is used as a support or resistance level for the trading rules.



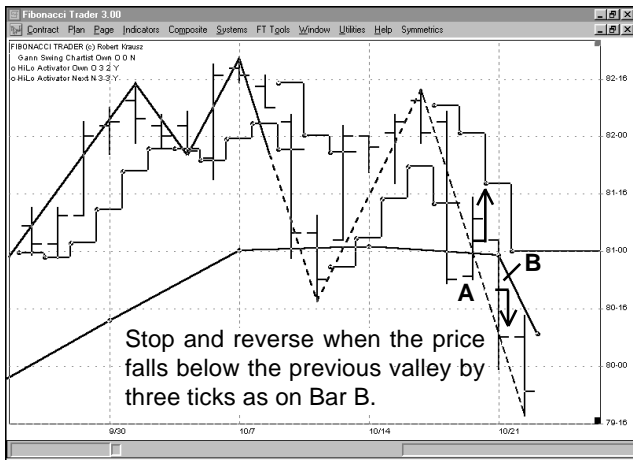
Special Entry Rule (Buy): Bar A trades below the weekly HiLo Activator and closes below it by three ticks. Bar B trades back above the HiLo Activator. A long position is assumed if the price trades 3 ticks above the weekly HiLo Activator.



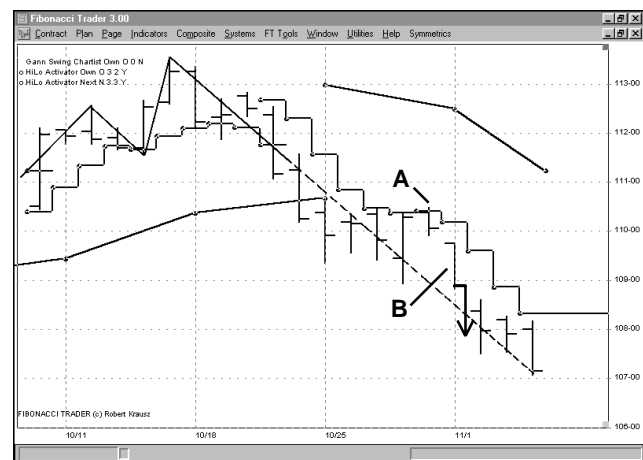
Special Entry Rule (Sell): Bar A trades above the weekly HiLo Activator and closes above it by three ticks. Bar B trades back below the HiLo Activator. A short position is placed if the price trades 3 ticks below the weekly HiLo Activator.



RE-ENTRY RULES

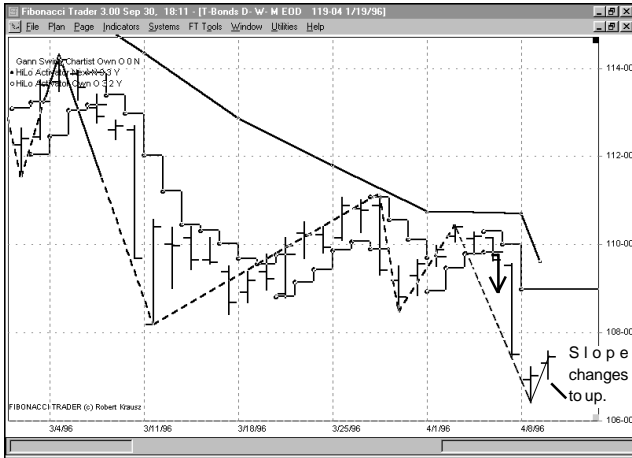


Stop & Reverse for the Special Entry Rule (Buy): Bar A trades back above the weekly HiLo Activator by three ticks indicating a long position. Bar B trades back the nearest valley, resuming the down trend.

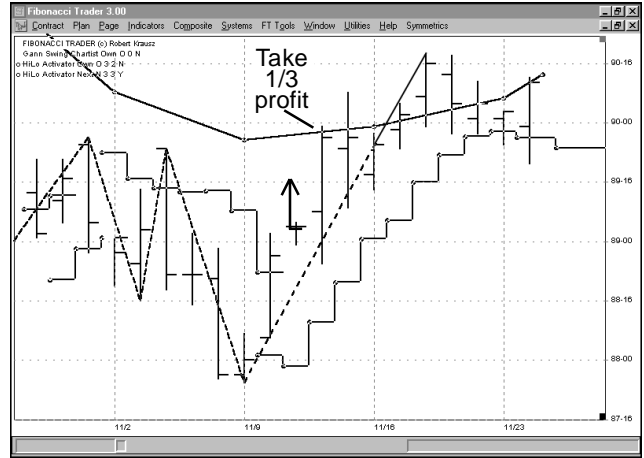


Re-entry Rule With The Trend. The trend is down. If prices penetrate the HiLo Activator Buy Stop by two ticks then Profit Protection Rule #2 stops you out. Re-enter on Bar B when the previous valley is taken out by two ticks.

TARGETS

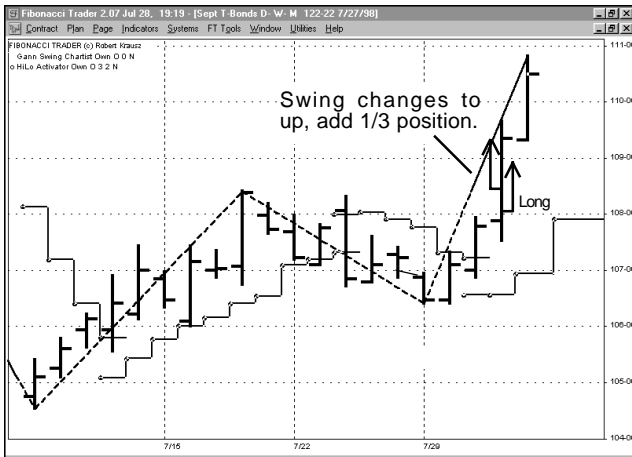


Target Rule #1: The Target is a change in slope (not a change in the swing). Take 1/3 profits.

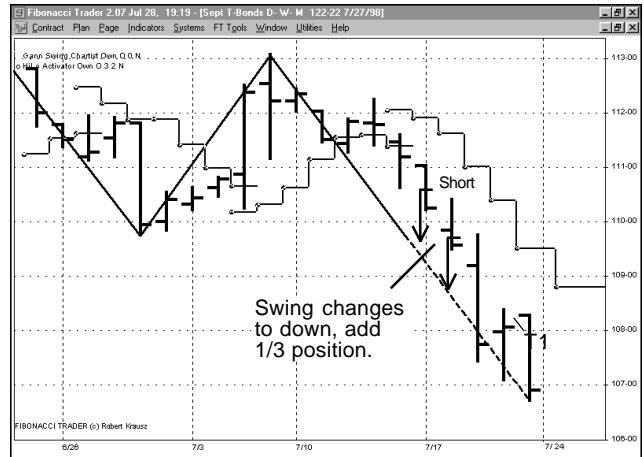


Target Rule #2: Target is the Next Time Periods HiLo Activator. Take 1/3 profits. Use Rule 1 or 2 (optional) each time one is hit.

PYRAMID RULES

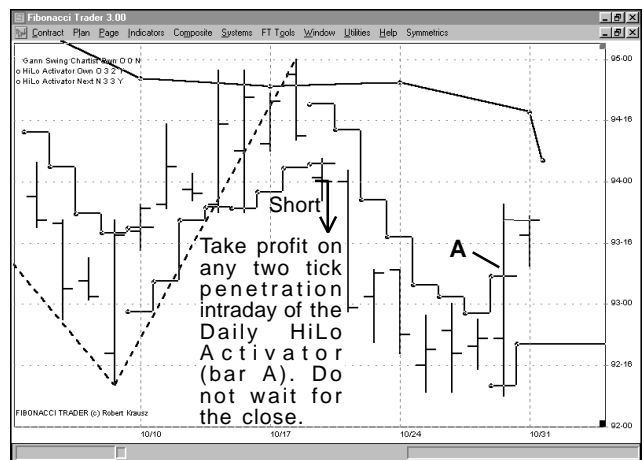
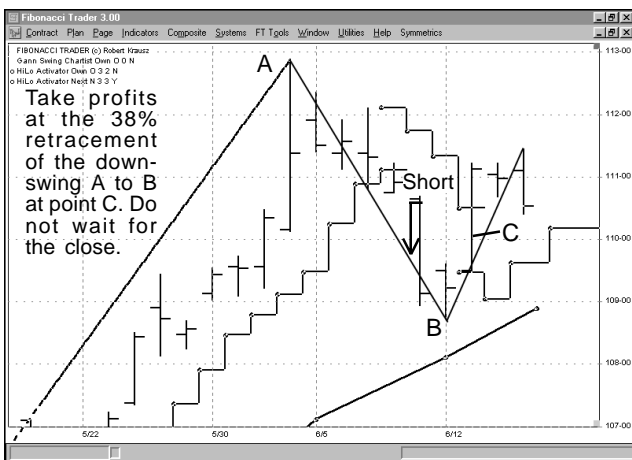


Pyramid Point, After Long Entry: If the plan is already long you can add 1/3 when the trend changes to up (Solid Line).



Pyramid Point, After Short Entry: If the plan is already short you can add 1/3 when the trend changes to up (Dashed Line).

PROFIT PROTECTION RULES



Trade #	Date	L/S	Price	CTR.	Rule #	Profit (Loss)	Accum.	Monthly Profit(Loss)	AC Equity
26	8/4/98	L	123-14	3	Trend 2				
27	8/5/98	S	123-12	6	Special Rule	(6)	840		\$56,250.00
T	8/6/98	L	123-27	1	T1	(15)	825		\$55,781.25
28	8/10/98	S	123-30	5	Special Rule SAR	(36)	789		\$54,656.25
PP	8/12/98	S	123-24	3	PP2	(18)	771		\$54,093.75
29	8/20/98	L	124-16	3	Trend 1				
T	8/24/98	S	125-02	1	T1	18	789		\$54,656.25
PP	9/14/98	S	127-31	2	PP2	186	975	129	\$60,468.75
30	9/30/98	L	130-11	3	Re-entry #1				
T	10/6/98	S	134-04	1	T1	121	1096		\$64,250.00
PP	10/7/98	S	132-25	2	PP2	156	1252	277	\$69,125.00

work yourself.

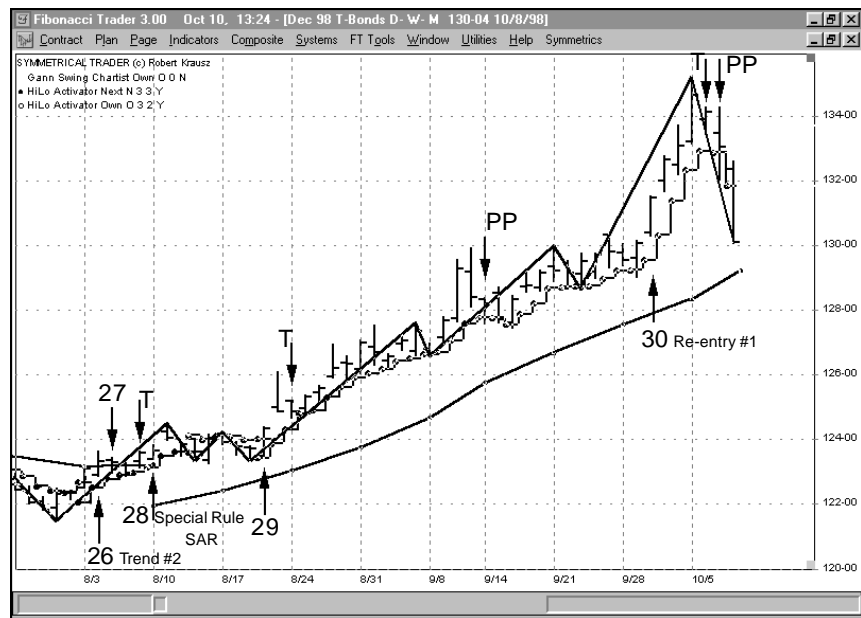
Two important points must be noted:

- 1) Pay close attention to the 10/20 minute rule.
- 2) The HiLo Activator direction change can only be considered if the opposing side (color) has popped up on the monitor, ie., the indicator has flipped.

There are five pages presenting the rules with examples for you to study, as well as some key points on the page 3. If any of the rules are not clear then please write me. Don't overlook designing a Daily Checklist. That is a very helpful tool for trading effectively.

Some subtle points will be discussed in the next issue of the FT Journal, but everything you need is here. Next month we will discuss Multiple Time Frame Swing Trading

I wish you excellent trading,
Robert Krausz, MH, BCHE



The table lists recent trades and rules. These same signals are also shown on the chart. The plan uses a \$30,000 beginning equity and a 3 contract initial position for each trade. Slippage and commissions are not included.



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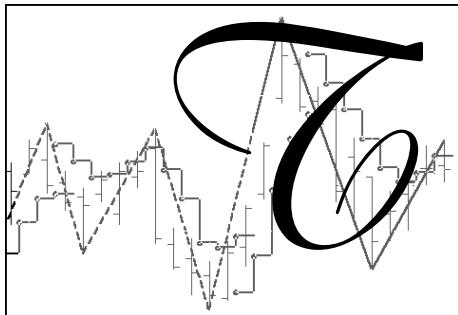
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 4

THE BASIC GANN SWING PLAN™ FOR STOCKS



This issue of the Fibonacci Trader Journal will focus on trading stocks. Some traders,

those who focus on just stocks, have felt somewhat neglected by our previous issues dealing with just futures. With this issue I will correct this.

To start, the Basic Plan for Gann Swing trading stocks, which was explained in my book, *A Gann Treasure Discovered*, is alive and well. The same rules explained in the Fibonacci Trader Journal issue 2 for trading T-bonds can be used for trading stocks. In my book, I included a set of tables and charts showing a five year period (1991-96) for five stocks. Those particular years, which were the current period at the time were, in fact, up years for the market as a whole. I decided to take a look at a five stock portfolio during this years market stumble and current rise. These re-

sults are from January 2, 1998 up to the end of October, shown in tables further on in this issue. The results speak for themselves. This simple plan out traded most of Wall Street. I will report again the results for the close of 12/31.

QUESTIONS

During this year I have had some interesting questions. I have provided some illustrations to answer a few. The illustration on the next page shows how the swing direction can change. Examples 1 and 2 were covered and used in the book. Recently, I've been asked about the Fast Track choice on some indicators. Your program now has a new Fast Track facility as shown in illustration #3. Seldom happens, but it does happen.

Also, please remember that the Basic Plan acts on the close, so if you have the End-of-Day version of the Fibonacci Trader program then you

must have the HiLo Activator showing 1 day forward, as per page 25 in the Gann book.

One particular reader had a problem understanding the concept that a valid close below or above the HiLo Activator must be accompanied by a flip, i.e. the opposite HiLo Activator must come up. This also applies to the profit protection rule 1.

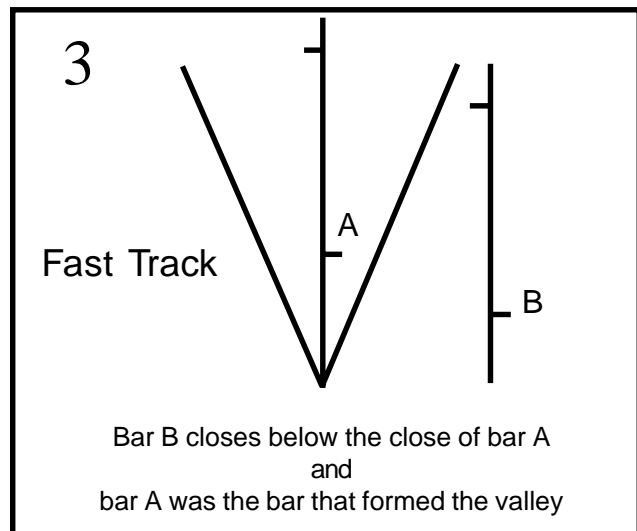
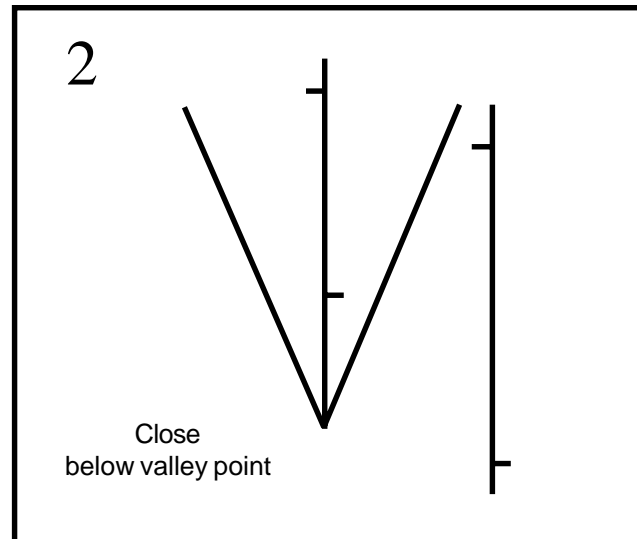
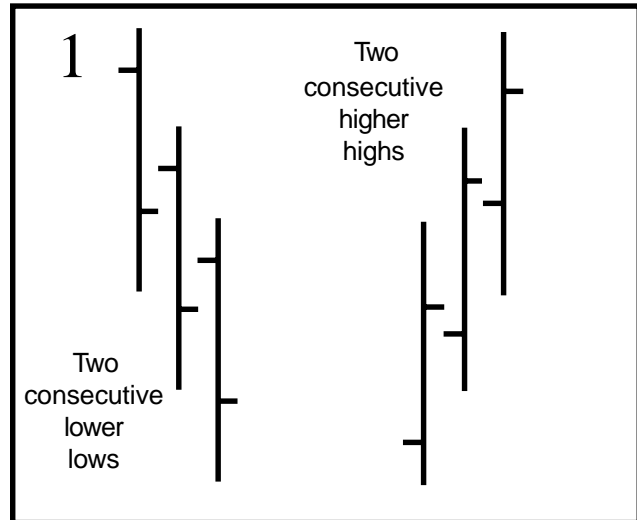
Lastly, I have an important point for stock traders. Please reset the HiLo Activator to 4 ticks as the stocks now trade in 1/16 (when I wrote the book stocks traded in 1/8). This only applies to stocks, for T-bonds use 2 ticks, as before.

BASIC PLAN RESULTS

The following tables shows the results of trading five different stocks for 1998. Does this Basic Plan work with any stock? Of course not, especially in that this plan only trades with the trend. Obviously, it survives volatile times, like the current situation. Please keep in mind that this plan should be considered for very liquid stocks that have reasonably swings. Stay away from dead markets. W. D. Gann warned us many years ago.

While we do not need months of trend runs we do want to see good volume and momentum. I suggest that you stay away from very cheap stocks with low volume. And yes, by all means check out NASDAQ stocks, especially the Technology Sector. Take a good look at stocks such as American Online, Intel, Microsoft, and even the amazing Amazon is worth looking at.

Please check carefully, do not just dive in. A serious review will pay good dividends.



CLOSING NOTES

The 32-bit version of the Fibonacci Trader is now ready, so check out the Web site if you have not ordered the upgrade yet. In the very near future the Fibonacci Trader Web site will be available in an Italian version due to our Italian distributors good work. More details on this in a later issue.

And speaking of international friends, I would

like to welcome our Dutch readers who own the Fibonacci Trader program. We now have users in virtually every country in Europe.

This issue will look at some intraday techniques using Intel, and our next issue will look at some interesting ideas for intraday plans, particularly the T-bonds.

I wish you excellent trading,

Robert Krausz, MH, BCHE

The five tables shown on the next two pages are each based on an initial start of capital using 50% margin and trading 1,000 shares. Therefore, the initial account size is equal to what it would cost to trade 1,000 shares at that time. A commission equal to 12 cents per share round turn is included. The plan handles less or more shares but the percentages stay the same. No dividends or interest is included.

NEW GANN SWING CHARTIST™ BASIC SWING PLAN 1998 IBM

Beginning Equity	\$52,593.75	Ending Equity	\$117,350.00
Total Net Profit	\$14,562.50	Gross Loss	(\$27,125.00)
Gross Profit	\$41,687.50	Total Commissions	\$2,400.00
Total No. Trades	20	Percentage Profitable	40%
No. Winning Trades	8	No. Losing Trades	12
Largest Winning Trade	\$17,875.00	Largest Losing Trade	(\$4,187.50)
Average Winning Trade	\$5,210.94	Average Losing Trade	(\$2,260.42)
Ratio Average Win/Loss	1.92	Average Trade	\$728.13
Max. Consecutive Winners	3	Max. Consecutive Losses	4
Largest Consecutive Drawdown (%)	12.82%	Largest Consecutive Drawdown	(\$7,687.50)
Return on account	27%	Profit/Drawdown ratio	1.89

NEW GANN SWING CHARTIST™ BASIC SWING PLAN 1998 American Freight

Beginning Equity	\$4,750.00	Ending Equity	\$6,487.50
Total Net Profit	\$2,937.50	Gross Loss	(\$1,250.00)
Gross Profit	\$4,187.50	Total Commissions	\$1,200.00
Total No. Trades	10	Percentage Profitable	70%
No. Winning Trades	7	No. Losing Trades	3
Largest Winning Trade	\$1,500.00	Largest Losing Trade	(\$687.50)
Average Winning Trade	\$598.21	Average Losing Trade	(\$416.67)
Ratio Average Win/Loss	1.44	Average Trade	\$293.75
Max. Consecutive Winners	3	Max. Consecutive Losses	1
Largest Consecutive Drawdown (%)	11.57%	Largest Consecutive Drawdown	(\$807.50)
Return on account	37%	Profit/Drawdown ratio	3.64

NEW GANN SWING CHARTIST™ BASIC SWING PLAN 1998 Coca Cola Co.

Beginning Equity	\$32,968.75	Ending Equity	\$64,043.75
Total Net Profit	\$32,875.50	Gross Loss	(\$8,687.50)
Gross Profit	\$41,562.50	Total Commissions	\$1,800.00
Total No. Trades	15	Percentage Profitable	60%
No. Winning Trades	9	No. Losing Trades	6
Largest Winning Trade	\$23,187.50	Largest Losing Trade	(\$2,687.50)
Average Winning Trade	\$4,618.06	Average Losing Trade	(\$1,447.92)
Ratio Average Win/Loss	3.19	Average Trade	\$2,191.67
Max. Consecutive Winners	3	Max. Consecutive Losses	1
Largest Consecutive Drawdown (%)	4.20%	Largest Consecutive Drawdown	(\$2,807.50)
Return on account	94%	Profit/Drawdown ratio	11.71

NEW GANN SWING CHARTIST™ BASIC SWING PLAN 1998 MICROSOFT

Beginning Equity	\$31,750.00	Ending Equity	\$75,892.50
Total Net Profit	\$46,062.50	Gross Loss	(\$12,812.50)
Gross Profit	\$58,875.00	Total Commissions	\$1,920.00
Total No. Trades	16	Percentage Profitable	63%
No. Winning Trades	10	No. Losing Trades	6
Largest Winning Trade	\$25,625.00	Largest Losing Trade	(\$6,062.50)
Average Winning Trade	\$5,887.50	Average Losing Trade	(\$2,135.42)
Ratio Average Win/Loss	2.76	Average Trade	\$2,878.91
Max. Consecutive Winners	4	Max. Consecutive Losses	1
Largest Consecutive Drawdown (%)	7.53%	Largest Consecutive Drawdown	(\$6,182.50)
Return on account	139%	Profit/Drawdown ratio	7.45

NEW GANN SWING CHARTIST™ BASIC SWING PLAN 1998 America Online

Beginning Equity	\$21,593.75	Ending Equity	\$83,948.75
Total Net Profit	\$64,875.50	Gross Loss	(\$18,500.00)
Gross Profit	\$83,375.00	Total Commissions	\$2,520.00
Total No. Trades	21	Percentage Profitable	62%
No. Winning Trades	13	No. Losing Trades	8
Largest Winning Trade	\$21,750.00	Largest Losing Trade	(\$4,937.50)
Average Winning Trade	\$6,413.46	Average Losing Trade	(\$2,312.50)
Ratio Average Win/Loss	2.77	Average Trade	\$3,089.29
Max. Consecutive Winners	5	Max. Consecutive Losses	3
Largest Consecutive Drawdown (%)	23.82%	Largest Consecutive Drawdown	(\$6,297.50)
Return on account	289%	Profit/Drawdown ratio	10.30



his month the focus is using the Gann Basic Plan for trading stocks with an eye to applying Multiple Time Frame techniques to intraday trading. Take a look at Chart 1, a daily chart of Intel. This first example shows the classic setups for a trade from the Basic Plan. We are using techniques that have been discussed in our previous issues.

To begin, the market forms two rising valleys, 1 and 2, an early sign of a bottom in the market. Next the daily HiLo Activator flips to the long side on 10/9. This action occurs between the first valley and the peak. Notice that as the second valley forms, the HiLo Activator acted as support. This is a very positive sign. Next, on 10/21, as the peak is sur-

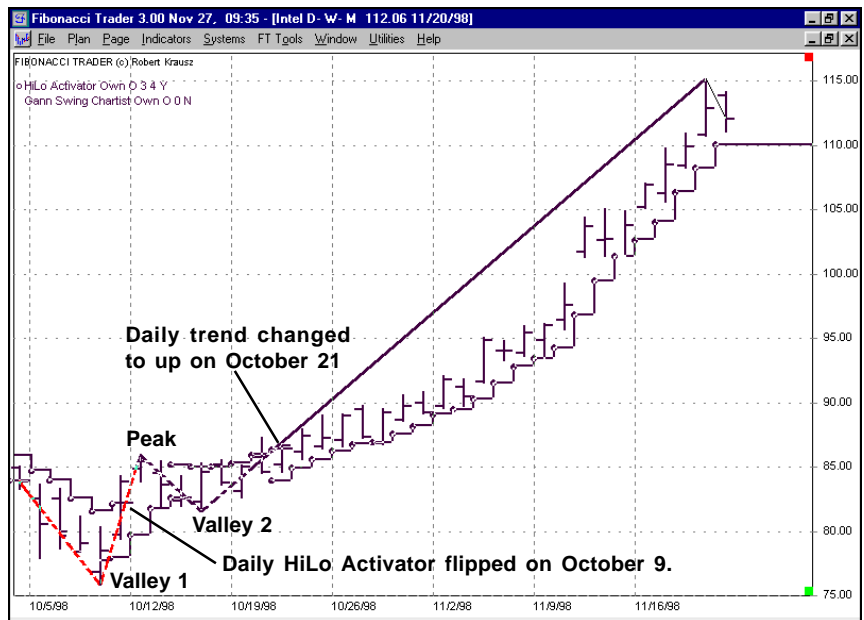


Chart 1: Daily Bars Intel. Some key events occurred prior to a strong trend run. Rising Valley's 1 and 2 formed, with the daily HiLo Activator flipping prior to the peak. Surpassing the peak turned the trend to up, and for 21 days the trend continued higher, supported by the HiLo Activator.

passed, the trend turns to up according to the rules from the Basic Plan.

At this point, the daily trend is up, and what a trend it is! In fact, the trend continues higher for 21 days with clear support from the HiLo Activator. So let's now take up trading the intraday time period, knowing that the daily

trend is up, and that the slope is up, as well as there is support from the daily HiLo Activator.

Chart 2 is a 13 minute/78 minute/Daily plan. We'll still be using our standard format in that the dashed Gann Swing line is a down trend, and the solid Gann Swing line is an up trend. On Chart 2, the *High* time frame,(the

Daily) HiLo Activator is plotted. Looking at Chart 2, we can see that on 10/9, early in the day, the 13 minute Gann Swing Chart went long, and by the close the daily HiLo Activator flipped to an uptrend.

At this point looking to buy is the more conservative approach, as you are trading with the support of the daily HiLo Activator. Why? Because knowing support levels for intraday trading is our advantage, and we look to the HiLo Activator for this. Notice how on 10/15 the market edges down to and touches the daily HiLo Activator, and then rebounds nicely. Next, take a look at Chart 3, and see the same thing. On 10/19 the market trades down to support basis the daily HiLo Activator, then rebounds. Again, on 10/28 the market trades down to

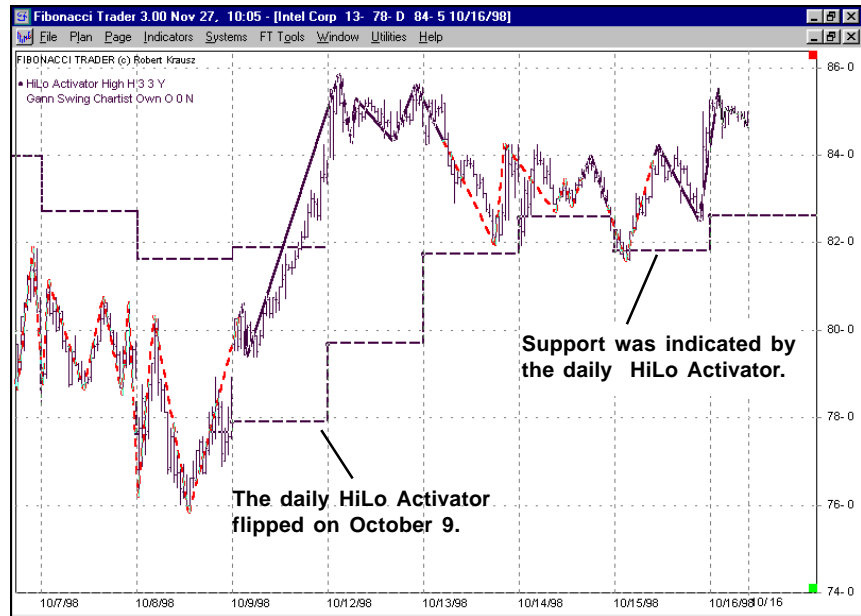


Chart 2: 13 Minute Bars Intel. Here's an intraday look at the activity in Intel as the bottom was forming. This view is a 13 minute/78 minute/Daily plan. The daily HiLo Activator flipped on October 9. During the pull back the price action was supported by the HiLo Activator.

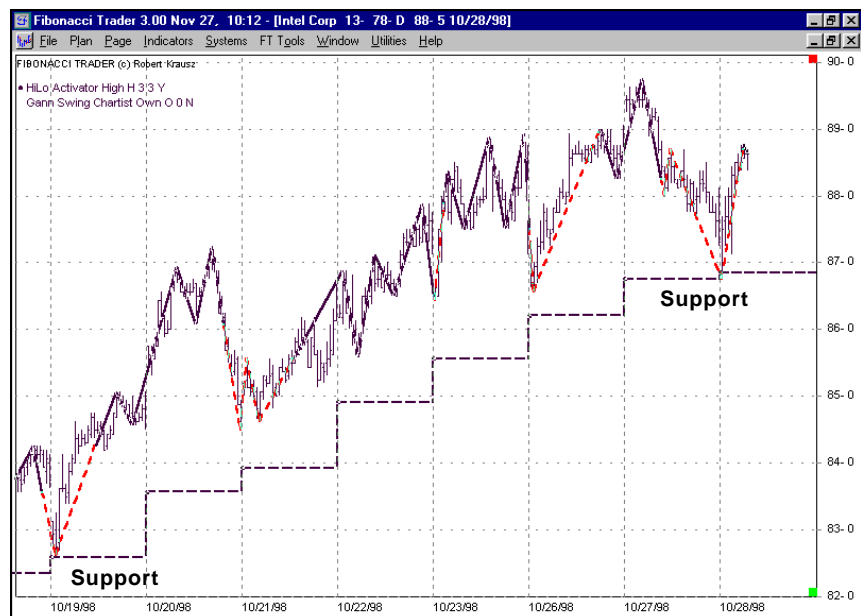


Chart 3: 13 Minute Bars Intel. On October 19 the market trades down to support and then rallies. Again, on October 28 the market tests support and rallies.

the daily HiLo activator and rallies. Even on Chart 4, the market moves into a fairly volatile \$3 trading range on 11/12. Then on 11/13 the market touches the daily HiLo activator during the first 13 minute bar. This turned out to be the low before the next trend run began, as shown on Chart 5.

Let's add the HiLo Activator from the *Next* time (Chart 6, next page), which is the 78 minute bars. Looking closely at the end of trading for 11/9 you can see that the 78 minute HiLo Activator flips to the long side on the close (point XX), which is \$96. The 78 minute HiLo Activator stays long until the closing bar on 11/12 at just under \$103 (point YY).

Carrying over to Chart 7, point A, is the next flip to the long side



Chart 4: 13 Minute Bars Intel. The market trends nicely and then enters into a trading range, once again touching support basis the daily HiLo Activator.



Chart 5: 13 Minute Bars Intel. recall that the dashed Gann Swing Line is a down trend and the solid line is an up trend. Notice how often the 13 minute Gann Swing Lines went long during the up trend.

for the 78 minute HiLo Activator with the price somewhat over \$106. Next, the market enters into a tight trading range with the Gann Swing line signaling a short term downtrend, then flipping back to long, and meanwhile the 78 minute HiLo Activator was solid support the entire time. Then on 11/17 the market breaks out of the two day trading range and rallies over \$9 before the 78 minute HiLo Activator exits near \$113, at point B.

This set of examples displays the opportunities available using the multiple time frame techniques that are the foundation of the Fibonacci Trader program. Combining this approach with the unique indicators available can be the basis for your own trading plans. Take time to study the Gann Swing Chart Basic Plan and develop your own plan for intraday trading stocks. More strategies for this will be coming in future issues.

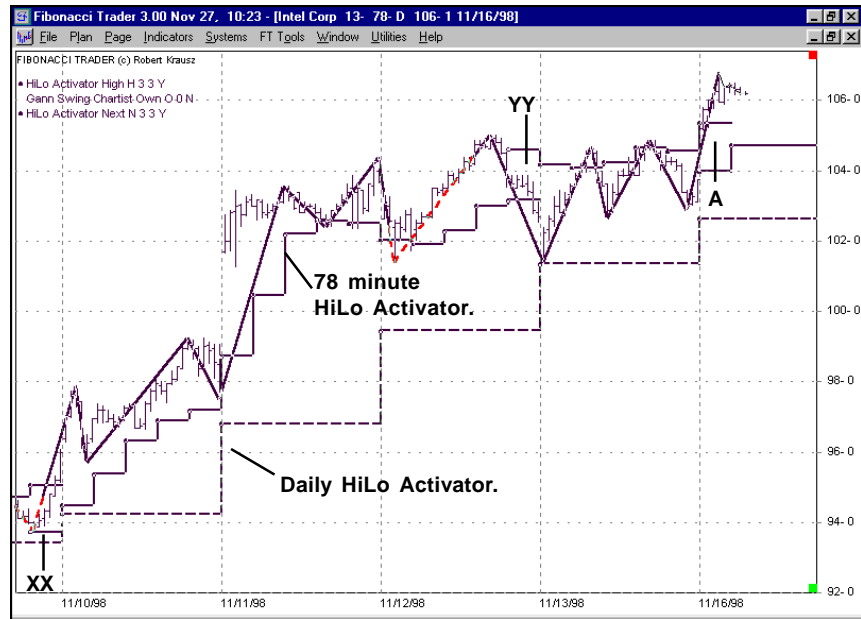


Chart 6: 13 Minute Bars Intel. Let's add the 78 minute HiLo Activator.

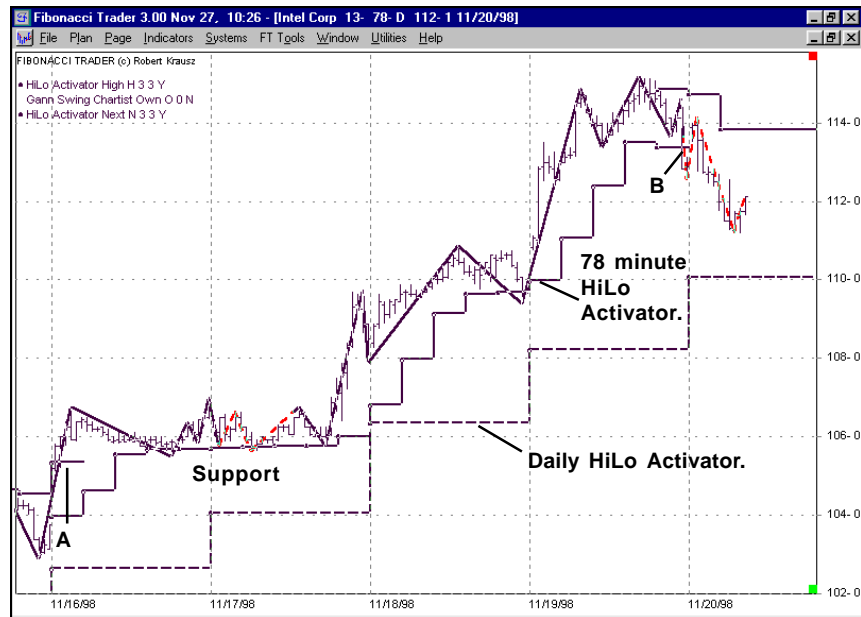


Chart 7: 13 Minute Bars Intel. Look at how well the 78 minute HiLo Activator stayed with the intraday trend.



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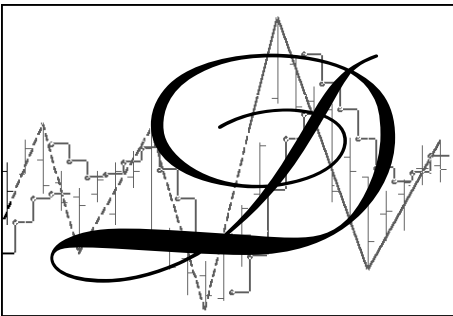
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 5

THE BALANCE STEP™ AND MORE FT TOOLS FOR THE TRADABLE TREND



ear Trader,
We wish you a
happy 1999 and great
trading. The year
promises to be vola-

tile in all markets. Uncertainty is the order of the day. It is more important than ever not only to be vigilant but to remember certain basic truths.

Of course, I am referring to trading and investments. The days when stocks could be classified as investments and commodities as speculation are over. We are all speculators now. Traders like us thrive in this kind of atmosphere, provided that we do not get caught up in the euphoria of 87% profit in an investment of 5 hours with internet stocks.

These kind of circumstances force me to gently lead you to some basic truths, that appear to be ne-

gated by current market action. But trees do not grow to the sky and the trend is still your only friend.

So instead of focusing on intraday bells and whistles, this issue will focus on the single most important element in any type of trading. We tend to jump off at various angles and yet if you can sum up technical analysis on one word, it would be Trend. In fact, the real words should be “tradable trend.”

I do not care what time frame you are trading, I have found the simplest measure of the trend is still the Balance Point Steps – of the Next Time Period.

So if you are trading a Daily/Weekly/Monthly plan the Weekly sets up the tradable trend. For a T-bond plan that uses the 10 minute/50 minute/Daily time frames, the 50 minute will provide the tradable trend for your 10 minute intraday plan.

The calculation for the Balance Point Steps is

quite simple. Add the last 5 periods (*Next*) closing prices and divide by 5. Then, project the result one period forward, as a horizontal line. At first sight this may appear as a standard moving average of the *Next* time period, but it is not.

MULTIPLE TIME FRAMES

Read below what Perry Kaufman has to say about multiple time frames on page 470 in his latest book “Trading Systems and Methods – Third Edition, published by John Wiley & Sons.

If you are serious about technical analysis this book belongs on your bookshelf. It is a first class reference book in great depth (700 pages). It covers virtually all aspects of trading at a very technical level. The next few charts will visually clarify the entire concept.

Once the tradable trend is established via the *Next* time frame, any other tool can be used to set up a trading plan which can be trend following or contra trend trading but the frame of reference must be established first.

Let’s begin with the S&P 500 Daily/Weekly/Monthly (Chart 1). This chart shows the concept at its simplest level. The weekly Balance Step is plotted on the daily bars in a step formation. There have been major complaints about the volatility of the S&P. But look carefully at points X and Y, you see

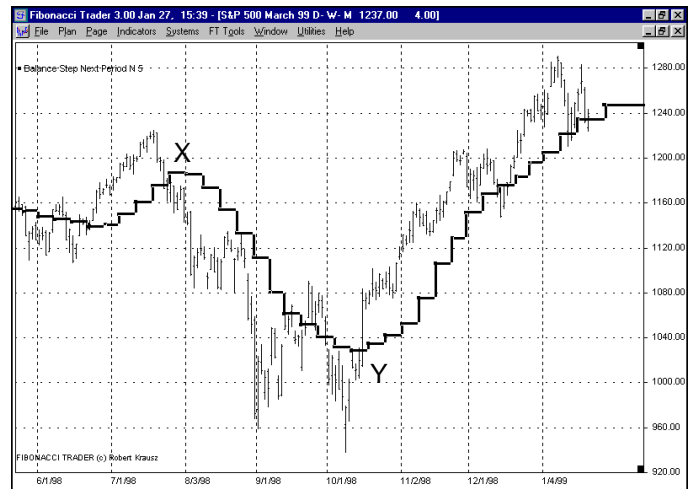


Chart 1: S&P 500 Daily/Weekly/Monthly. From point X to Y the tradable trend was down based on the Next Balance step. If the Next Balance steps are up then the tradable trend is up.

that the tradable trend was down. From Y to today’s date (January 18) the trend is up.

As long as steps are down the trend is down, specifically if the price bars of the daily are below the steps. Yes, during the week of 9/1/98 the daily prices went above the Weekly steps, but did the steps turn up? No, therefore the trend is still down until Point Y when the trend turned up. Note when the steps turned up for the first time at Y, it has a “bucket formation,” indication of a potential uptrend

“In thinking out the use of multiple time frames it is necessary to understand that you cannot substitute a 10-period moving average of 1-hour bars with a 40-period moving average of 15-minute bars. Similarly, you cannot substitute a 10-week moving average with a 50-day moving average. It seems natural to think that any two trends covering the same time span will give the same results, but that is not the case. Although we can average many data points, we cannot get rid of all the noise; fewer data points over the same time span will always yield a smoother result. Therefore, the use of hourly, daily, and weekly time periods – multiple time frames – gives a much different picture of the market than simply using three different moving averages based on the same data. It is much easier to see the major trend using weekly data, find the short-term direction on daily data, and time your entry using hourly bars.”— Perry Kaufman, *Trading Systems and Methods – Third Edition*,

starting. Please look at point X, the steps went level and the prices went below the steps. The following week the steps turned down, forming a sort of "upside down bucket." The down trend was intact for some 10 weeks.

Moving on to Chart 2, which is the same as Figure 1, but we have added a tool, in this case the Weekly Directional Volatility (DV) set at 1.618. Notice how the retracements at both points Z are stopped by the weekly Directional Volatility line we have added. On 7/31/98 the daily prices penetrated below the DV causing it to flip. The daily prices were already below the Weekly Balance Point. At point R prices went above the weekly DV on 10/30/98, they were already above the weekly Balance Steps and the steps were showing an uptrend.

Next is Chart 3. Here we add the Daily Gann Swings. See where the Peaks and Valleys touches the Weekly Directional Volatility Line. Whenever the Gann Swing is in a downtrend (dashed lines) and prices are below the weekly down trending Balance Steps, with the weekly Directional Volatility Line above both, short positions

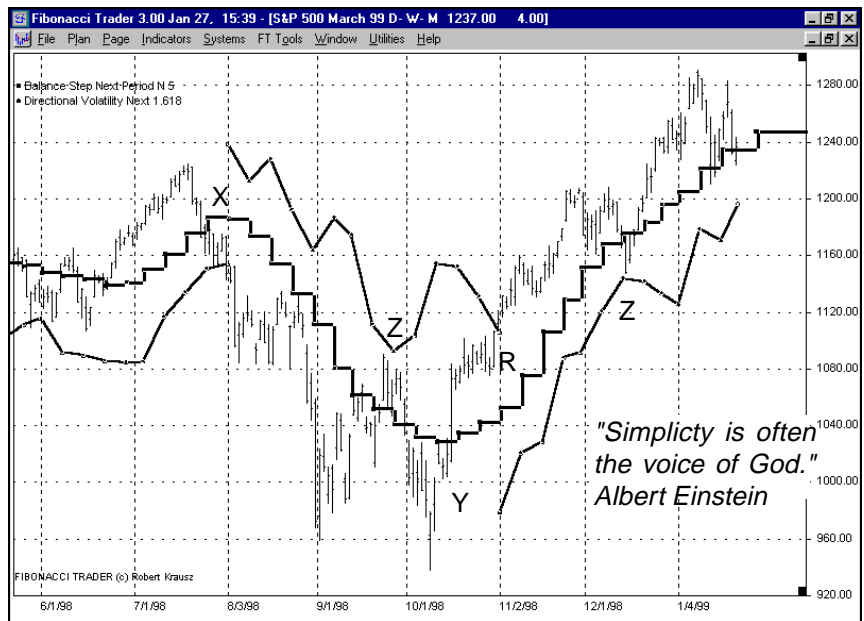


Chart 2: S&P 500 Daily/Weekly/Monthly. The Weekly Directional Volatility set at 1.618 has been added.

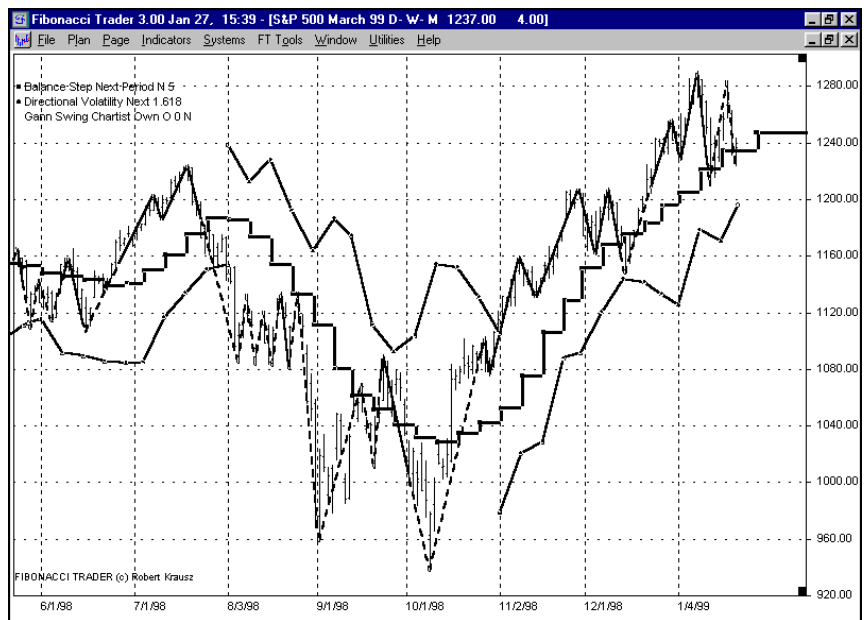


Chart 3: S&P 500 Daily/Weekly/Monthly. At this point we add the Daily Gann Swings. Notice that the peaks and valleys touch the Weekly directional Volatility Lines. Once the tradable trend is clearly defined, a reference point is established helping the trader to act in that direction, using the tools and the time frame that suits their temperament.

should be considered.

When the steps turn up at Y and the Directional Volatility line supports the upmove, look at acting from the long side when the Gann Swing is long (solid line).

In Chart 4, we have now added the Daily Dynamic Trio. This can help to formulate a trading plan. It shows clearly what can happen if you trade with the trend or against the trend. For example, you buy at R and stay with it until P, when prices closed below the Daily Dynamic Trio. Now, if you shorted at this point, then it would be a counter-trend trade. But, buying at T would be a trade with the trend.

Chart 5 includes the Weekly Dynamic Trio. It flips to the down side at point X. An upside flip is achieved at point R. This is the way to add various indicators to back up the tradable trend direction.

Jumping ahead to Chart 6 is a Daily/Weekly/Monthly plan of Coca Cola, a nice swinging chart. I like to trade it because there is good daily volume making it easy to buy and sell. The idea is the same as the S&P 500 Daily Plan (Chart 1). Check out some

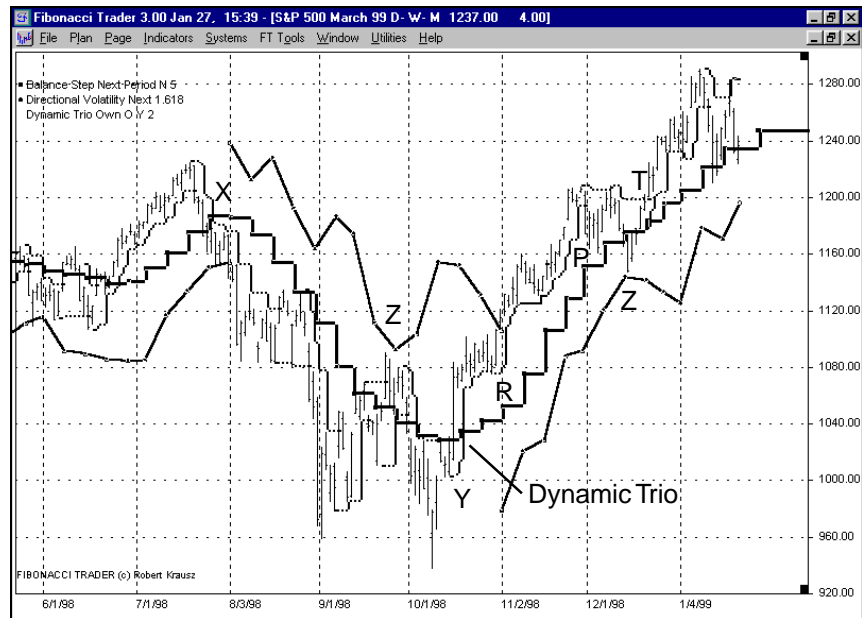


Chart 4: S&P 500 Daily/Weekly/Monthly. Now we have added the Daily Dynamic Trio. Now you can trade with the trend, in the direction of the Balance Steps or contra trend, against the direction of the Balance steps.

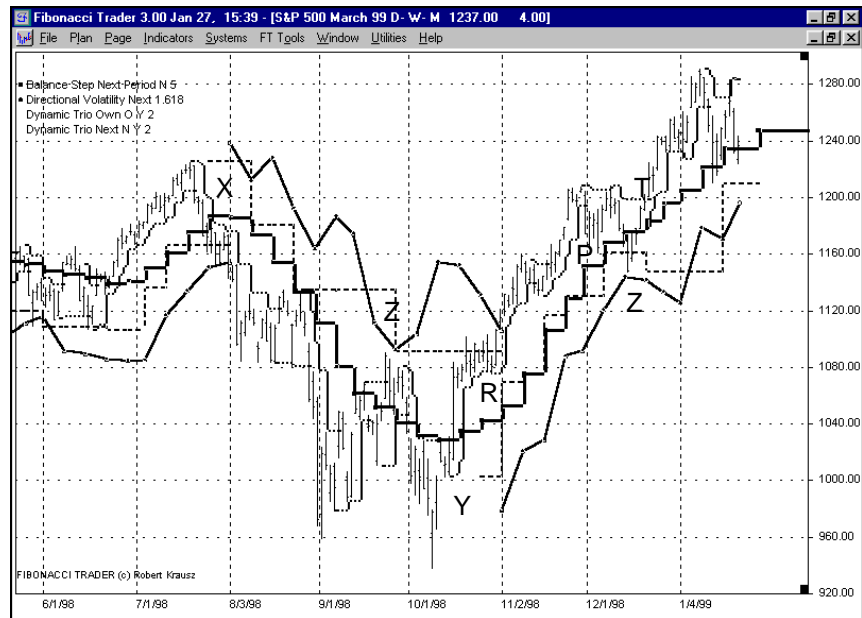


Chart 5: S&P 500 Daily/Weekly/Monthly. This chart has the weekly Dynamic Trio. Now you can trade with the trend, in the direction of the Balance Steps or contra trend, against the direction of the Balance steps.

stocks using these concepts, could be useful.

Chart 7 shows all of the trading for 1998 for Coca Cola with both the weekly and monthly Balance steps. This is an important chart if you have any interest in longer term trading. Note the effect at YY when the monthly Balance Steps turn up. At XX the monthly turns down. Although the weekly Balance Steps run up to meet the Monthly at point C1, the monthly trend is still down. So when the weekly turns down at X1 one could look for selling opportunities. Note the effect when the weekly crosses the monthly.

Chart 8 is the March 1999 T-bond futures 10 minute/50 minute/Daily plan. An interesting intraday chart that uses the Next and the Highest Balance Steps. You can see that the daily steps are down, number 1 through 7. This chart with the various tools demonstrate the usefulness of knowing the direction of the tradable trend, in this case the Balance Steps of the 50 minute time frame. Note how these steps turn down at point X and stay down until the point

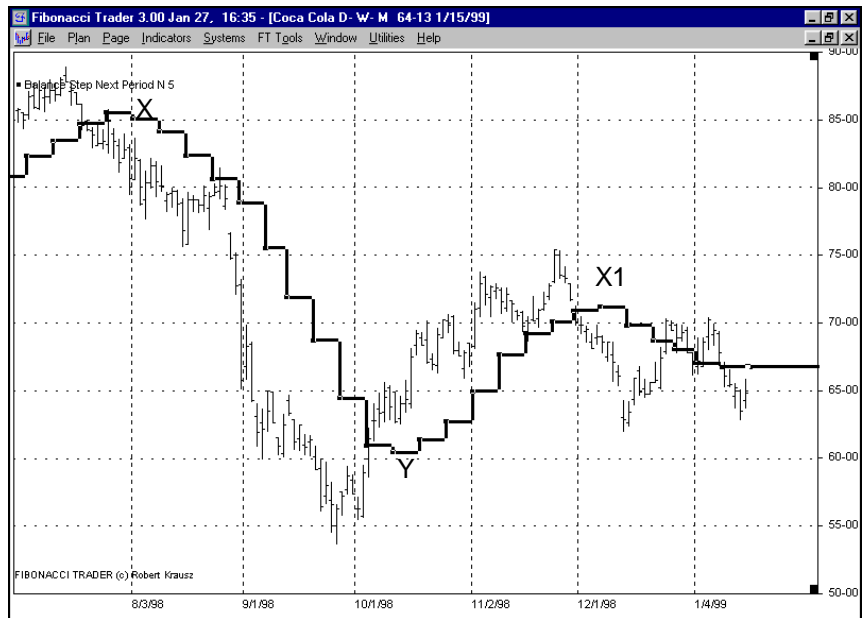


Chart 6: Coca Cola Daily/Weekly/Monthly. The same concepts apply. The trend is down when the Next Balance steps are falling and the trend is up if the Next Balance Steps are rising.

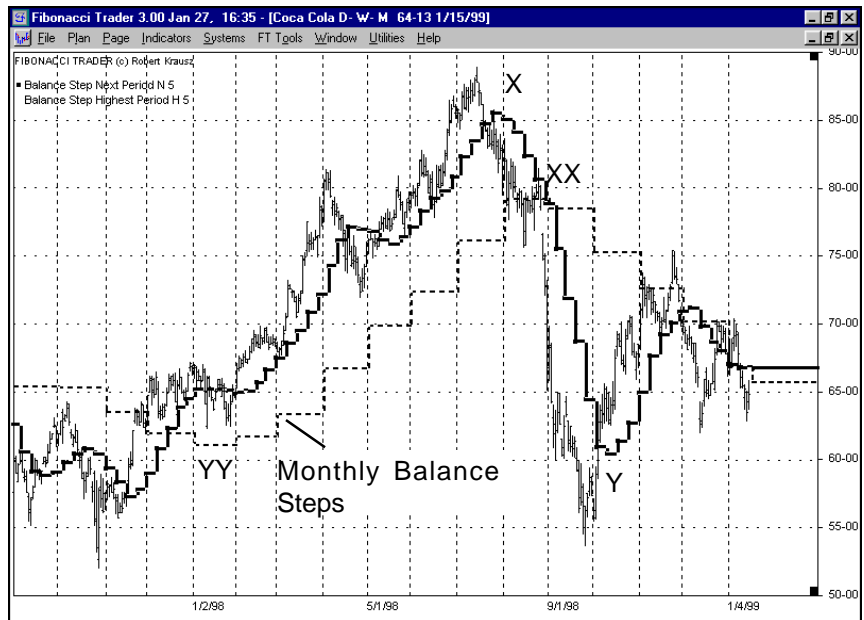


Chart 7: Coca Cola Daily/Weekly/Monthly. The Highest Balance steps are plotted along with the Next Balance Steps.

marked Y1. There is no 10 minute close above the 50 minute Balance Steps until point Y1. So the steps are down and prices are below the them, and that looks familiar. During this move obviously shorts were the way to go.

At points E, F and G the market drifted outside (below) the Daily Dynamic Fibonacci Channel (DFC) until the 50 minute channel Dynamic Fibonacci Channel pushed prices back inside the Daily Dynamic Fibonacci Channel. But only at point G did prices rise above the median line of the 50 minute Dynamic Channel and go above the 50 minute Balance steps which turned during day 4. Also note how the 10 minutes HiLo supports the move down from point K and did not flip until the start of day 4, just above point G.

When the market rose from point G to point H and penetrated the top of the Daily dynamic Fibonacci Channel in daily terms this was only a retracement against the daily trend, which was still down. Therefore, taking a short after prices reversed back down into the Daily Dynamic Fibonacci Channel was a trade with the Daily trend, especially the way the HiLo Activator supported this

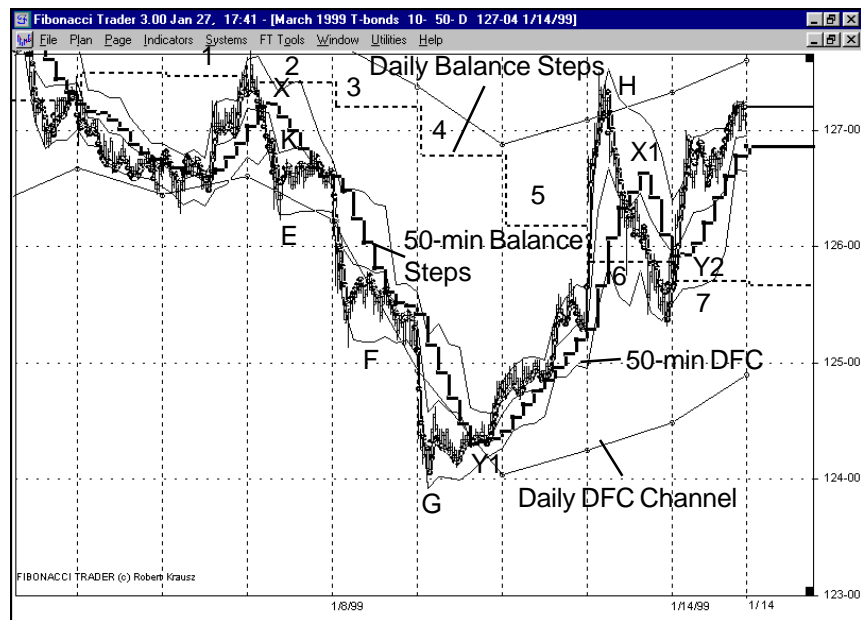


Chart 8: March T-bonds 10-min/50-min/Daily Plan. The Highest (Daily) Balance steps are plotted along with the Next Balance Steps.

down move. But on the 50 minute basis this was a contra trend trade. Do you see my point?

After day 7 or 1/14 the daily steps turned level, which showed that the Daily downward momentum was really slowing down and the market could be entering a congestion phase or that it may in fact be the trend is turning up. The 50 minute Balance steps had already turned up at point Y2. Of course, the 50 minute trend will change before the Daily. Let's see what happened in the next chart.

Chart 9 is the March 1999 T-bond Futures contract 10 minute/ 50 minute/ Daily plan. On days 7 and 8 the daily steps are level and the market entered into congestion. Nevertheless, note that on

day 9 the Daily steps turned up, forming a bucket. You knew this on the close of day 9 because the Daily Steps are projected one day forward. From that day until the day I wrote this (1/23/99) the daily Steps were rising, thus informing you that inspite of the congestion of the 50 minute steps, the Daily pressure was up. So it was not a total surprise that on Day 12 prices hit the upper band of the Daily Dynamic Fibonacci Channel.

Anything else of importance? Yes, three things:

- 1) After the daily bucket formed on the close of day 9, the base of the bucket, i.e., the level daily steps 7 and 8 became the support when prices dropped as the base of the bucket held on day 10.

2) Note how at the end of day 9 the top and bottom bands of the daily Fibonacci Channel started coming closer together (narrowing), a sign of congestion. But the bottom line of the channel was rising at a steeper angle than the top band was coming down, thus hinting at the eventual direction.

3) Check out the HiLo Activator set at length of 13 periods for the 10 minute (own) bars (normally the HiLo Activator is set to a length of three). Note how smoothly it follows the 10 minute bars, especially if combined with the direction of the 50 minute Balance steps.



Chart 9: March T-bonds 10-min/50-min/Daily Plan. The Highest (Daily) Balance steps are plotted along with the Next Balance Steps.

I hope that you grasp what I'm showing you in these few pages. Without the direction of the Balance steps trading becomes very tricky, especially if you are trading very short-term time frames. In that case you may need not only the Next time periods Balance Steps but also the Highest. Such as we looked at

the 10/50/Daily set up on the T-bonds. If nothing else, this should help you set up a frame of reference – that is imperative to trading.

If you are considering buying, wait for the appropriate Steps to turn up for the time frame that you have back tested. This kind of patience and discipline is crucial. Actually the three

elements required are Method (your trading plan), Discipline, and Work for Profit not for Action. Of course, there is more to trading than that, but nevertheless without these, success is hard to come by.

The next chart, number 10, is due to some questions concerning my article on Gann Swing Channels from

Fibonacci Trader™ News: Our Italian Website is functional and we welcome the Italian traders. I find it interesting that our first foreign language Website should be Italian, considering that Fibonacci was an Italian mathematical genius. More international websites are coming.

We have come to an agreement with Bill Blau to program his most important indicators into the Fibonacci Trader – in multiple time frames. His original work is featured in his book “Momentum, Direction and Divergence,” published by Wiley (from the Traders Advantage Series). Bill Blau is an old friend, whose work I respect and it will be a very useful addition to our program. I have persuaded him to write some trading ideas for Fibonacci Trader Journal readers. Stay tuned, the free upgrade will be available from the Fibonacci trader website this spring.

I note with interest that my name is being used in some advertisements by KCI Seminars without my written permission. The statements in their advertisements is just plain silly and rather sad.

Finally, we are moving our office to St Augustine, Florida. The new mailing address is: Fibonacci trader Corporation, 1835 US1 South 19, Suite 352, St. Augustine, FL 32086. The telephone, fax and E-mail stays the same. This information will be posted at the Fibonacci Trader website.— RK

the January 1999 issue of *Technical Analysis of Stocks & Commodities* magazine. What is the current situation? Let's take a look.

Channel 1 is history. Channel 2 is formed by peaks X and Z and valley Y. As you can see, when Y and Z are projected they hold the low at point A and the peak that follows Z.

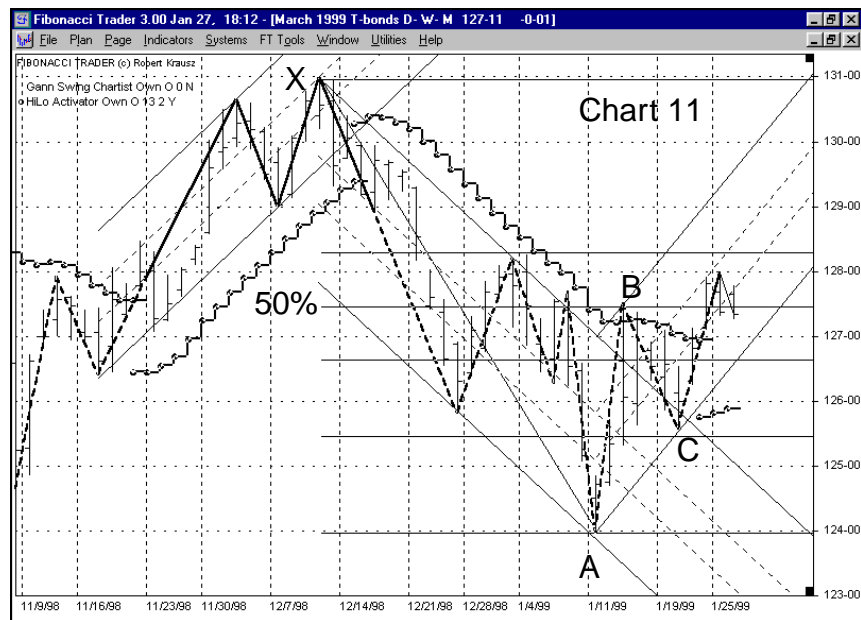
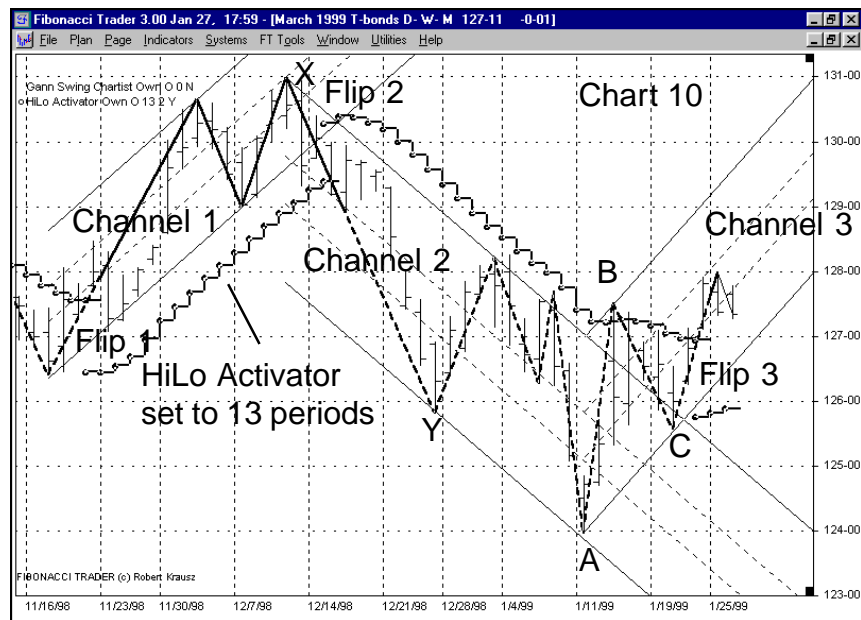
A-B-C allows us to plot channel 3 and the trend changes to up when the peak B is taken out.

Of course A and C are rising valleys which usually commences some kind of an up move. I am always on the alert for these set ups.

Now checkout Chart 11. The peak at B is a 50% retracement of the move from point X to point A. The valley that sets up at C is a resting on the .786 line of the entire move from X to A.

Such is the magic of Fibonacci. In chart 10, I introduced you once again to the 13 period HiLo Activator (same as we had on the 10/50/ Daily Chart 9) Please note what happens on the "flip." Thirteen is the fifth harmonic in the Fibonacci number series. A useful tool, check it out.

Wishing you super trading,
Robert Krausz, MH, BCHE



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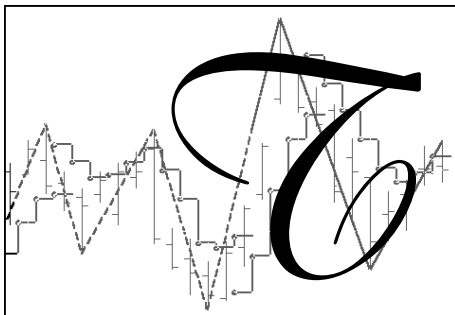
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 6

THE DYNAMIC RANGE™



his issue was held back so that the first of two new tools could be ex-

plained to you. These new tools have been incorporated into the latest version of the Fibonacci Trader program. If you haven't yet, please visit our Web site and download the latest version (V3.03).

This and the next issue are totally dedicated to these tools because I consider them useful and important. This issue will take a close look at the Dynamic Range technique and the next issue will look at the Ergodic Candlestick Oscillator (ECO). It's pronounced er-god-ik. This latest technical tool was given to us by my good friend Bill Blau. In fact, future issues of the Journal will keep referring to them, helping you to include one or both of them in your trading plans. We'll begin with a general comment about the Fixed Range, and then move

onto the Dynamic Range. At first the Dynamic Range technique may appear to be complicated, but as with all new concepts a little work and they become simple in practice.

The Fixed Range has been around for approximately sixty-two years. Charts 1 and 2 show an application on an intraday chart and a daily chart respectively. The usefulness and the validity of this tool is borne out by the fact that sixty-two years later it is still in use. That's unusual in our industry where indicators go in and out of fashion rather fast.

To take the Fixed Range concept and make it dynamic is not only new but it introduces a new paradigm to the energy point levels based on the traditional usage of the Pivot Point and Support & Resistance levels. I can talk about this till breakfast, but only your own eyes can see its usefulness. Once you carefully observe the Dynamic Pivot (DP) and the other Dynamic lines in real time will you

realize the power of this technique. That is why I intend to follow up on the application of the Dynamic Range in future issues of the Fibonacci Trader Journal. Of course, to see the effect clearly you should have both the Fixed and the Dynamic on the same chart. In a few moments we will take a look at this combination.

Let's look at the Fixed lines first. We'll look at an intraday chart first, a 50-minute/Daily/Weekly plan for the June 99 T-bond contract (Chart 1). Click on the HPZ button on the FTTools toolbar or click on Indicators on the main menu.

- A) Select High Probability Zones
- B) The period should be set to Next

Adjust the colors and line thickness of the Fixed lines to suit you. You should have five lines on the screen as per Chart 1 (Fixed Resistance 2, Fixed Resistance 1, Fixed Pivot, Fixed Support 1, Fixed Support 2). Chart 2 is an example of the Fixed lines applied to a Daily/Weekly/Monthly plan of the June 99 T-bonds.

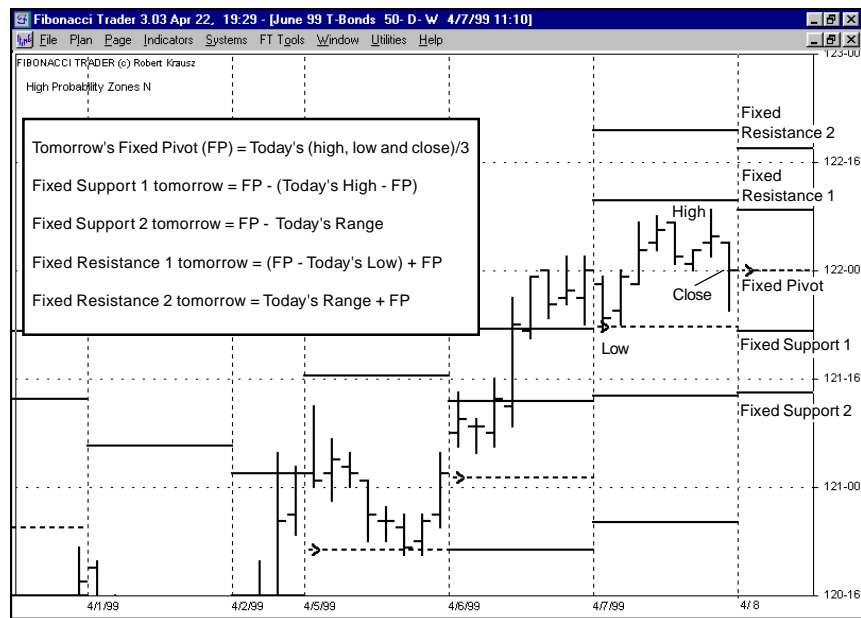


Chart 1: June 99 T-bonds 50-min/Daily/Weekly Plan. For tomorrow's Fixed lines we use today's high, low and close. The calculations are set (fixed) for the next day.

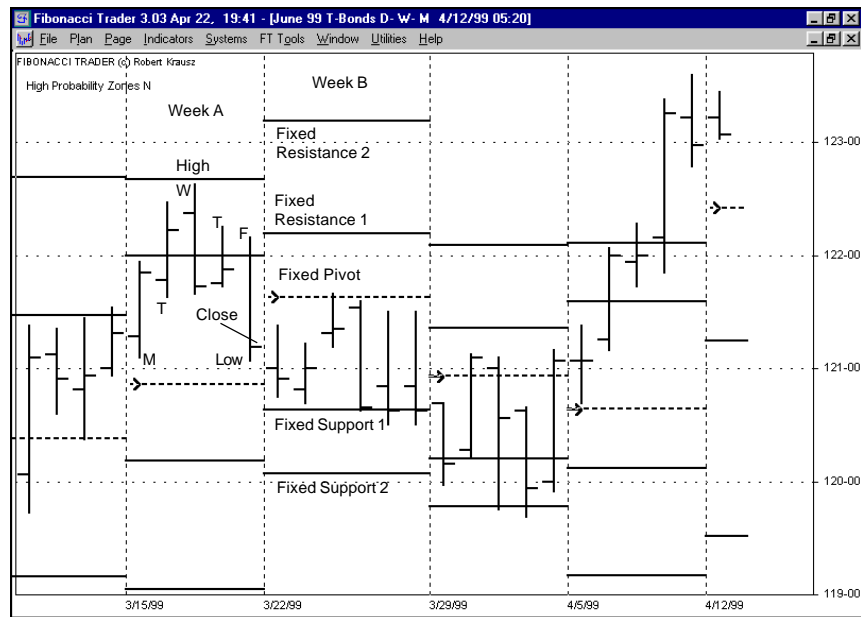


Chart 2: June 99 T-bonds Daily/Weekly/Monthly Plan. For the daily bar's Fixed lines (Week B) we use the previous week's (Week A) high, low and close. The calculations are set (fixed) for the next week.

As I said earlier the Fixed Range concept is based on the old floor traders calculation, which I am sure many of you already know. For those of you who don't know the calculation,

here it is: First, you add together the high, low and close of today, then divide by three. This will give us the Fixed Pivot Point for tomorrow. This point is fixed for the entire next day, hence the name Fixed Pivot Point.

The second step is to take today's low, subtract it from tomorrow's Fixed Pivot, and add it to the Pivot Point. This is tomorrow's projected high, which we will call Resistance 1. This Resistance 1 is fixed, and is called Fixed Resistance 1.

Step three is to take the difference between today's high and tomorrow's Fixed Pivot point. Subtract this difference from the Fixed Pivot and this

is the addition of Resistance 2 and Support 2. This is obtained by taking 100% of today's range and adding it to the Fixed Pivot Point giving us Fixed Resistance 2. Next, take 100% of today's range and subtract it from the Fixed Pivot Point. This gives us Fixed Support 2, for the entire next day (please see Chart 1).

Use the same calculation we used for the 50-minute/Daily/Weekly plan for the Daily/Weekly/Monthly setup. In the case of the latter, we will have a Weekly Fixed Pivot to calculate the fixed levels for the entire week to come (Chart 2).

Chart 2 shows how the weekly high, low and close sets up our fixed points for the next week. Please follow on Chart 2. It is Week A's high, low and close that gives up the Fixed Pivot and the other Fixed lines for Week B. To make our life simpler we will abbreviate all of these names as follows:

FR2 = Fixed Resistance 2
FR1 = Fixed Resistance 1
FP = Fixed Pivot
FS1 = Fixed Support 1
FS2 = Fixed Support 2

DYNAMIC RANGE

To apply Dynamic Range lines go to the Indicator menu:

- A) Click on Dynamic Range
- B) Adjust the period to N and length to 1.

Please understand that the calculations are different from the Fibonacci Zones, which will be covered

To take the Fixed Range concept and make it dynamic introduces a new paradigm.

will give you tomorrow's projected low, called Support 1. This Support 1 is fixed for the entire next day's trading.

Many people have claimed that they invented this calculation. Actually, I first saw it in a book by George Cole, published in 1936 (that's correct, over 62 years ago). He said then that he did not know where the calculation came from, but that he got it from one of the old floor traders in Chicago.

Since 1936 there have been some variations on this theme, but the only one we are concerned with

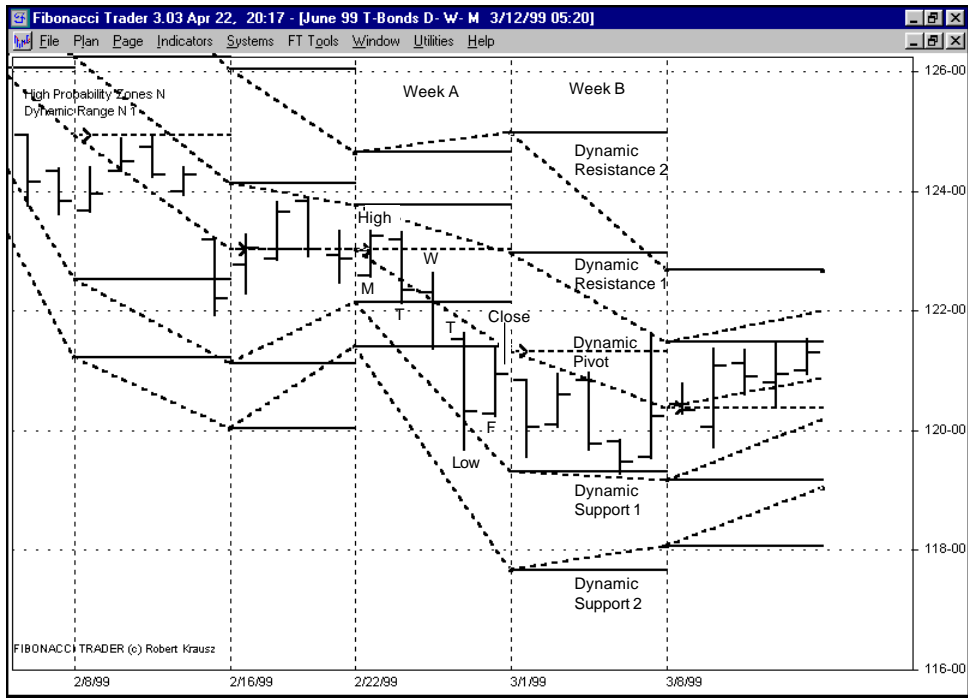


Chart 3: June 99 T-bonds Daily/Weekly/Monthly. Here, both the Fixed (solid lines) and the Dynamic Range lines (dashed) are plotted. Notice that at the start of the week the the Fixed and Dynamic start at the same level on Monday.

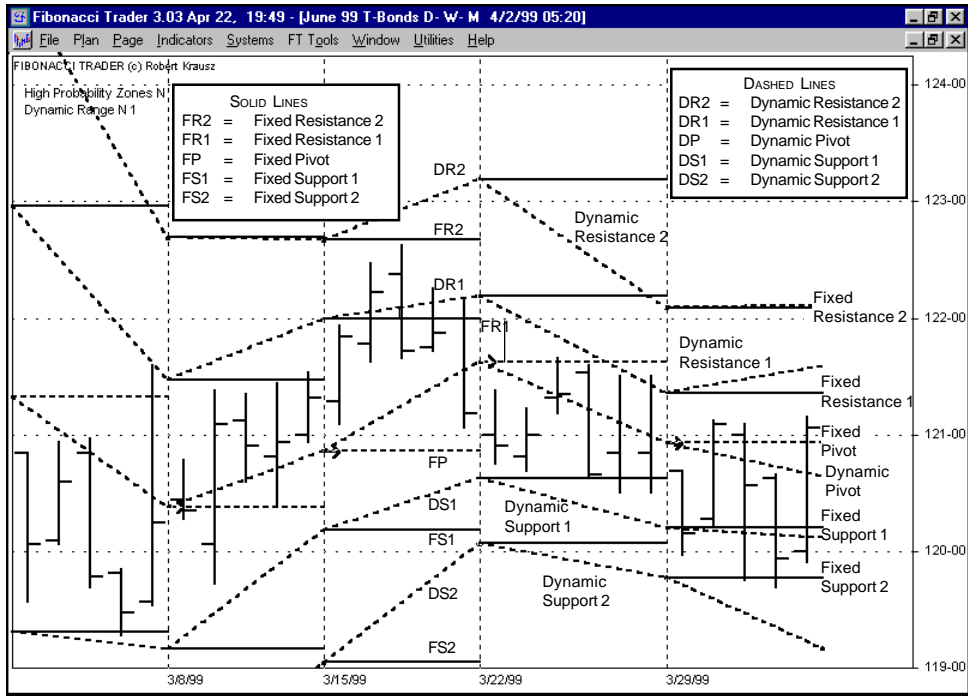


Chart 4: June 99 T-bonds Daily/Weekly/Monthly. Here is a continuation of the daily bars of the June 99 T-bond contract with both the Fixed (solid) and Dynamic Range (dashed) lines.

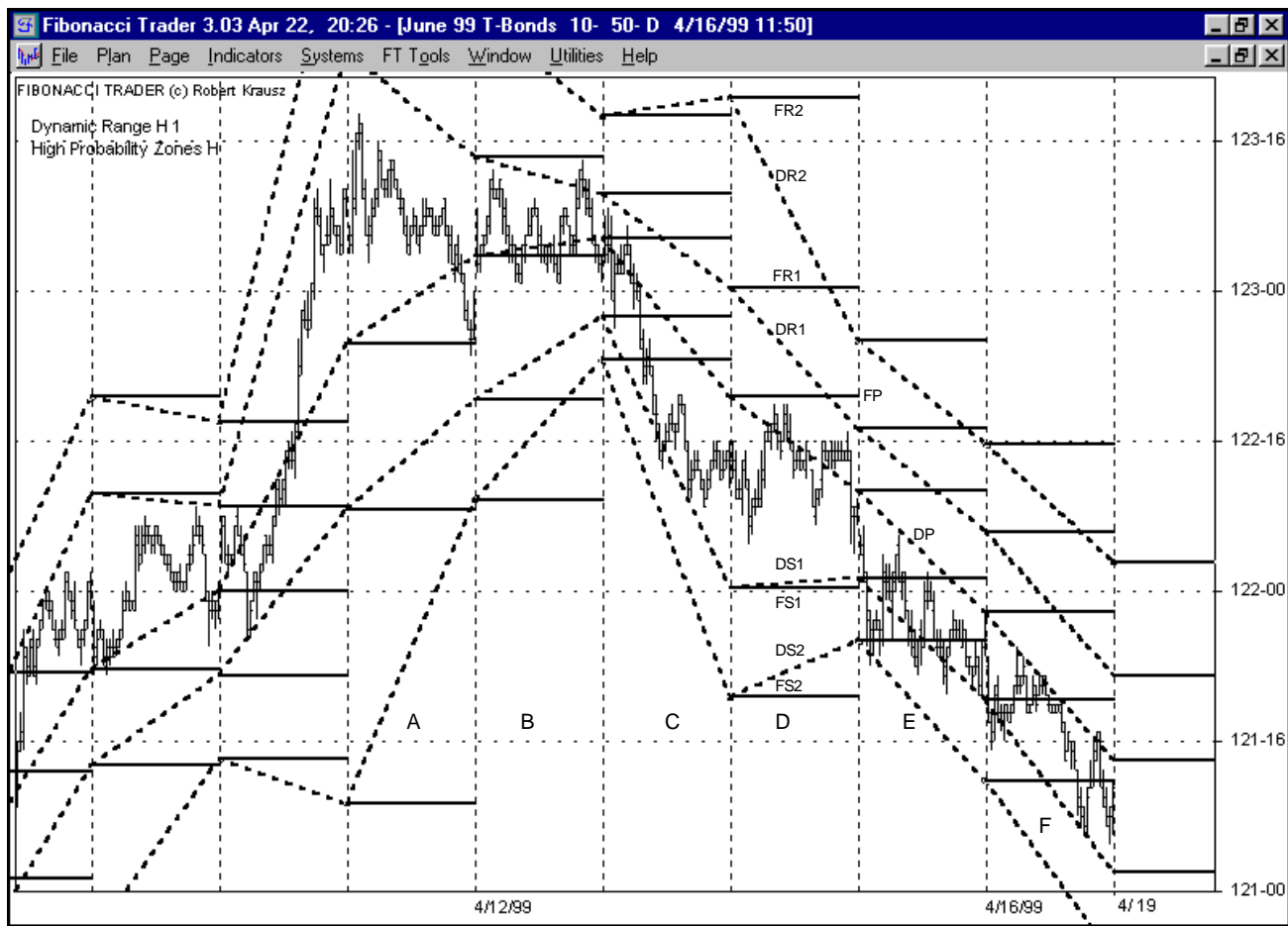


Chart 5: June 99 T-bonds 10-minute/50-minute/Daily Plan. The angular direction of the Dynamic Pivot tend to show the trending direction of the 10-minute bars. The steepness of the angle, or lack of it, between the Fixed and Dynamic Pivot and Lines can be important. Notice the effect on prices when the DP, DR1 and DS1 face the same direction.

in the next issue. Charts 3 and 4 on the left page here shows all of these abbreviations.

SHORT TERM CONCEPTS

Chart 5 helps us enter the world of shorter time frames. This is a 10-minute/50-minute/Daily plan for the June T-bonds with the Daily Fixed Pivot, Daily Fixed Support and Resistance lines and it shows the Dynamic Range lines. Both sets of lines gives us useful information. Please be aware that I try to use current charts for illustrations, such as this, but sometimes I have to pick a past chart to show a setup to make a point clearly.

The projected Daily Fixed lines for Monday (4/19) are based on the day's action on Friday (4/16) and are fixed for the entire trading day on Monday. The Dynamic Lines develop as the day progresses after the open and adjusts to the market on a tick by tick basis.

When the first few ticks come on the open the direction of the Dynamic Lines appear to be very acute angles. This is not a mistake, as the day progresses the Dynamic Lines direction becomes clear after a few 10-minute bars are on the screen. You will get used to it after a few days.

The fixed lines show you where they should be

based on the previous day's action. But the Dynamic Lines show you where they are up to the moment. It is the difference between the Fixed and the Dynamic lines that supply us with useful information.

Please look at day D (4/14). The market opens almost unchanged, below the Fixed Pivot. The Dynamic Pivot was below the Fixed Pivot (the angle is pointing downwards) all day. In spite of the fact that prices rose about the first third of the day to challenge the Daily Fixed Pivot, the Dynamic Daily Pivot stayed below the Fixed Pivot point.

When you do a bar-by-bar backtest of the 10-minute bars or if you watch this in real time, you will see my concept at once. I can only request that you do this, but if you do not, then I have wasted my time passing on to you a nice private tool. As usual the traders that do the most work and thinking will reap the benefits. As far as I am aware, the Fibonacci Trader is the only program with the Dynamic Ranges™ in real time. I have used it for years. Let's see how the "copy merchants" handle this one.

What else? The Dynamic Range lines do not always all face the same way. Look at day B. Lines DR2 and DR1 angle downwards while lines DS2 and DS1 slope upwards. The Dynamic Pivot is just above the Fixed Point. Guess what? Congestion trading for the 10-minute bars. Prices do not break to the downside until the Dynamic Pivot is pointing downwards and it is below the Fixed Pivot. There, a private tool of mine is now in your hands — please use it wisely. See days C, D, E and F.

And please check out how at DayB the setup is similar to congestion on Day D as the DR1 and DR2

point down and DS1 and DS2 point up. Already some subtle points give information. Also if you look back you will see it is unlikely that the price direction can turn without the Dynamic Pivot turning down.

This is not a stand alone tool, so try combining this with the Dynamic Fibonacci Channel (DFC) us-

— *ℱ* —

**The Traders that do the
most work and thinking will
reap the most benefits.**

— *ℱ* —

ing the same concepts as before. Please see Chart 6, which is the same 10-minute Bond chart as before.

The market was rising until Day A when the DFC Daily top band pushed prices back and flattened out in the 123-16 area. Note, at this point the Dynamic Pivot (DP) plus Dynamic Support 1 (DS1) plus Dynamic Support 2 were still pointing up but note the direction of the Dynamic Resistance 1 and Dynamic Resistance 2 were already pointing downwards. Could this be a warning?

Yes, I know on day E the prices have hit the bottom bands (the solid line) of the Daily DFC. But here we can see the difference. First, the DFC bottom band is still trending down and not yet leveled out. Second, all of the Dynamic Lines (daily) are still pointing down, roughly parallel to each other. Subtle, yes, but also dynamic.

Chart 7 (shown on page 8) shows the S&P 9-minute/45-minute/Daily. The market was rising until

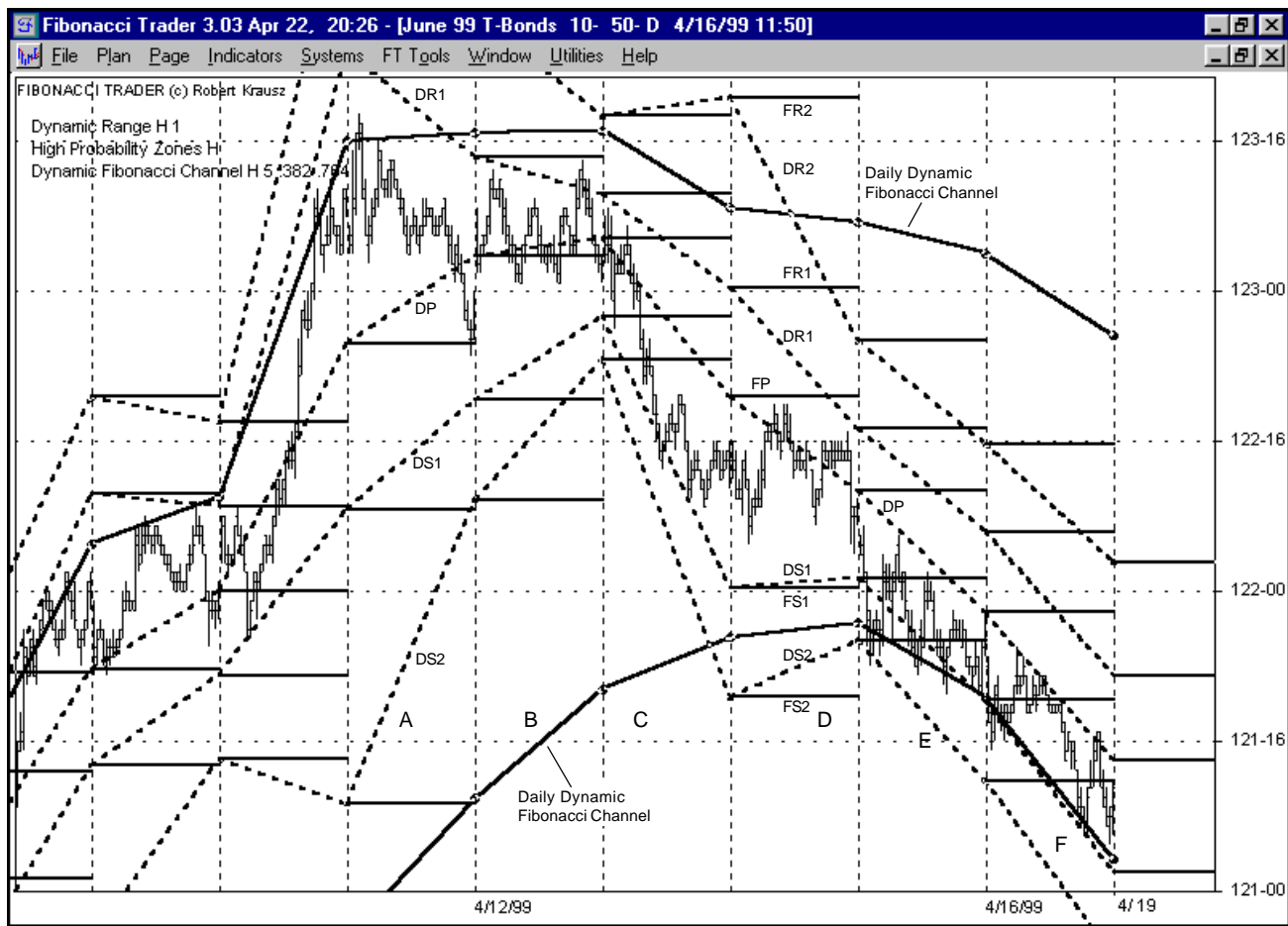


Chart 6: June 99 T-bonds 10-minute/50-minute/Daily Plan. On this chart the Daily Dynamic Fibonacci channel is added. The market was rising until Day A when the DFC Daily top band pushed prices back and flattened out in the 123-16 area.

Day B (4/13), the DFC top band turned down gently, DR1 and DR2 point down, but DS1 and DS2 point up while the DP is slightly up. Does this look similar to Day B on Chart 6 (the 10-minute T-bonds)? On 4/14, Day C of the S&P chart, 4 of the 5 Dynamic Range lines point down. Also note that the Fixed Pivot was challenged twice and held. Check out this day on your program from the open to the close. What do you see when you track the market bar-by-bar?

On 4/14 there was a slight gap up on the opening and for the first four 9-minute bars the Dynamic Pivot

was exactly on top of the Fixed Pivot. But on the fifth 9-minute bar the Dynamic Pivot dipped below the Fixed Pivot. Even though 2 bars rose back up to the Fixed Pivot line, the Dynamic Pivot stayed below the Fixed all day. Remember what I said earlier. The Fixed Pivot is where it should be by the projection based on yesterday's range. But the Dynamic Pivot is where it really is today following every live tick. It is the difference between the two that gives us important information. It is very difficult to change direction intra-

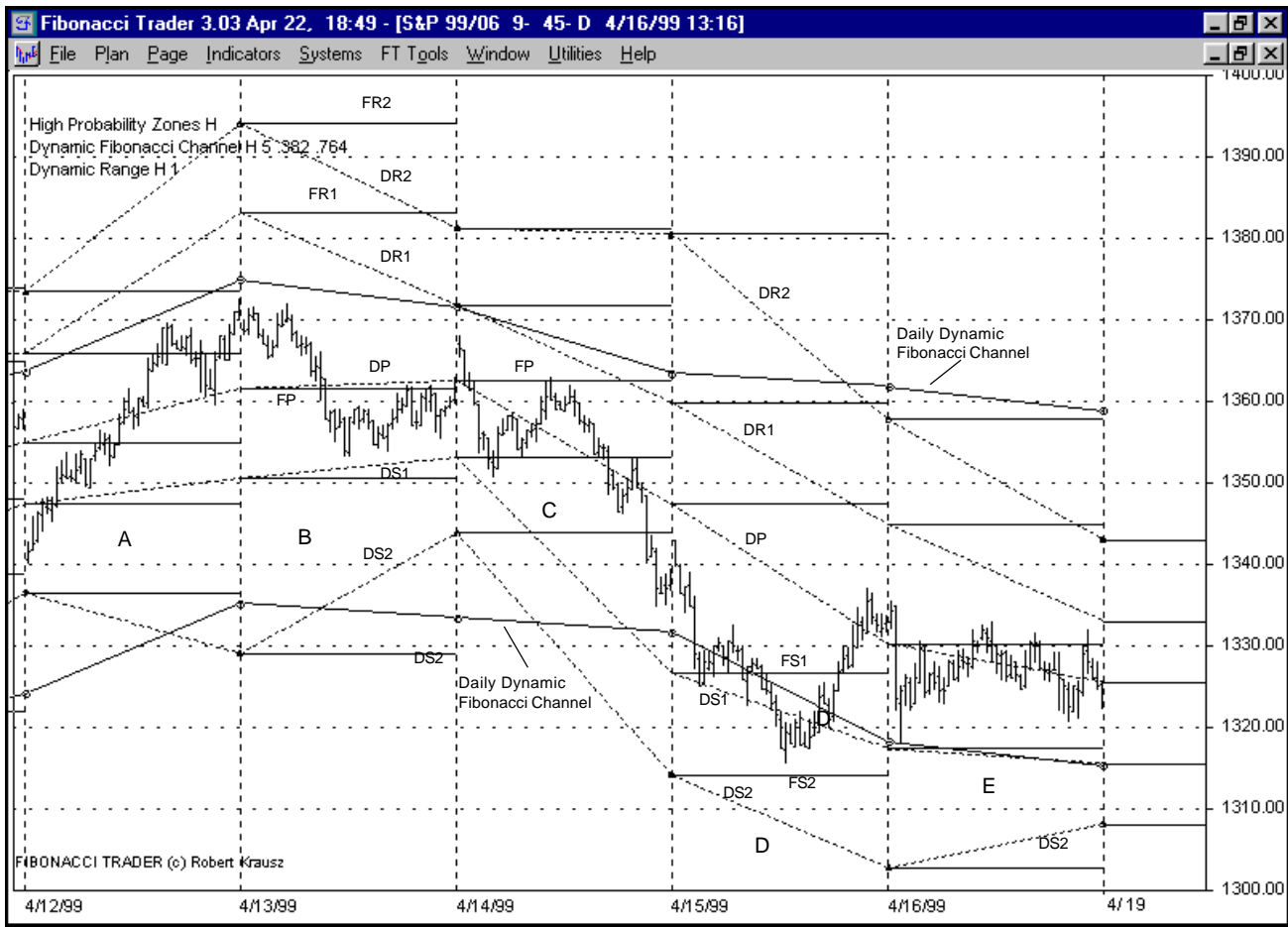


Chart 7: June 99 S&P 500 9-minute/45-minute/Daily Plan.

day unless the geometry between the Fixed and the Dynamic Pivot changes.

Also the angular distance between the Fixed and the Dynamic lines acts as a beam for price direction. See how on chart 7, Day E (4/16) DS2 is already well above the fixed S2 and pointing upwards. DS1 is almost level and the other three are all down. Nevertheless, please note when a DS2 rises in this manner, it is often enough to

stop the downside trend in its tracks, as it did this Friday. Does this mean a reversal is guaranteed?

No, but if you were short from Day B some profit taking is advisable. In future issues we will return to this concept with up to

date charts. Issue 7, detailing the Ergodic Candlestick Oscillator will follow shortly.

I wish you super trading,
Robert Krausz, MH, BCHE



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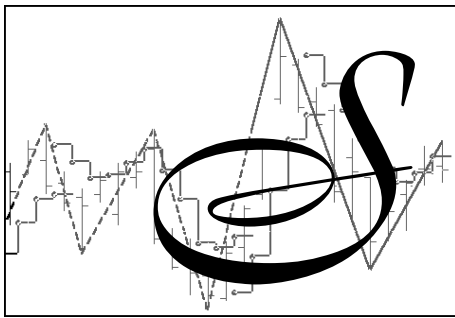
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 7

THE ERGODIC CANDLESTICK OSCILLATOR™



Sometimes we are lucky (due to our diligence) and we find a tool that is useful and does the job better than previous tools, or answers tough questions such as: How do we solve the problem if we are trading intraday and the market has a gap opening? Most oscillators take time to catch up after a gap opening, and the trader has to wait for a number of bars to pass before the oscillator becomes valid again.

My friend Bill Blau overcomes the gap open problem with a clever development that is based on candlestick charting: The Ergodic Candlestick Oscillator (ECO) and its Signal line. The double smoothing Blau employs has an effect that overrides the gap situation in the MACD type indicators. Bill's book, *Momentum, Direction, and Divergence*, published by John Wiley & Sons,

shows the power of double smoothing. In fact, Perry Kaufman discusses this in his latest book, *Trading Systems and Methods*, also published by John Wiley & Sons. Those of you who may be interested in a highly technical description should check out these two books.

Bill Blau not only gave his blessing to use his calculation, but we have injected some of his private adjustments to his previously published calculations.

As we get into actual usage you will see how the Own/Next/Higher time period calculations exclusive to Fibonacci Trader users can empower our approach to the market. Especially when we place the Daily Ergodic Candlestick Oscillator (ECO) on the 50-minute bar chart and combine it with the 50-minute ECO.

As mentioned earlier, one of the strengths of this oscillator is for intraday trading. Unlike most

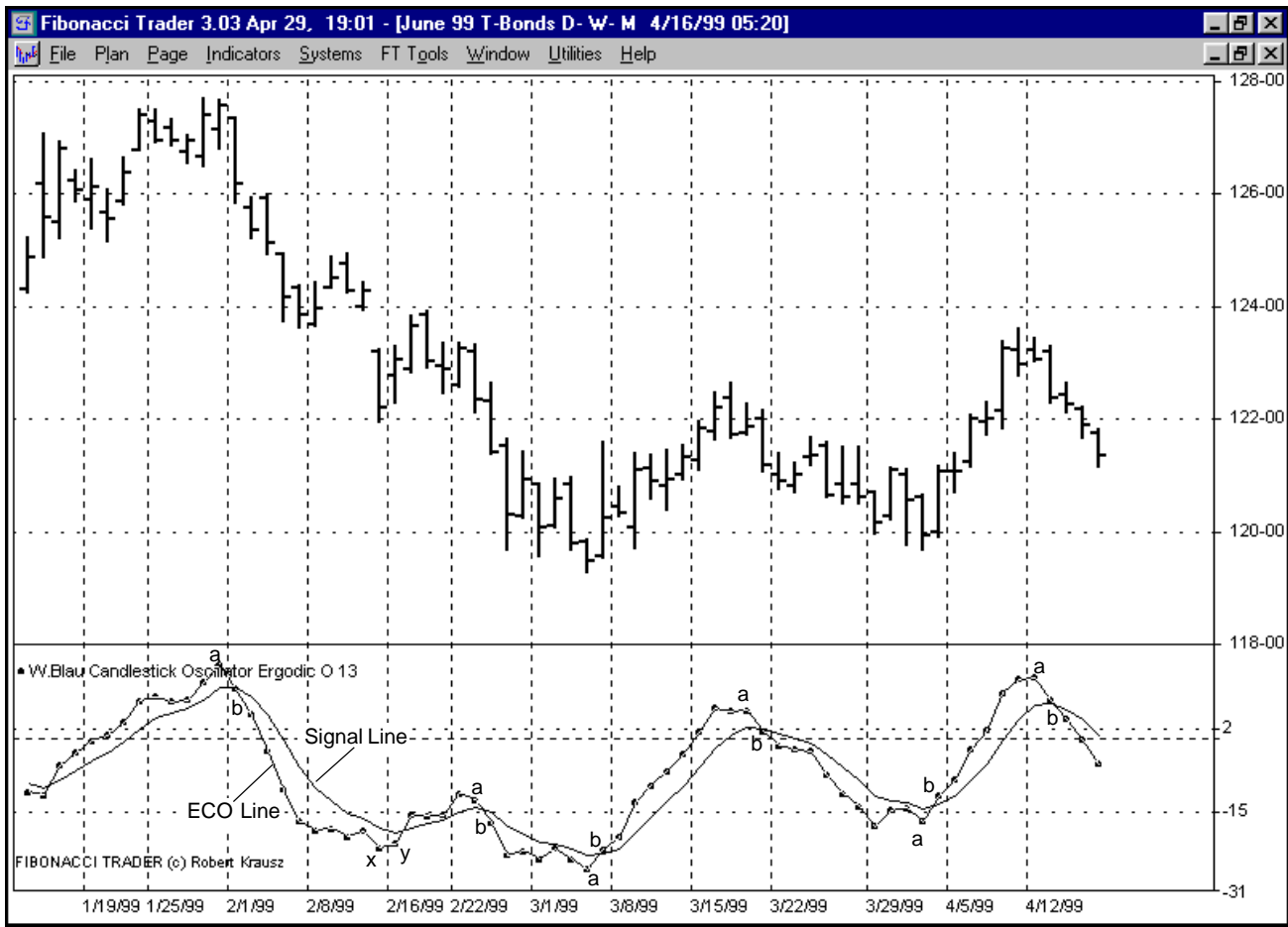


Chart 1: Ergodic Candlestick Oscillator. The ECO for this June 1999 T-bonds plan (D/W/M) is set at 13-periods. The "a-b" setups are crossover signals.

other oscillators it can handle opening gaps without the usual lag. But as we shall see it is also useful for daily bars. The settings may be different but the concepts are similar. Let's start with Chart 1, the daily T-bonds for the last three months. The ECO for this plan (D/W/M) is set at 13-periods (days). While you are setting the lookback period please make the "symbol" circle 2 on the ECO line. Change the Signal Line to different color.

Not only does the ECO Line cross above and below the Signal Line, giving us a reasonable fil-

ter to buy and sell with using any entry and exit trigger of your choice for your plan, but the ECO line's dots and their change of direction can also be a tool.

Along the ECO line Charts 1 and 2 you will notice a small "a" and "b." These denote whenever the ECO line changes direction from dot "a" to dot "b" and the dot "b" touches or closes past the Signal Line. Here, "b" must at least touch the Signal Line to be useful.

There were seven occurrences of this setup in the last 12 weeks. Only points "x" and "y"

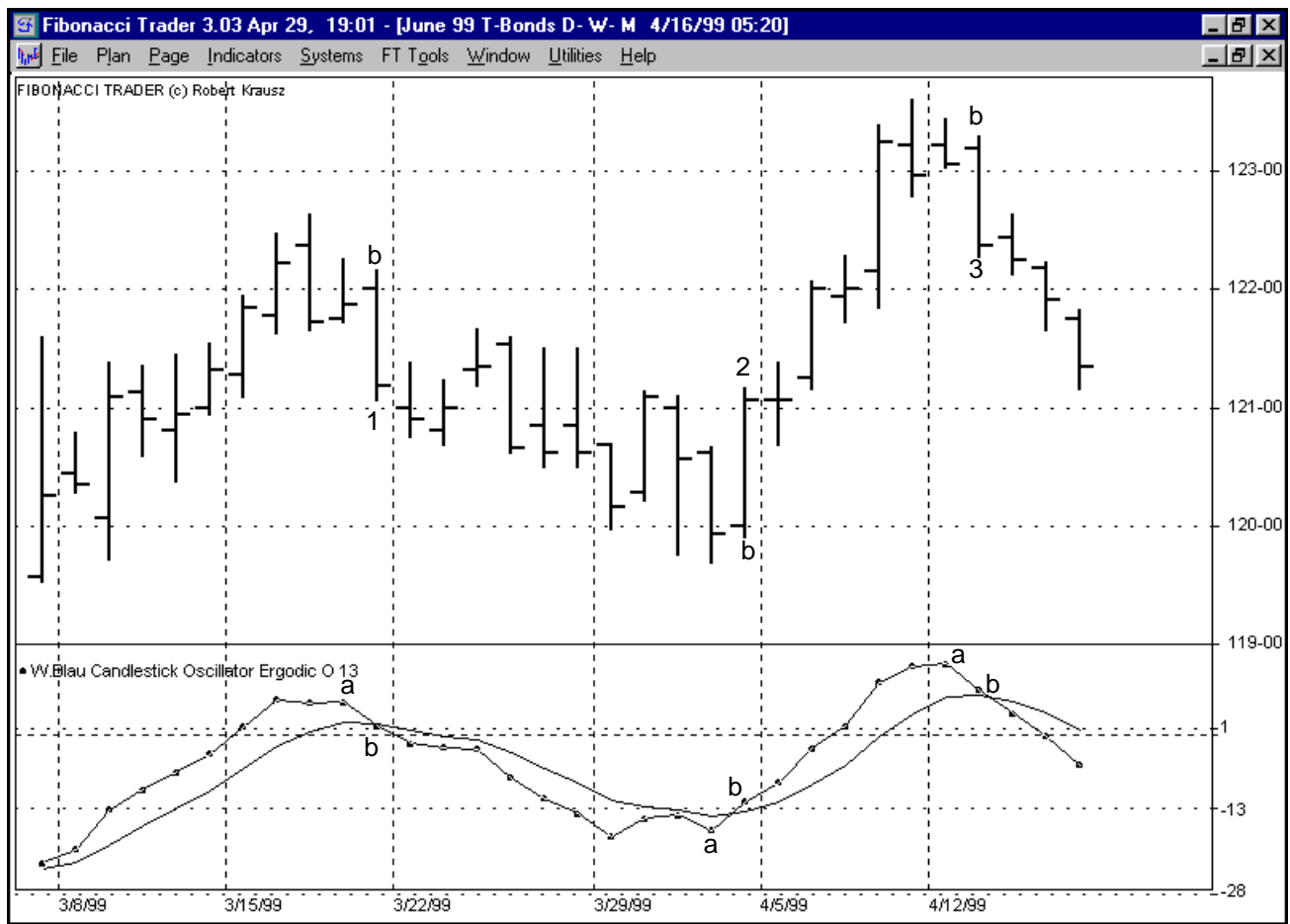


Chart 2: June 99 T-bonds Daily/Weekly/Monthly Plan. Here are three setups using the ECO Line and the Signal Line. Notice that in each example of the "a-b" setup the near term peak or low had been seen.

were a tricky four day rally in from 2/1/99 to 3/1/99. The other six "a-b" setups provided us with potentially tradable situations. Note how near the signals are to the start of a move.

I want to emphasize that this is not a stand alone system because it is not 100%, not that any tool is perfect, but as a guidance system it can be used in a number of ways. We will examine Chart 2 as to usage and guidance.

Chart 2 is a zoom-in version of Chart 1. Let's take a close look at the last three instances of the ECO's "a-b". These are labeled 1, 2 and

3. A factor that all three have in common is that once an "a-b" sets up on the ECO line, the high or low of the bar that caused the setup is not surpassed before the next "a-b" setup occurs. This seldom occurs and I suggest that you use three ticks past the high or low of the setup bar as your risk point. Check it out and you will see. Now, what does this mean?

Look at bar labeled 1 in Chart 2. Directly below is the "a-b" setup, in other words this bar caused the setup. From that day 1, the Eco Line is below the Signal Line indicating that short positions are

more appropriate than long positions until the next “a-b” sets up directly below bar 2.

As I said earlier, after an “a-b” sell setup occurs, such as at Bar 1, very seldom is the high of the sell bar 1 taken out by three ticks until the next “a-b” happens in the opposite direction.

Therefore, to use this information is to be aware of this Bar 1’s high, and add three ticks, and that can be a stop for a short. If the dollar amount you are willing to risk is too great then you should pass on the trade. There will be more trades.

You can see that Bar 1’s high was not challenged before the next “a-b” occurred. So during this trade from Bar 1 your stop was not ap-

proached. Same thing occurs on Bar 2. I would have put my stop just below the low of Bar 2, and it turned out that this was a profitable long. Next, we had an “a-b” below bar 3. Our stop at Bar 3 was safe on this short sale setup. Does this always work? No, there will be stops hit, but check it out — it could be useful. I have used this these last twelve weeks as the charts are up to date as I write and trade.

ECO Line was just above the Signal Line. Keep your eyeballs peeled because once the "b" occurred, not only does the ECO Line move above the Signal Line, but the dots of the ECO line kept rising, thus confirming the long position. This lasted for six days.

As this setup occurred you could take long positions via an intraday plan, providing each day you take action if the market is above the day’s open. This could have been the basis for trades on some three bars after the Bar 2 setup. We will look into the subtleties of an intraday plan next. Note that Bar 2’s low (your stop) was not touched.

Now, Bar 3’s "a-b" setup provided us with a potential shorting opportunity, which is the current phase of the market as I write this, the evening of April 18th.

Chart 3 is a useful example that introduces my multiple time frames concept with the ECO analysis and the Dynamic Range incorporating the High Time Periods Dynamic Fibonacci Channel (DFC). Let your imagination soar.

We are mixing time frames to check the geometry of the time frames we are trading, which is the 50-minute bars. Here are the settings:

DFC set to High (Weekly), 5 periods

DFC set to Next (Daily), 5 periods

Dynamic Range set to Next (Daily), 1 period

ECO set to Next (Daily), 3 periods

Please set the ECO symbol to circle 2, so you can easily distinguish crossovers of the Signal line.

If the dollar amount you are willing to risk is too great then you should pass on the trade. There will be more trades.

proached. Same thing occurs on Bar 2. I would have put my stop just below the low of Bar 2, and it turned out that this was a profitable long. Next, we had an “a-b” below bar 3. Our stop at Bar 3 was safe on this short sale setup. Does this always work? No, there will be stops hit, but check it out — it could be useful. I have used this these last twelve weeks as the charts are up to date as I write and trade.

Another way to use this information is to use it as a filter for your intraday plans. Let’s look at the long setup from Bar 2 on Chart 2. At point "b" the

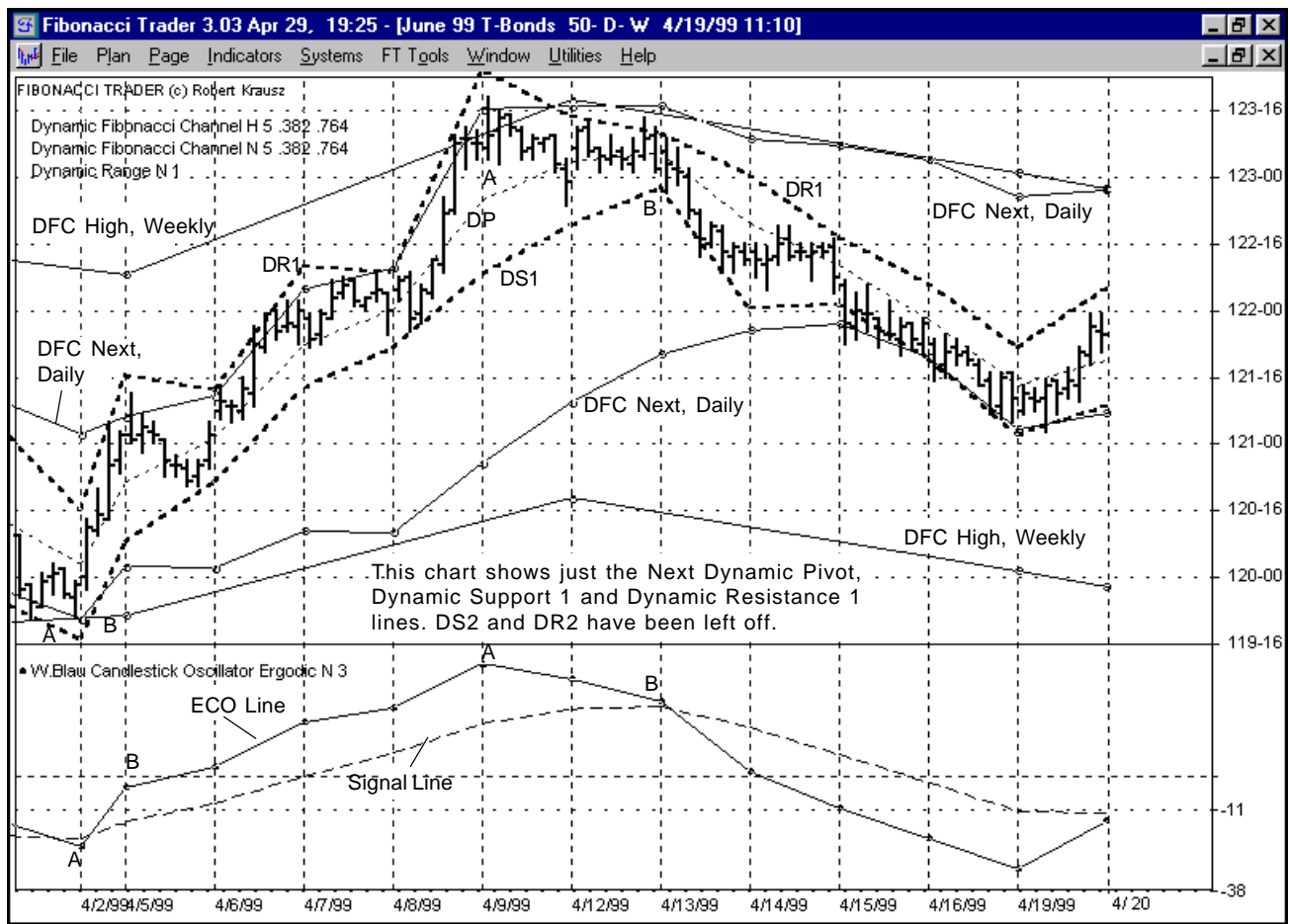


Chart 3: June 99 T-bonds 50-minute/Daily/Weekly Plan. Here, we are incorporating the Dynamic Range, the Dynamic Fibonacci Channel (daily and weekly) and the 3 period Daily Ergodic Candlestick Oscillator.

Let's take the next explanation nice and easy, step by step, and then tie it all together. There are two sets of "A-B" setups. (We'll use capital letters for the intraday plan.) The first is to the long side, and the second is for short sale positions.

1st "A-B" 4/2/99

A) 50-minute Bars touches the lower Daily DFC and the Daily DFC touched the Weekly DFC. This was covered in the previous issue of the FTJ.

B) The Dynamic Pivot (DP) is angled upwards and so are the Dynamic Resistance 1 (DR1)

and Dynamic Support 1 (DS1).

C) The Daily ECO (set at 3 periods, N) on the close of that day sets up a clear "A-B" pattern. Please note that that if you are watching this in real time then the "A-B" setup occurs during the trading day. But you will only see that if you watch during the day as all of these tools are live and changing on a tick-by-tick basis.

The market at this point has shown its hand and is displaying an upward bias. Note the nice upmove. The DP, DS1 and DR1 are all pointed upwards until 4/9 when the DR1 slams down-

ward and the DFC Daily channel's top band levels off.

At this point a down sloping "A" sets up on the daily ECO line. But, it is not until two days later that the down sloping ECO Line touches the Signal Line and we now have a down sloping "A-B" setup.

Look at the bar chart (50-minute) on 4/9, DR1 was sloping downwards but DS1 is sloping upwards. The same thing happens on 4/12. Here, the market enters into a congestion trading phase. We have seen this pattern before!

Now let's check out 4/13.

- A) The ECO Line goes below the Signal Line, a nice filter for a short. It stays in that same mode for four days.
- B) The Dynamic Pivot points down and stays pointing downward for four days.
- C) The DR1 and the DS1 mostly point down.
- D) On 4/19 the dots of the ECO Line turns up and touches the Signal Line. This could be a new "A-B" setup.

Chart 4 is the S&P 500 June contract, 9-minute/45-minute/Daily Plan. We'll look at some potential combinations that can be used in conjunction with the ECO.

Here, we'll make use of all three time periods, the 9/45/Daily.

- 1) The Daily DFC is used to define the extreme parameters. This is set at 3 periods (on daily

bars, our High time frame).

- 2) The 45-minute Dynamic Trio™ flips to the upside on 4/20 at point "AAA". Note the effect on retracements 1, 2, 3, 4 and 5 as prices test the 45-minute Dynamic Trio (Next), and the market holds at support. Each of these provide a possible entry to the long side. But does the 9-minute ECO confirm? What does the 45-minute ECO say?
- 3) The 45-minute ECO (set to 26-periods) supported the up trend, and, yes the Signal and the ECO Line touched late in the day on 4/22 but the ECO Line never went below the Signal Line.
- 4) The 9-minute ECO (set to 26-periods) does a nice job of fine tuning the trend. After point "AAA" occurs look at how many retracements were supported by the 9-minute ECO. If it was used as a type of filter, as in points 1, 3 and 5, you can see reasonable buy indications. These were also backed up by the 45-minute ECO.

Chart 5 is also the S&P 500 June contract, 9-minute/45-minute/Daily plan and provides an interesting picture. Let's add our old friend the Daily Balance Point Steps. This is combined with the Daily DFC and the 45-minute ECO and should make you smile. Check it out point by point.

From point A to point D the daily trend is up based on the rising Daily Balance Point Steps. On the close of day D the Daily trend turns down.

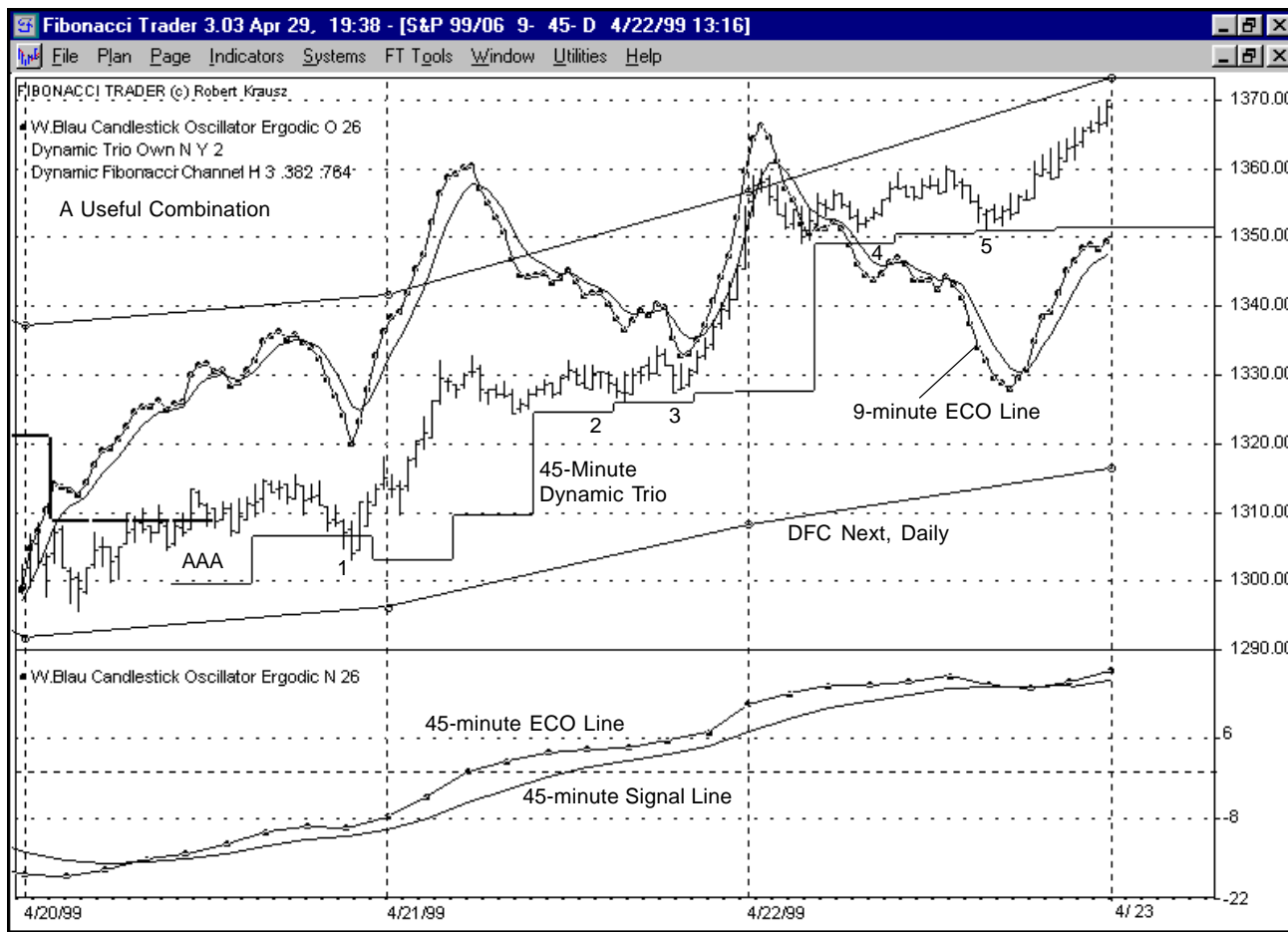


Chart 4: June 99 S&P 500 9 minute/45-minute/Daily Plan. This chart shows the Daily Dynamic Fibonacci Channel (DFC), 45-minute Dynamic Trio, 9-minute and 45-minute Ergodic Candlestick Oscillators.

But note at Day B, the prices penetrate below the steps. In addition, the prices had touched the upper band of the DFC and the DFC had turned down. Now, if you look at the 45-minute ECO, did it support a possible short?

The rally from points C to E was a counter trend rally. Any short sale from point E was with the daily down trend. Nice opportunity, as a fast 50 point move down to point F followed the temporary penetration of the falling Balance Point Steps and the near touch at resistance based on the Daily DFC.

Next, after the steep fall the market touched the

Daily DFC at point F. Prices then rose to check out the daily Balance Point Steps which are still in a daily downtrend. But, at point G prices pass the BP steps to the upside and the next day at point H the daily trend turns (similar to points B through D). So if you bought at point F it would be a trade counter to the Daily Trend. Please note that the 45-minute ECO supported this counter trend move. I leave it to you to check out the 9-minute ECO.

As you can see our tools are getting sharper, but it takes more time to explain, hence we spread these two new tools over two issues of the Fibonacci

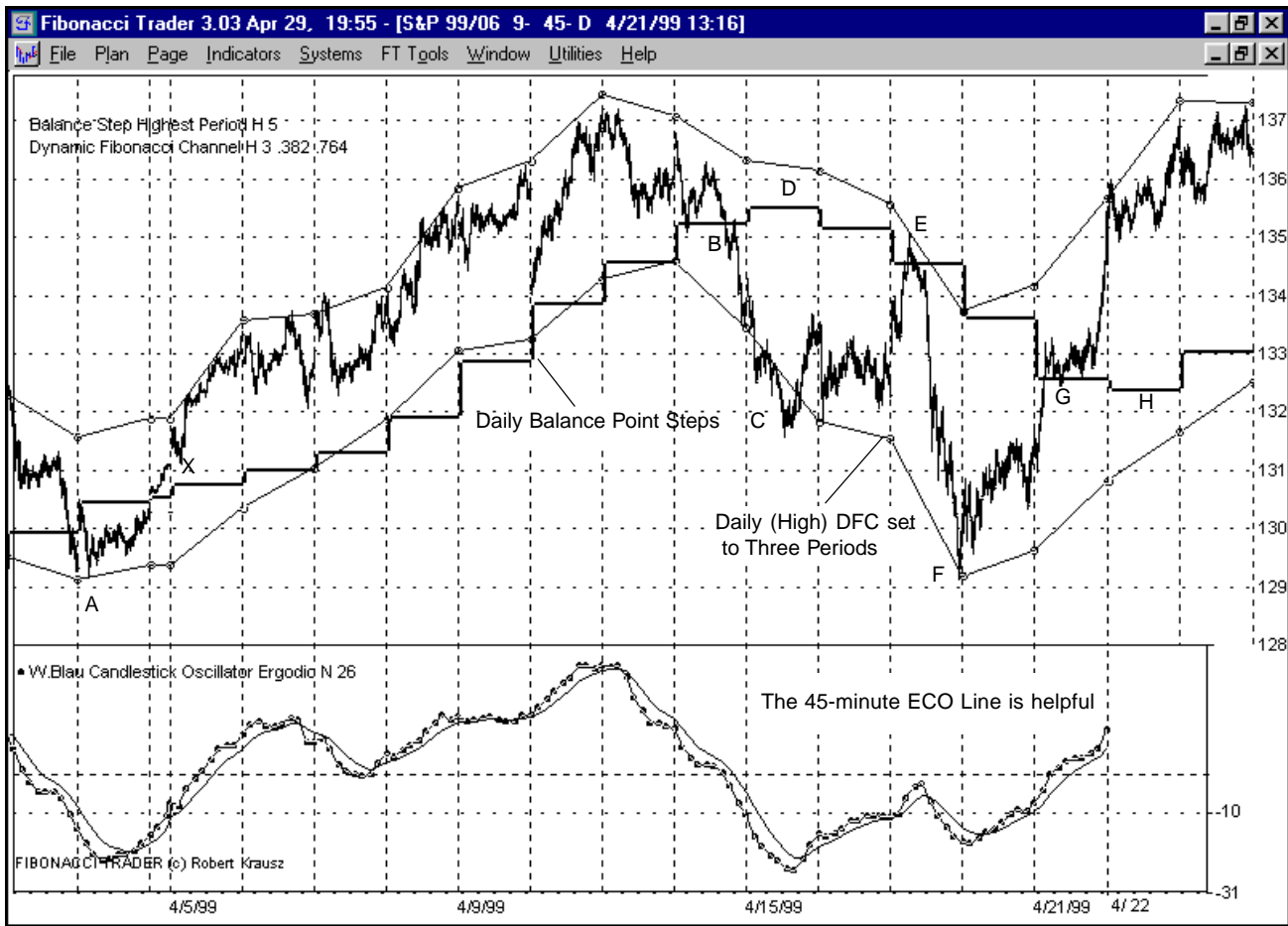


Chart 5: June 99 S&P 500 9-minute/45-minute/Daily Plan. Here are the 9-minute bars with the Daily DFC, and the Daily Balance Point Steps.

Trader Journal. We will carry on with further details of these techniques in greater detail in the future.

Please watch these tools in real-time if you can. But if you do your backtest bar-by-bar you will see how the Higher Time Frames for the DFC lines move about. I can only show you a static picture on these pages.

However, I am investigating a multimedia program called Lotus Screencam, which would en-

able me to place on a CD-Rom a set of moving charts with a voice explanation. This should be a useful addition to the Fibonacci Trader Journal.

Thank you for your patience in waiting for the last two Fibonacci

Trader Journals. Hopefully, it was worth it. There is more coming, especially a closer look at stocks and some major news.

I wish you super trading,
Robert Krausz MH, BCHE

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1835 US1 South 119, Suite 352, St. Augustine, FL 32086.

Phone: 512-443-5751, Fax: 512-443-7119, www.fibonaccitrader.com

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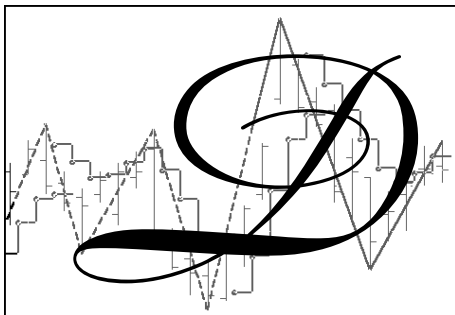
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 8

SETTING TARGETS & STOPS FOR YOUR TRADING PLAN



Dear Trader,
This issue, number 8, and the next issue, number 9,

should be of real help to those traders using the Fibonacci Trader program to construct their own trading plans.

There is much more to developing a trading plan than just setting down some rules and parameters, clicking a computer key to check the results, and you are ready to go!

If it was as easy as that we would all be millionaires. The concepts shown in these two issues should help reality sink in, and you will learn how to adjust your trading plan accordingly. It will be more work, but you should see valuable results.

LETTERS

Some letters have come in asking about the

psychology of trading, and if I have anything available that may help with discipline, etc? The "Mental Harmonic Audio Tapes for Relaxed Trading" that Jack Schwager described in his book *New Market Wizards* are still available for \$99 plus \$5 S&H. There are two tapes, the first one teaches you how to relax, and the second tape tells your subconscious mind that you "deserve your winnings" and helps you focus on your trading plans.

If this is of interest you can call 512 443-5751. By the way, these tapes are not the "Holy Grail" nor will they replace a valid trading plan. But the tapes will certainly help to set a positive mental attitude towards your trading. We'll continue this discussion in the next issue.

I wish you excellent trading,

Robert Krausz, MH, BCHE

SETTING TARGETS & STOPS FOR YOUR TRADING PLAN

Every trading system is built using set rules that are based on some implicit expectation of the market's movement. For example, if you are using a trend following system, such as a simple moving average crossover, your system will capture profits from the markets if the markets trend. That is to say, if the price direction either rises or falls at a persistent rate then the system will realize a profit.

On the other hand, a sideways trending market will cross back and forth over the moving average and the system will produce a series of losing trades.

While the above comment may not seem particularly profound, the key point is that any mechanical system is a template because of the fixed rules, and if that template matches well with the rhythm of the market then profits are realized, but if the template of the system does not fit the rhythm of the market then the system will produce losses.

But does this have to be a totally black and white situation? No. Through detailed analysis of the individual trades of a system you will see that there is a mix of trades, some profitable and some losses. Looking closer, some trades are profitable immediately, while some trades will be at a loss, then recover, and the system exits at a profit.

Then unfortunately, some trades are profitable for a period of time only and turn into losses, and finally, some trades are a loss from entry.

What can we do with this information? The

best way that I have found to improve our trading method is to analyze the results using a measurement called Maximum Favorable Excursion (MFE) and Maximum Adverse Excursion (MAE).

John Sweeney, Technical Editor of Technical Analysis of Stocks & Commodities magazine, described this analysis in his book *Campaign Trading: Tactics and Strategies to Exploit the Markets*, published by John Wiley & Sons.

A number of topics are covered, but the foundation of the book is his MFE and MAE analysis. MFE is the maximum profit level attained while in a trade, whether the final outcome was a profit or a loss. MAE is the opposite measurement; what level of loss occurred for each trade, whether profitable or a loss?

To understand this concept let's look at some simple examples of this analysis using a

✎

Most new traders gravitate to the shorter time frames because there is the appearance that risk can be controlled in a tighter fashion.

✎

simple trend following system we will build in The Fibonacci Trader.

We'll walk through an example of a buy signal on a 10-minute/50-minute/Daily plan of the June T-bond contract using a system that has only one rule: Buy on a "flip" of the Dynamic Trio Next;

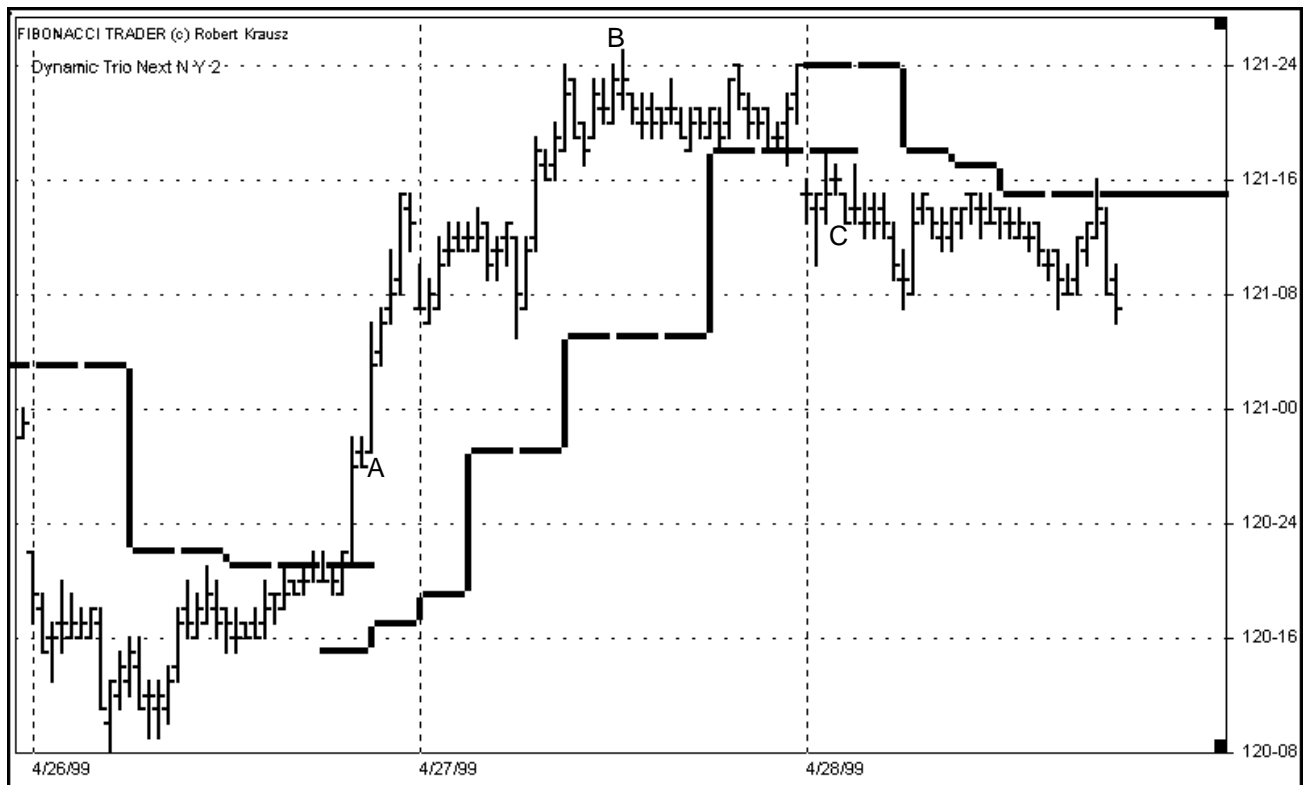


Figure 1: June 99 T-bonds 10/50/Daily Plan. Here the Dynamic Trio Next is used as our entry and exit indicator. The MFE was 29 ticks (A-B), the MAE was zero ticks and the profit was 14 ticks (A-C).

Sell on a “flip” of the Dynamic Trio Next.

Why use the Next time frame for signals? The shorter the time frame you use for observation the more noise in the price movement about the tradeable trends.

Most new traders gravitate to shorter time frames because there is the appearance that risk can be controlled in a tighter fashion, but more often than not more losing trades are generated with the shorter time frames making execution of a trading plan more psychologically difficult by trading very frequently the cost of slippage can mount up very fast. We’ll be talk more about trading psychology at the end of this Journal.

Looking at Figure 1 you can see that on Bar

A the market closed above the Dynamic Trio Next, which is the close of the 50-minute bar and therefore flips, signaling a long position at 120-28. The market rallied into the close with a nice kick off to this trade. The next day the market trended higher reaching 121-25 (Bar B) and then closing for the session just off the high at 121-24.

After the strong close the market opened lower the following day and at the close of the Next time frame (the 50-minute bar) the Dynamic Trio Next flips and the trade is exited at 121-10 (Bar C).

In this example the trade realized a profit of 14 ticks (excluding commission and slippage, something we will not ignore later), a Maximum Favorable Excursion (MFE) of 29 ticks (Bar

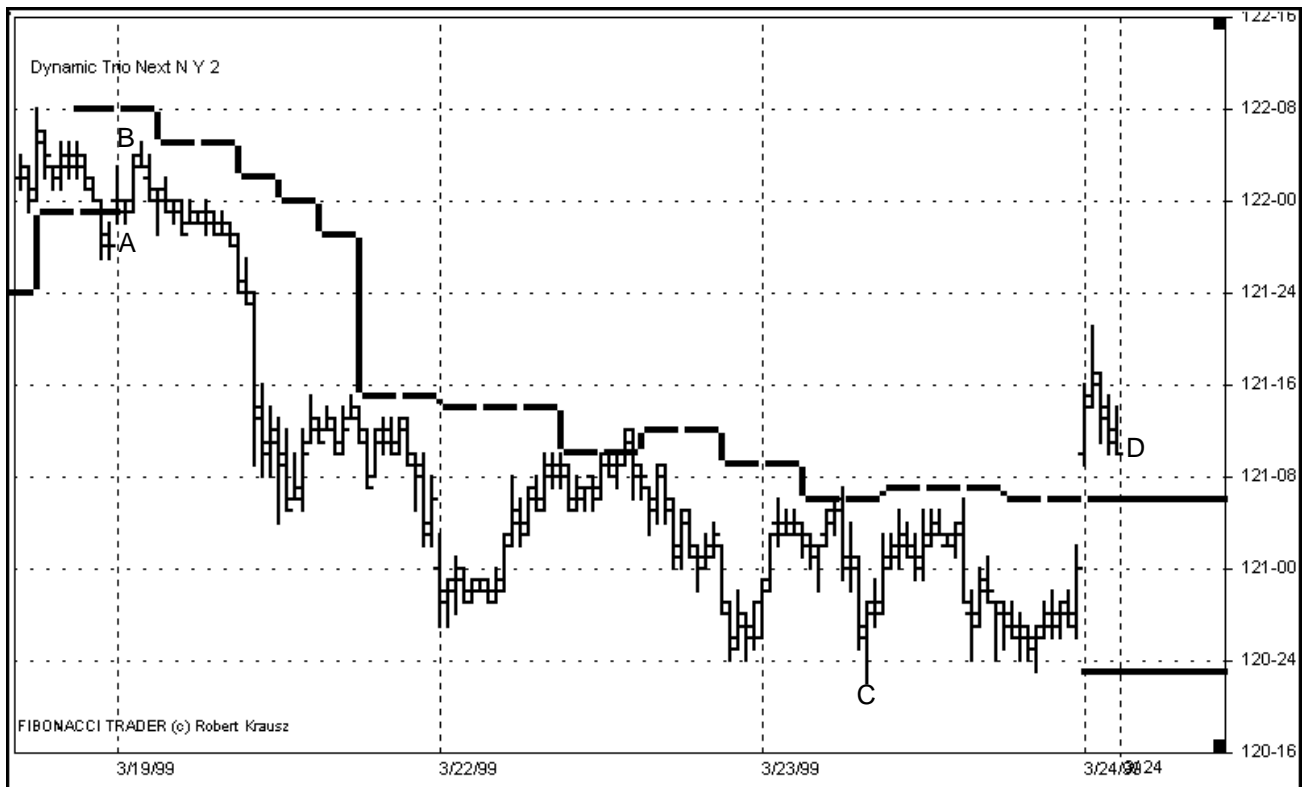


Figure 2: June 99 T-bonds 10/50/Daily Plan. Here the MFE was 38 ticks (A-C), the MAE was -9 ticks (A-B) and the profit was 18 ticks (A-D).

A to Bar B), and a Maximum Adverse Excursion (MAE) of zero ticks. This was a fairly nice trade because the trade was profitable did not experience any temporary drawdown.

Moving onto Figure 2, we see a sell signal on Bar A at 121-28, then the market edges higher to 122-05 (Bar B), but the market stalls and falls sharply to 120-22 (Bar C) and we are smiling. The market traces out a short term bottom with support at the 120-24 level then gaps up the following day, the Dynamic Trio Next flips, and the trade is exited at a price of 121-10 (Bar D).

This particular trade had a realized profit of 18 ticks, an MFE of 38 ticks, and an MAE of -9 ticks. Now that we understand how to measure MFE and

MAE let's take a look at this analysis over a month's worth of trades using a slightly more complicated mechanical system.

This next system highlights a key feature of the Fibonacci Trader that sets it apart from the other technical analysis software. It is the ability to do multiple time frame analysis. We'll take advantage of this feature with our next trading logic. We will still use the 10/50/Daily T-bond plan and the Dynamic Trio Next for our entry and exit signals as in our previous examples, but we will add an additional rule: The Dynamic BP Step High will be our *trend* indicator. That is to say, we will only take a buy signal to go long based on the Dynamic Trio Next if the Dynamic BP Step High is below the prices (the trend is up).

Sell short signals based on the Dynamic Trio Next will only be taken if the Dynamic BP Step High is above the prices (the trend is down). Any other signals will be an exit and go flat scenario. Figure 3 shows the rules in the Fibonacci Trader System module.

Notice that the Dynamic BP Step High is set to "use as trend indicator" and requires a two tick close.

Now here's a subtle but important point: Even though our entry and exit signals are based on the close of the 50-minute time frame, because we are using the Dynamic Trio Next, we can have a buy signal on a ten minute bar basis (Figure 4) because the Dynamic Trio Next may have flipped first to the long side, but the mar-

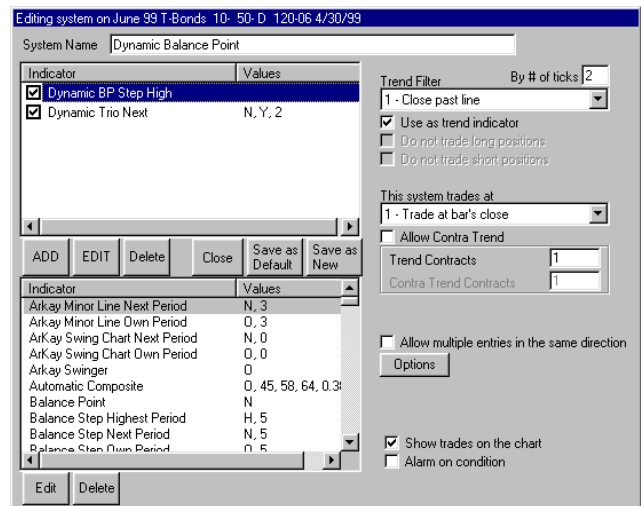


Figure 3: Trading System. Set the Dynamic BP Step High to "use as trend Indicator" and close by 2 ticks. The Dynamic Trio Next will signal the trades.

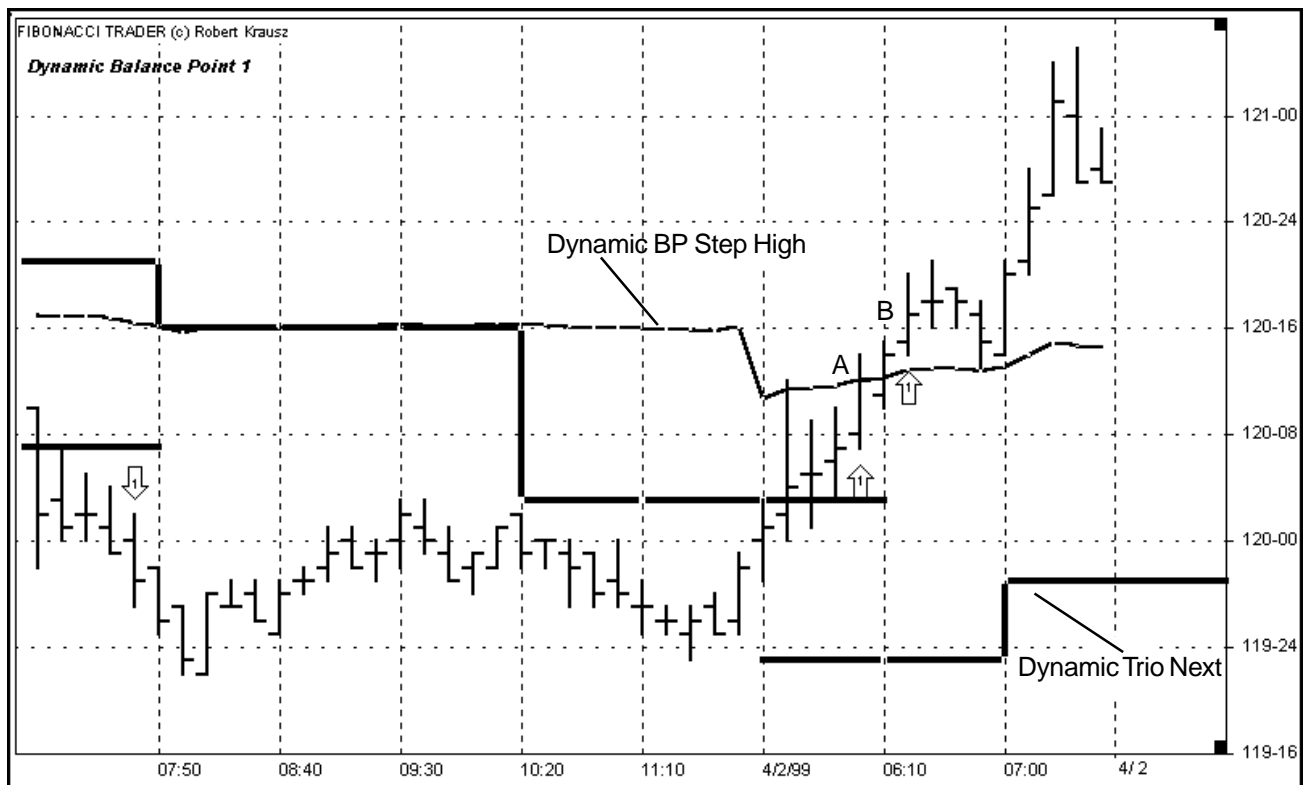


Figure 4: June 99 T-bonds 10/50/Daily Plan. Here, we can see the Dynamic BP Step High, and the Dynamic Trio Next. Notice at Bar A the Dynamic Trio Next flips, which is the close of the 50-minute time frame, and the system goes flat. But at Bar B the system goes long because the 10-minute Bar closed above the Dynamic BP Step High.

ket was below the Dynamic BP Step High, so we can only be flat. But, if the ten minute bar closes now above the Dynamic BP Step High we will go long via our rules. This is a special feature of the Fibonacci Trader many of our indicators are calculated on a Dynamic basis, giving us intraday signals based the higher time frame.

After running the system I copied the results for the month of April by selecting just the April results in the Results window, pressing the key combination “Ctrl C”, and then I pasted the information into an Excel spreadsheet. I then rearranged the columns to offset buys and sells, and then I visually checked each and every trade for the MFE, MAE, and profit.

You may, at first, think that this sort of detail work is something best done by a computer. I think not. This sort of visual detailed analysis brings you to a full focus understanding of the subtle nuances of the trading system. There is a very valuable psychological benefit to doing this sort of hand work because

you will have a better intuitive feel and acceptance of the trading system, an important psychological asset for becoming a successful trader. Figure 5 is the table of this analysis. Let's use this table version of the data and take a more visual look at the results.

April was quite a month for this system. Using a two tic slippage, the system netted out 108 ticks over 9 trades, including the assumption of an exit on the last day of the month. Figure 6 shows a histogram of the closed profits and losses of each individual trade. Five of the nine trades were profitable, with the best just over 60 ticks. The losses ranged from -1 tick to -27 ticks.

Let's take a look at the MFE and MAE for this month of trades. Figure 7 shows that every trade did start off with at the least a six tick profit for a minimum gain and the best trade reached an extreme of 98 ticks.

How might we use this information? One trading philosophy is to include a procedure to take a partial profit at some point in every

TRADE	DATE	TIME	B/S	ENTRY PRICE	DATE	TIME	EXIT PRICE	MFE	MAE	P/L	EQUITY
1	4/1/99	9:40	-1	119-29	4/2/99	8:00	120-12	7	-17	-15	-17
2	4/2/99	8:20	1	120-17	4/5/99	8:30	120-28	27	-4	11	-8
3	4/5/99	13:50	1	121-02	4/9/99	13:50	122-31	98	0	61	51
4	4/13/99	9:20	-1	122-23	4/19/99	12:10	121-22	52	-4	33	82
5	4/20/99	8:00	1	121-31	4/22/99	8:00	121-30	6	-5	-1	79
6	4/22/99	8:20	-1	121-23	4/26/99	13:00	120-28	47	-3	27	104
7	4/27/99	9:20	1	121-18	4/28/99	8:00	121-13	7	-8	-5	97
8	4/29/99	8:00	1	122-12	4/30/99	8:00	121-17	7	-30	-27	68
9	4/30/99	8:10	-1	121-16	Last Position Value		120-06	44	-6	42	108

Slippage = 2 Ticks

Figure 5: April Results. Here are the results for each trade including the entry date, time, price, exit date, time, price, MFE, MAE, Profit or Loss, and accumulated equity.

trade if the market reaches a preset objective. How might you determine a reasonable objective for a partial profit. It appears here by simply looking at the data one could set an initial target of 20 ticks for one contract, and then hold one more contract for an exit signal.

Profits are fun but what about the potential losses while in the trade? Figure 8 shows the MAE for each trade. Notice that in Figure 8 the MAE for most of the trades was -5 ticks or less, with two trades between -5 and -10, and two large negative movements, one for -17 (Trade 1) and one of -30 (Trade 8). Trade 3 never was at a loss.

If we compare this information with the realized profits and losses shown in Figure 6 we can see that Trade 1 had a closed out loss of 15 ticks and Trade 8's closed loss was 27 ticks.

Figure 9 (next page) is a composite display of this information for each trade, including an equity line for the month of April.

Based on this *limited* review of just one month's trading we could come up with two additional strategies that would reduce our risk while adding a target strategy for boosting our profitability. First, use a two contract position with a 10 tick loss from entry as an initial stop loss. Second, use a target provision of 20 ticks for the first contract, and hold the second contract until an exit signal occurs.

CONCLUSION

What we have discovered here are the template characteristics I described earlier in this

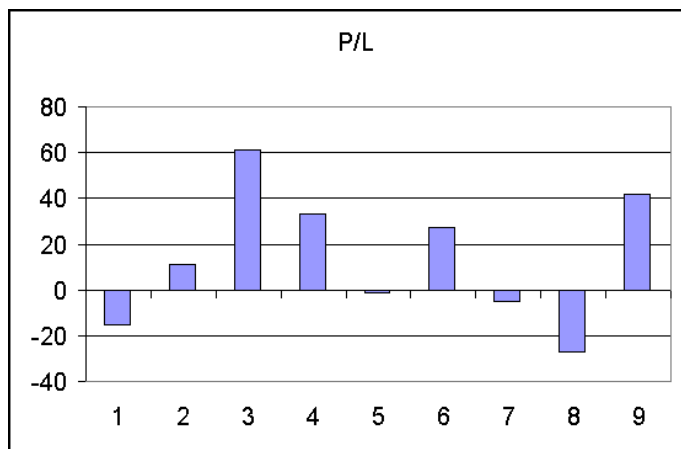


Figure 6: Profits and Losses. This histogram shows the individual outcome for each trade by ticks.

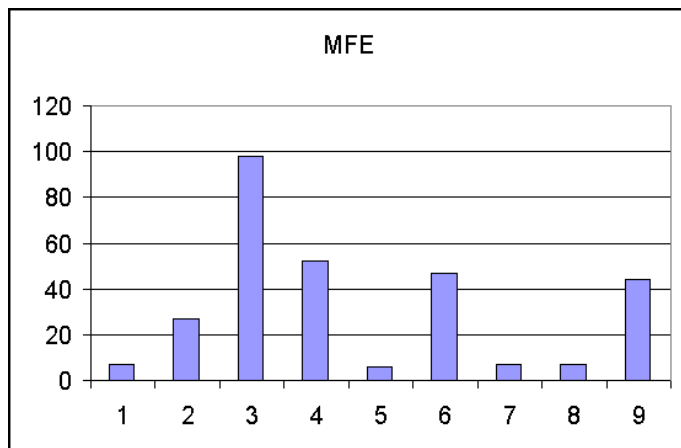


Figure 7: Maximum Favorable Excursion. Here, each trades maximum profit before exit is shown.

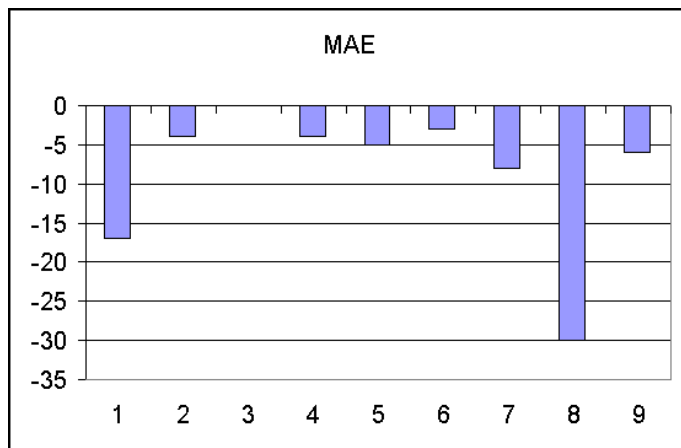


Figure 8: Maximum Adverse Excursion. Here is the negative number of ticks for each trade.

issue. We can now make some assumptions about this mechanical system. If the market goes into a tighter trading range (the rhythm of the market contracts) the twenty tick target will probably not be hit and only add more losses. But as long as the daily ranges are reasonable the mechanical system has a chance to make profits. But there is a problem in that one month's trading results are not enough of a back track.

Other months may be better or worse. Therefore, this set of procedures should be reviewed over a number of years worth of data before committing your capital. It may turn out that the twenty tick target is too high and the ten tick stop loss is too tight. You won't have a sense of confidence unless you check it out.

Something else we gain is the psychological edge of having a set of procedures that are designed to take advantage of two types of markets: Trend and trading ranges. Most importantly the mechanical system is on the line not the trader's ego. You have to learn to separate the two.

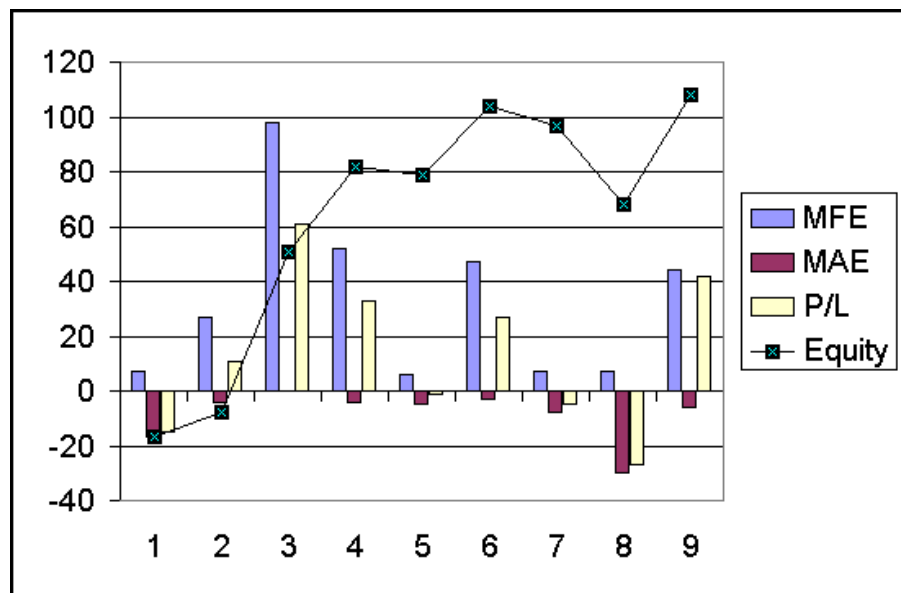


Figure 9: Composite Picture. Here is the MFE, MAE, Profit or Loss, and Equity Line (accumulated trades) for the month of April.

In the next issue of the Fibonacci Trader Journal we will look at both sets of rules for trading during the month of May and see if there is any improvement based on the additional rules.

We offer this particular topic in the Fibonacci Trader Journal as an example of the steps to follow when deciding how to determine *what* is a reasonable profit objective, and *what* is a reasonable amount of

money to risk on any one trade. We let the market tell us.

Take these concepts and apply them to your favorite market. If you discover that your procedures do not make profits on paper you will be very glad you learned it that way instead of the hard way.

I wish you excellent trading,
Robert Krausz, MH, BCHE

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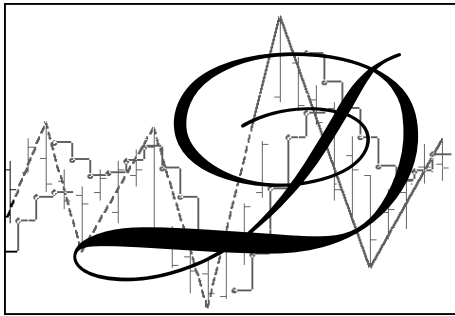
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 9

SETTING TARGETS & STOPS FOR YOUR TRADING PLAN PART II



ear Trader

This issue carries
on where Issue #8

left off, showing a technique for identifying targets and stop loss points. To determine these two important parts of a trading plan without some supportive statistical evidence is impossible. That is what the MFA and MFE provides for you. Of course, there are many ways to handle stops. I found this concept both valid and useful.

IMPORTANT ANNOUNCEMENT

A new baby is born!

Name: Wizard On Wall Street Inc.

Weight: A heavy weight to be sure.

Thom Hartle and I have joined forces to create the finest Professional Trading course on the planet. Some of you may already know that Thom Hartle

has left his position, after nine years, as Editor of the most respected and largest circulation magazine in the industry, Technical Analysis of Stocks & Commodities magazine. He brings with him twenty years of trading on top of the nine years as an Editor. This is experience at the highest level. I welcome the opportunity to work with a true professional. Together we can assure you a product that will be worth every penny we charge. After completing the course you may even say "that was the cheapest" education for valid trading knowledge. Please read the enclosed preliminary information sheet at the end of this issue and give it your consideration.

I wish you excellent trading,

Robert Krausz, MH, BCHE

SETTING TARGETS AND STOPS FOR YOUR TRADING PLAN, PART II

In the last issue of the Fibonacci Trader Journal we introduced two concepts. The first was Maximum Favorable Excursion (MFE), which is the maximum profit level attained while in a trade, whether the final outcome was a profit or a loss. The second concept was Maximum Adverse Excursion (MAE), which is the level of loss experienced for each trade, whether profitable or a loss. We then tested a trading system over the month of April, 1999 on a 10-minute/50-minute/Daily plan of the June T-bond contract using a system that used the Dynamic Trio Next for our *entry and exit* signals with the Dynamic BP Step High as our *trend* indicator.

We would take a buy signal to go long based on the Dynamic Trio Next if the Dynamic BP Step High is below the prices (the trend is up).

Sell short signals based on the Dynamic Trio Next would only be taken if the Dynamic BP Step High is above the prices (the trend is down). Any other signals would be an exit and go flat scenario.

Next we analyzed the individual trades to determine the MFE and MAE of this system for one month's worth of trades. Figure 1 shows a composite histogram of the trades with the MFE, MAE, Profit or Loss, and

the Equity Line for the month of April.

Our ultimate goal was to enhance profitability by using a two contract trading approach. The first contract would be exited if the target price (based on the MFE analysis) was hit and the second contract would be exited based on the system's indicators flipping direction. Through the MAE analysis we also determined a reasonable place to use a stop loss exit because we found that there was a point that a losing trade never recovered.

Now we want to take what we learned and apply the information to trading in the month of May.

Figure 2 is an example of our target method

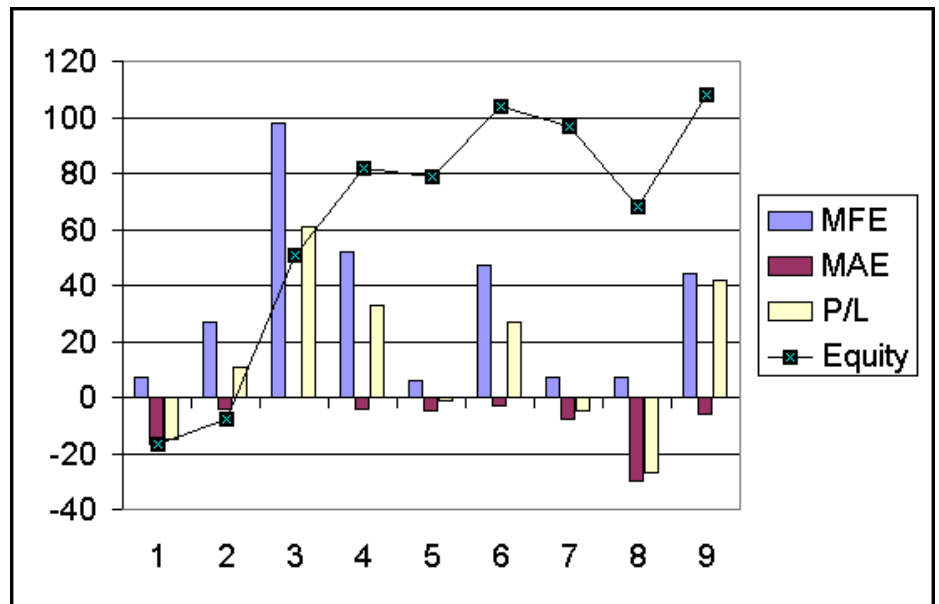


Figure 1: June 99 T-bonds 10/50/Daily Plan. Here are the trades for the month of April. The winning trades went at least 20 ticks (MFE), the losing trades exceeded a 10-tick loss and did not recover. The system made over 100 ticks including slippage and commissions.

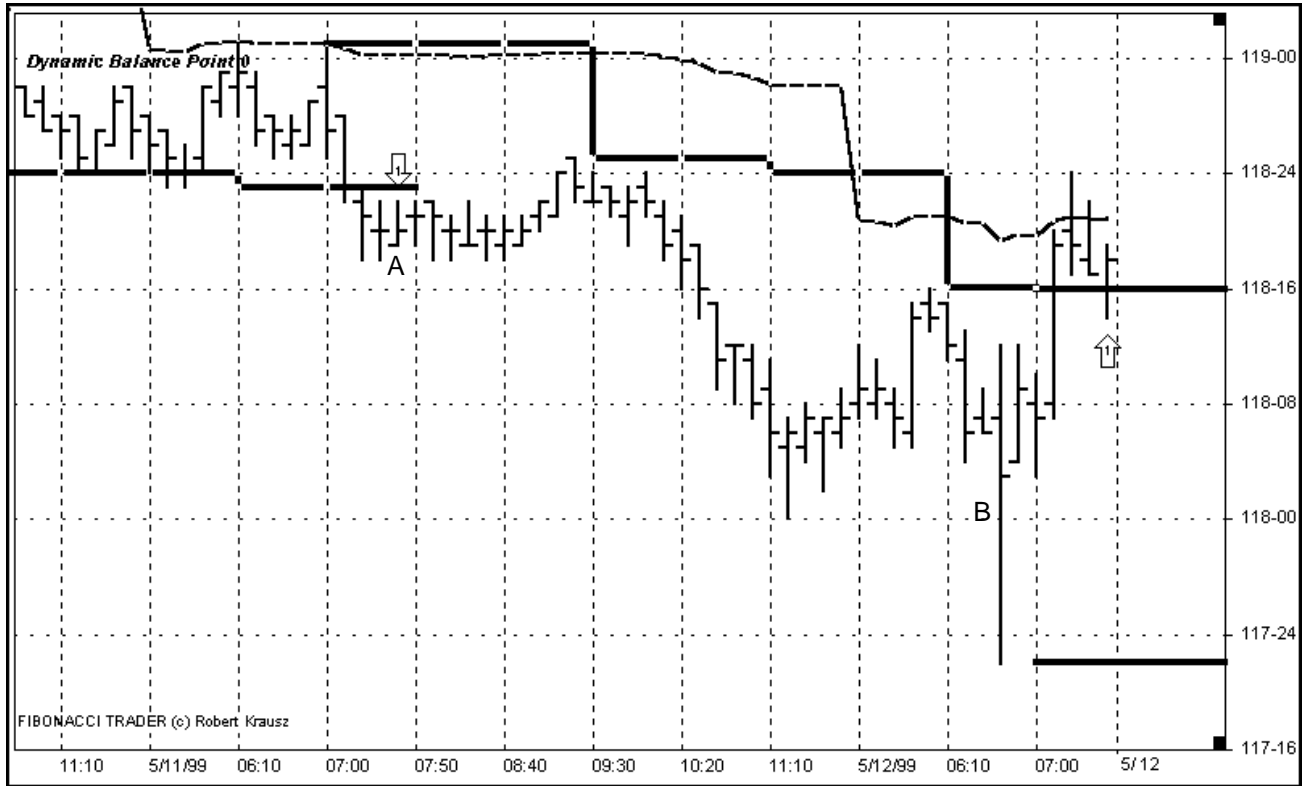


Figure 2: 20-Tick Target. Using our analysis from April we set a 20-tick target for trading in May. After going short on Bar A, the target was hit the next day on Bar B.

in action. From the MFE analysis of the month of April we could see that a twenty tick was a reasonable objective. For example, in Figure 2, the system went short at Bar A at 118-20. Then, later on in the same day, the target was touched at 118-00, but we would not expect a fill because the price did not trade through the 118-00 level. Fortunately, the next day the market traded through the target price of 118-00 and therefore the target was filled. That same day the system went flat at 118-18 for just a two tick profit.

This is a nice example of our goal: If the mar-

ket trends we will be smiling, but if the trend aborts, hopefully, we will put something in the bank for our efforts.

Our ultimate goal was to
enhance profitability by using a
two contract approach.

Figure 3 is an example of using our ten tick stop loss technique as well as a realistic picture of the challenges of trading. At bar A the system went short during a rebound into the close after a

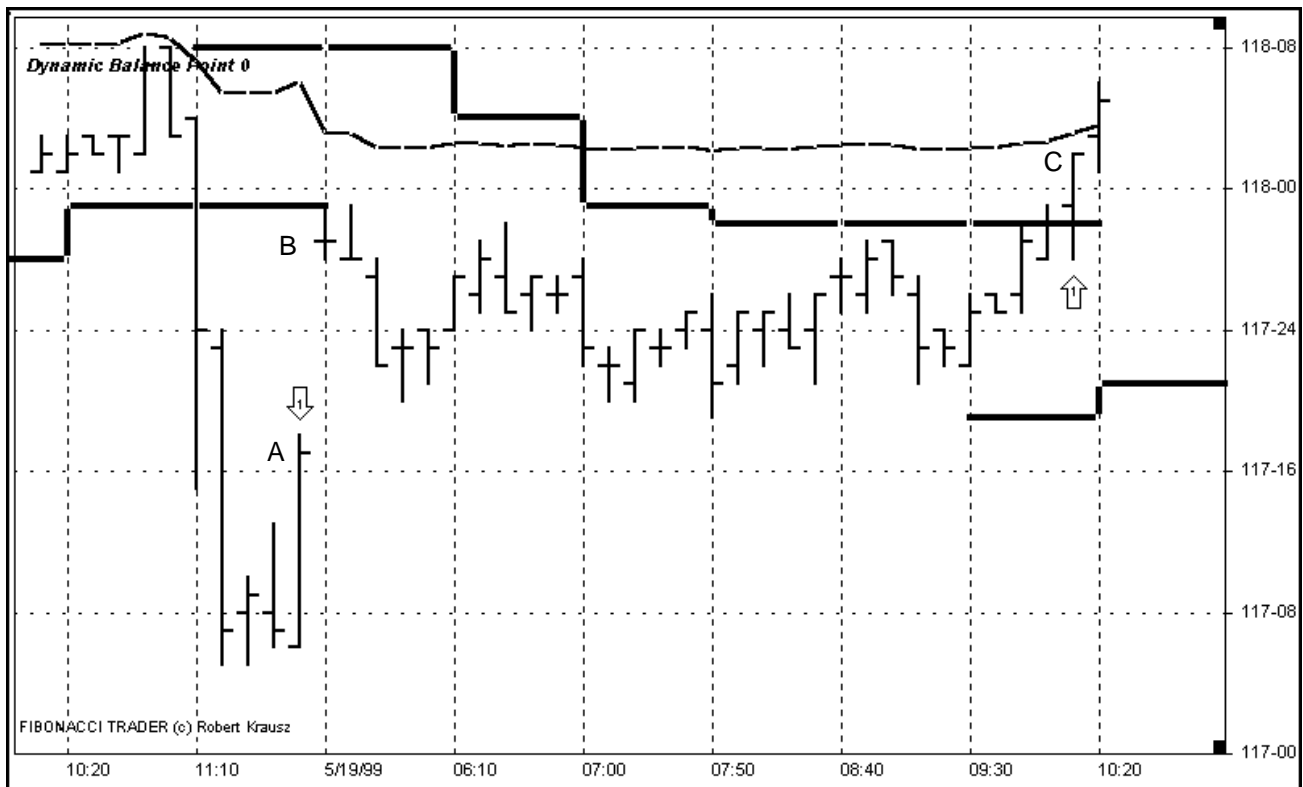


Figure 3: June 99 T-bonds 10/50/Daily Plan. Here, we see a late signal to go short on a rebound after a full point sell off. The market gapped against us, the gap was filled, then the market advanced and the trade was exited for at least a 17 tick loss.

one point sell off. The next day the rebound continued on the open with a 12 tick gap up opening. Then the market spends most of the day trading sideways, filling the gap, and then rallies to the point where the Dynamic Trio Next flips, and the system exits with a 17 tick loss. The novice trader would say "What kind of a system goes short after a one point sell off and then exits near the origin of the trend?!".

This is the reality of using fixed rules, in that there is no Holy Grail, and there will be times when the rhythm of the market and the fixed rules of the system are not in gear. But not all is loss here.

Recall that our MFE analysis taught us that

the trades that exceeded more than a ten tick loss did not recover. Using that new rule, we would have exited on the open at 117-29 (Bar B), with slippage we would have loss 12 or 13 ticks, and now we are done, that's it.

No fretting about the market being against us; no wondering if you should cover if the market trades lower or should you sell more to improve your average price. You don't have to ask yourself does the gap mean strength and therefore you should stop and reverse your position. There is no pressure because we know precisely what to do, and we forget the losing trade and wait for the next signal. In this case the stop loss saved us some money as the market ultimately traded

higher with the original system losing 17 ticks on the exit (Bar C).

Now we will look at trading the original system during the month of May and include the 20 tick target and 10 tick loss, and see if the new procedures enhance the profitability.

First, though, because we closed out the short single contract position at the end of April for our original test we are faced with questions: Do we assume

a new trade on Monday at the open and then use a ten tick loss from entry? Or, do we wait for the next signal and maybe miss out on a trend that started during April, or do we see if the market retraces towards our Dynamic Trio Next for a low risk entry.

The fact is, we don't know what will happen the first day! Our indicators are definitely saying to be short. Does going short, and using a ten tick stop loss from the opening seem reasonable? No, because our original MAE is based on our trend following tools indicating a trend has reversed direction. We have *no* information regarding the retracement activity *while* a trend is underway, and so we are asking to be stopped out for a ten tick loss due to the random fluctuations of the price movement, and nothing else. So, we can either wait for a new signal or respect the indicators and go short one contract on the open. For this test,

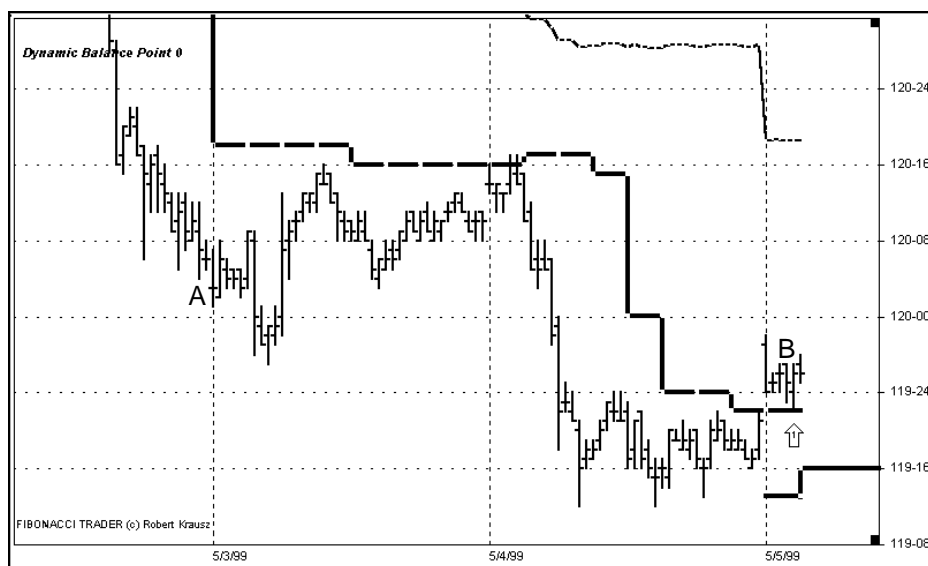


Figure 4: June 99 T-bonds 10/50/Daily Plan. Here, we established the trade on the open because the trend is already underway.

we'll go short one contract on the open the first day, May 3rd.

Why not two? Because the trend is well underway in this case and the target was hit the day before based on the original signal.

Now let's take a look at how the first trade unfolded in Figure 4. Our entry was 120-03 (Bar A), the opening, and the market did trade lower, but then retraced right to the Dynamic Trio Next, reversed and trended down quite nicely. We exited our trade the next day on Bar B for a nine tick profit.

Figure 5 (next page) is a table showing the MFE, MAE, Profits and Losses, and Equity for the month of May using the original system rules (one contract) used in April. Here we used a two tick slippage, and the system lost 31 ticks for the month. Figure 6 shows the composite histogram of each trade with the MFE, MAE, Profit or Loss, and Equity Line.

Trade	Date	Time	B/S	Entry	Date	Time	Exit	MFE	MAE	P/L	Equity
1	5/3/99	7:20	-1	120-03	5/5/99	8:00	119-26	23	-14	9	9
2	5/6/99	8:00	-1	119-16	5/10/99	10:30	118-28	40	-4	20	27
3	5/11/99	9:40	-1	118-20	5/12/99	9:40	118-18	20	-5	2	27
4	5/12/99	10:00	1	118-24	5/12/99	10:10	118-18	1	-6	-6	19
5	5/12/99	11:10	1	118-25	5/12/99	12:00	118-19	4	-9	-6	11
6	5/13/99	7:20	1	118-29	5/14/99	7:30	118-19	23	-14	-10	-1
7	5/14/99	8:00	-1	117-27	5/18/99	8:00	117-30	30	-6	-3	-6
8	5/18/99	13:50	-1	117-17	5/19/99	12:10	118-02	0	-17	-17	-25
9	5/19/99	12:40	1	118-06	5/20/99	10:30	117-27	7	-12	-11	-38
10	5/21/99	8:00	1	118-08	5/25/99	8:00	118-17	26	-7	9	-31
11	5/26/99	12:10	-1	118-06	5/28/99	9:40	118-04	28	-9	2	-31

Slippage = 2 Ticks/Contract

Figure 5: May's Results (One Contract). Here are results of the original system applied to trading the month of May. The system lost 31 ticks, including slippage and commissions.

Figure 7 is a table of showing the MFE, MAE, Profit and Losses, and Equity for the month of May using the same system rules used in April plus our target rule and stop loss provision. We trade two contracts, the first is a target based trade and one contract is a trend following trade.

The Target column will generally have an upside limit of 20 ticks (sometimes a gap opening may increase this profit in our favor) or show the same profit/loss result of the trend following position if the target was not hit. The losses should not exceed ten ticks

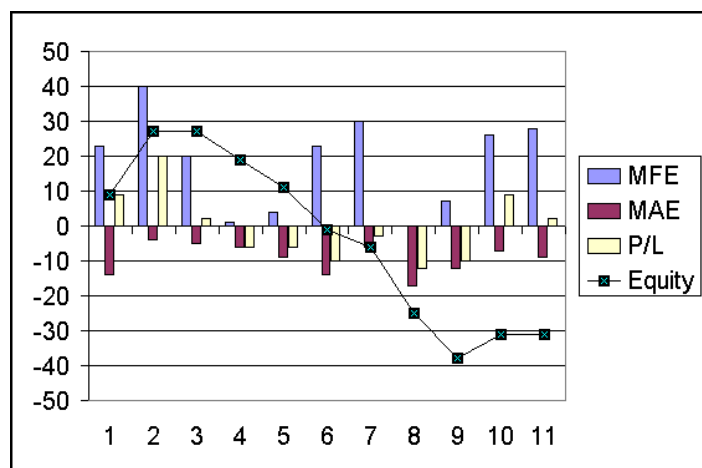


Figure 6: May's Results (Figure 5) Composite Picture. May lost 31 ticks using the original system.

Trade	Date	Time	B/S	Entry	Date	Time	Exit	MFE	MAE	P/L	Target	Equity
1	5/3/99	7:20	-1	120-03	5/5/99	8:00	119-26	23	-14	9	0	9
2	5/6/99	8:00	-1	119-16	5/10/99	10:30	118-28	40	-4	20	20	45
3	5/11/99	9:40	-1	118-20	5/12/99	9:40	118-18	30	-5	2	20	63
4	5/12/99	10:00	1	118-24	5/12/99	10:10	118-18	1	-6	-6	-6	47
5	5/12/99	11:10	1	118-25	5/12/99	12:00	118-19	4	-9	-6	-6	31
6	5/13/99	7:20	1	118-29	5/14/99	7:30	118-19	23	-10	-10	20	37
7	5/14/99	8:00	-1	117-27	5/18/99	8:00	117-30	30	-6	-3	20	50
8	5/18/99	13:50	-1	117-17	5/19/99	12:10	118-02	0	-10	-17	-17	34
9	5/19/99	12:40	1	118-06	5/20/99	10:30	117-27	7	-10	-11	-11	10
10	5/21/99	8:00	1	118-08	5/25/99	8:00	118-17	26	-7	9	20	35
11	5/26/99	12:10	-1	118-06	5/28/99	9:40	118-04	28	-9	2	20	53

Slippage = 4 Ticks/Contract

Figure 7: May's Results Including Target and 10-tick Stop Loss. Here are results of the original system but including the 20 tick target and stop loss provision. The system made 53 ticks.

unless there was a gap opening against the position. The Equity column for Figure 7 includes the Target trades and those trades that were stopped out for a ten tick loss. We have also raised the slippage to four ticks to account for the extra contract. Of course, real market conditions may have produced more slippage than this table accounts for.

Notice that the system went from a negative 31 tick loss to a profit of 53 ticks. Let's take a closer look at May's trading.

Figure 8 shows a combination histogram chart of the MFE for each trade, the final result of each trend trade (P/L) and each target trade. Trade 1, as you may recall did not have a target contract. Notice Trade 3. At one point the trade had an open profit of 30 ticks, but the trend following contract exited with just a two tick profit. The target contract hit the 20 tick objective.

Figure 9 is the MAE each trade (both contracts will have the the same MAE unless the target is hit). Trade 1 was greater than -10 because we entered the trend the first day of May. Trades 8 is -12 ticks because of a gap opening against the position. Figure 10 is the composite histogram showing the MFE, MAE, Profit or Loss (Trend trade), Target Profit or Loss, and Final Equity Line for each trade. Compare this to Figure 6, the original system applied to May.

Now, why did the original system rules do poorly during May compared to April? As we stated before this set of procedures is a trend following technique and assumes that there will be enough trends to offset the congestion periods that produce losses.

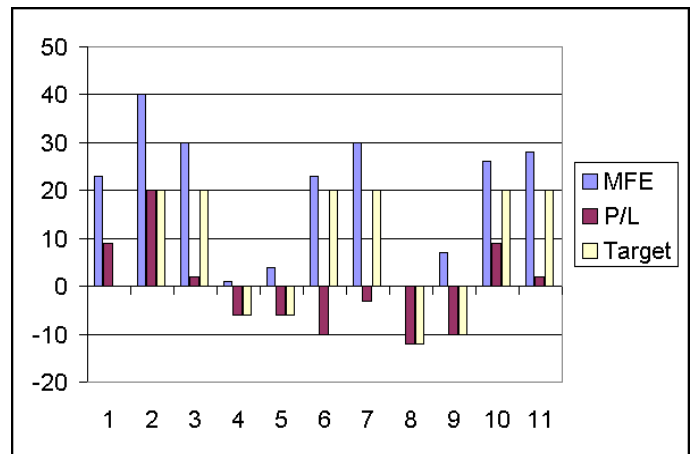


Figure 8: MFE, Profit or Loss, and Target. This chart compares the MFE of each trade, the final result for each trend trade (P/L) and each target trade.

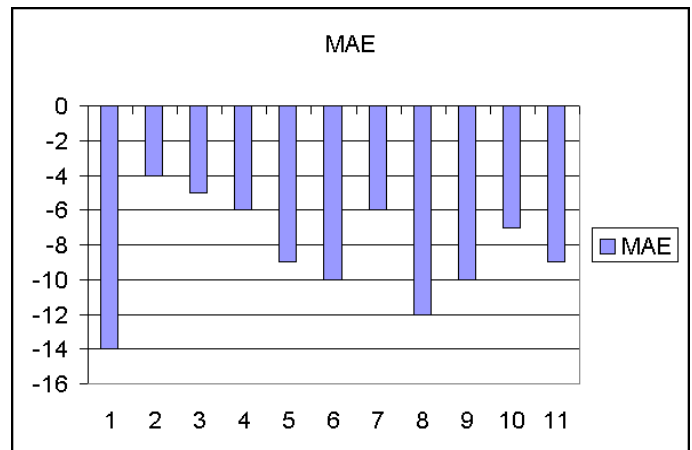


Figure 9: MAE. There was a -12 tick loss on trade 8 due to a gap opening.

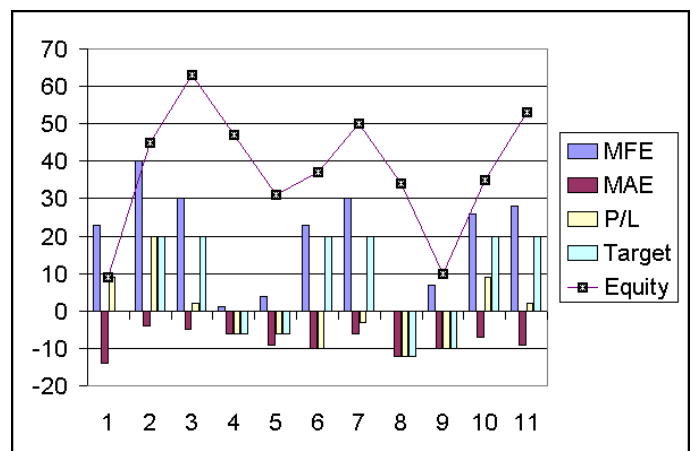


Figure 10: Composite Picture For All Trades.

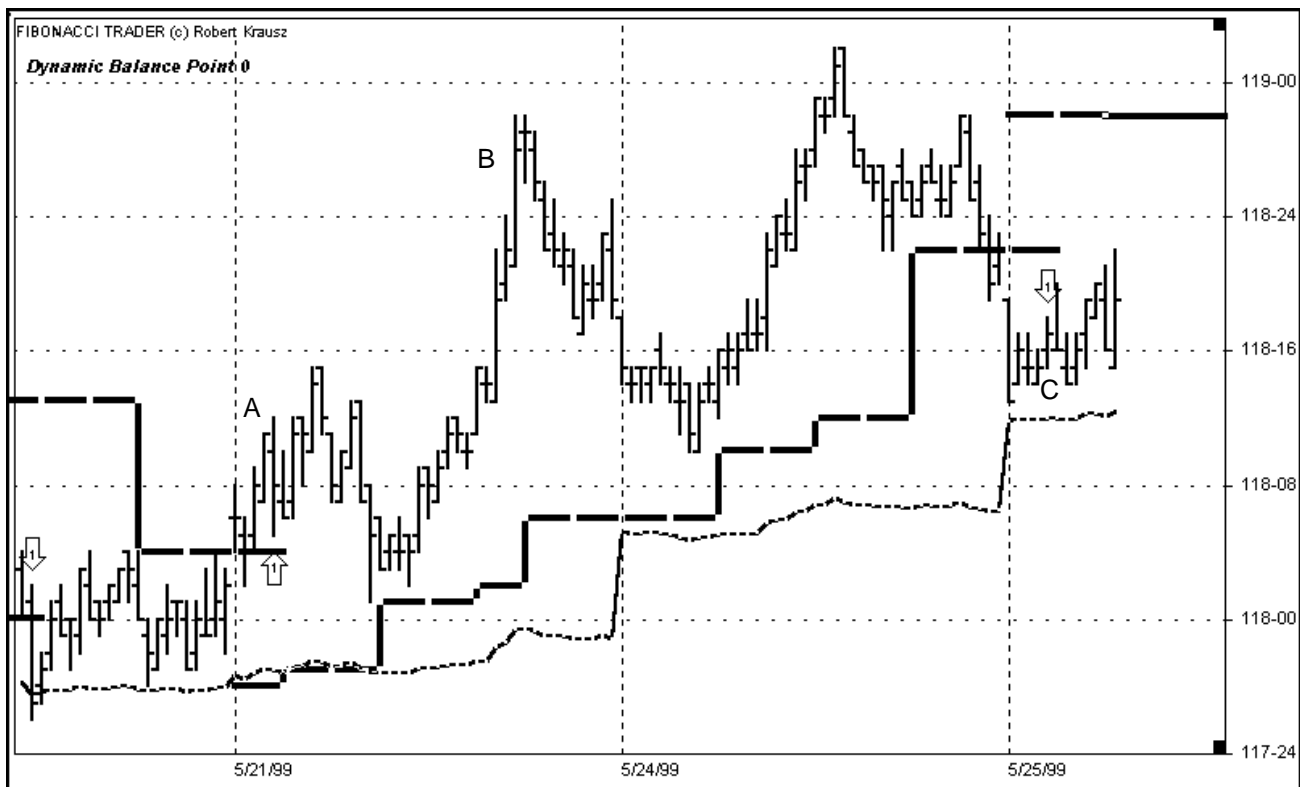


Figure 11: Trade #10. The buy signal occurred at 118-08 (Bar A), and the market rallied nicely, hit the 20 tick target, Bar B, and then fell back, rallied again, and then the system exited at 118-17 (Bar C).

During May the market did not trend nearly to the degree that the market trended in April. But we developed a procedure, using a target, to help offset that potential problem.

For example, Figure 11 shows Trade #10. The buy signal occurred at 118-08 (Bar A), and the market rallied nicely, hit the 20 tick target, then faltered, made another new high and reversed. The system exited at 118-17 for a nine tick profit, but we added an additional 20

ticks using this rule.

As we stated in the last issue, other months may be better or worse using this mechanical system. Therefore, this set of procedures should be reviewed over a number of years worth of data before considering using your capital. Please test your ideas.

The goal was to present one way to identify the subtle nuances of your system and how well they match the rhythm of the market. Take this analysis and apply it to your system.

I wish you excellent trading,
Robert Krausz, MH, BCHE



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1835 US1 South 119, Suite 352, St. Augustine, FL 32086.

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WIZARD ON WALL STREET INC

Guidance For The Professional Trader

Robert Krausz, MH BChE

Thom Hartle

Multiple Time Frame Structure™

WIZARD ON WALL STREET'S goal is to offer a professional study course that will take you to a professional level of trading. Traders who are already proficient will be shown insights into the proper use of trading multiple time frames, and not just through the narrow view of a 100% mechanical trading plan. As part of the course there will be a valid trading plan for stocks or futures including a back test. For T-bond and Ten-year T-note futures traders we are offering a plan based on the Fibonacci Trader Expansions™ in multiple time frames. The trading plan is only part of the course, as we want to give you an educational foundation and then you will be able to use multiple time frames as a reference for analyzing the markets.

As you may know, according to the Wall Street Journal, there are five million plus “on-line traders.” As the course will handle stocks as well as commodities (especially the Financials and the Index Futures) we have no idea how many people will be interested in our home study course. Obviously there is a limit to the number of people we can work with. For this reason we are offering 1st choice to the owners of the Fibonacci Trader™ program. As you read the rest of this information, you will see that the Fibonacci Trader real-time program is a prerequisite for this course, and most of you already have the program.

The Multiple Time Frame Structure™ professional study course will cover the following topics (a full brochure is being prepared and will be sent to you):

1. Multiple Time Frames – A solid framework of multiple time frames and its applications.
2. Market Structure – A broad based theory and practice.
3. Psychology of Trading – In addition, Robert Krausz's Mental Harmonics tapes, as mentioned in Jack Schwager's book *New Market Wizards*, are part of the course.
4. Advanced Swing Trading Techniques – Intraday, short term and medium term strategies. Applications to trading stocks and commodities. The Matrix of 9 will be taught. A special “THEWOW” add-on to the Fibonacci Trader™ program is included.
5. Fibonacci Trader Expansion™ Plans – Two modes of this trading plan will be taught (aggressive and conservative for T-bond futures). This trading plan is original work and has not previously been shown to the public. The complete set of rules, structure, back tested results will be disclosed. In fact, we will be trading this exact plan for T-bond futures ourselves in real time – with real money. The course lasts for six months, but at the end of the first three months you will have all of the know-how needed. We will take every trade, and send out a weekly fax/e-mail update to keep you on the straight and narrow. A description of this plan and the results of a multiple year back test will be included in the course description brochure. Needless to ask, would we put our money on the line if it was if it was not a winning plan?
6. Pattern Recognition – Pattern recognition and its direct application to multiple time frames using trend as well as support/resistance definitions based on the higher time frames.

The entire six month course including the twelve week (beginning after the third month) e-mail/fax update will cost \$3,600. This includes:

1. The Professional Course will be a combination of a hardcopy workbook and CD-ROM.
2. The Fibonacci Trader™ add-on “THEWOW”, a \$250 value.
3. Mental Harmonic audio tapes, a \$99 value.
4. My book, *A Gann Treasure Discovered*, a \$161.80 value.

Important Notes:

- All postage and handling charges are included in the price.
- If you already have items 3 or 4 you will receive a credit towards the price.
- The course requires the Fibonacci Trader™ real-time program to take full advantage of the Swing Plans (especially the intraday methods) and the Fibonacci Trader Expansion™ Plans.
- We reserve the right to refuse any applications.

If you are seriously interested please fill in the form at the end of this section. Please do not send any money at this time. This is only a reservation with no obligation your part. We only want to have an idea as to how many places to allocate to current owners of the Fibonacci Trader™ program.

Thank you for your interest,

Robert Krausz, MH BCHE
Thom Hartle

FAX THIS FORM TO 904-819-0737

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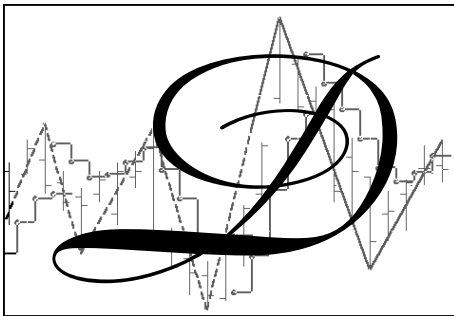
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FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 10

MULTIPLE TIME FRAMES ENCAPSULATION™



ear Trader,
This issue is entirely dedicated to a nice feature in the Fibonacci Trader program, a technique that I use regularly. A

detailed approach as shown here could be helpful in your analysis, both intraday or daily as the concept is similar. The bar-by-bar analysis is a careful examination of the market action which will give you superior information. It's more work but it's worth the effort.

Last month we announced the new venture WIZARD ON WALL STREET[®], and it is proceeding very well. We want to thank all of you who replied so promptly to reserve your place for the "MULTIPLE TIME FRAME STRUCTURE™" study course (the no obligation reservation on your part). Be assured that owners of the Fibonacci Trader program will be given preference, especially those of you who have submitted the "No Obligation Reservation" form included with the FTJ issue #9. If you have any questions you may phone Thom Hartle (425 481-2582). By the way,

so far this year in the T-bond market, the Fibonacci Trader Expansions Plan™ is currently (as of July 18) showing a profit of well over 120% with a maximum drawdown of some 5% (after commissions and slippage).

To describe the details of this course we have sent to you in a separate E-mail, as an attachment, our WIZARD ON WALL STREET[®] brochure. Anyone using snail mail will receive it via regular post. And we'll still keep publishing th Journal. In fact, in response to your requests, the next issue of the Fibonacci Trader Journal will focus on stocks and shares as we have many users who focus on those markets.

Finally, I want to say hello to members of TAOTN (Technical Analysis on the NET) that we met in Raleigh, NC in July. Thom Hartle and I enjoyed the workshops, and we hope that the information we shared will be useful.

I wish you super trading,

Robert Krausz MH, BCHE

P.S. We will be out in force at TAG XXI in Las Vegas, November 19-22, so be sure and bookmark that date. Visit our Web site for more information.

ENCAPSULATION

One special feature for traders using the Fibonacci Trader program is Encapsulation. In fact, I have been awarded a patent from the United States Patent Office for this exclusive way of viewing the market. As always, this technique is based on my Multiple Time Frame Analysis approach to the technical analysis.

Encapsulation is especially valuable because it visually gives the trader a clear picture of how the rhythm of the *Own* time frame (the time frame we are trading) is interacting with the *Next* time frame. Recall that one tenet of using multiple time frame analysis is we look to the *Next* time frame for the direction of the trend and support/resistance levels for the *Own* time frame.

In past issues of the Fibonacci Trader Journals we have primarily focused on our exclusive indicators and techniques that identify the trend and potential points where the trend can change because trader are interested in this type of approach. Traders look to indicators to smooth the price data, in hopes of removing the noise, leaving behind the trend. Traders using the Fibonacci Trader program have our favorites, including the Ergodic, the Balance Step and the Triple Switch for spotting the trend.

Encapsulation and its application, on the other hand, is really a return to classical chart analysis. That is, we'll be looking at nothing more than the prices on the charts for the trend and support/resistance levels, but based on the *Next* time frame You'll see how the uptrends

are simply higher highs with higher lows, and downtrends are lower lows and lower highs. The support and resistance levels will be based on the previous week's high or low, or the week's high or low two weeks ago. You'll see why shortly. Again, the pertinent information is based on the *Next* time frame. Plus, we'll look at drawing simple trend lines on the *Next* time frame for the *Own* time frame as an early warning the trend may be changing.

The steps to applying Encapsulation are as follows. First, double click with your left mouse button on the plan to bring up the general menu (Figure 1), then select "Chart" at the bottom of the popup menu, and then select "Open Options." Click on the "Next Bar" tab and click on the "Show Next Period Bar." Figure 2 is Figure 1, the June 1999 T-bond futures contract (the *Own* time frame), Encapsulated. Now we see the *Next* time frame, the weekly bars presented with the daily bars. Let's see how we can use this.

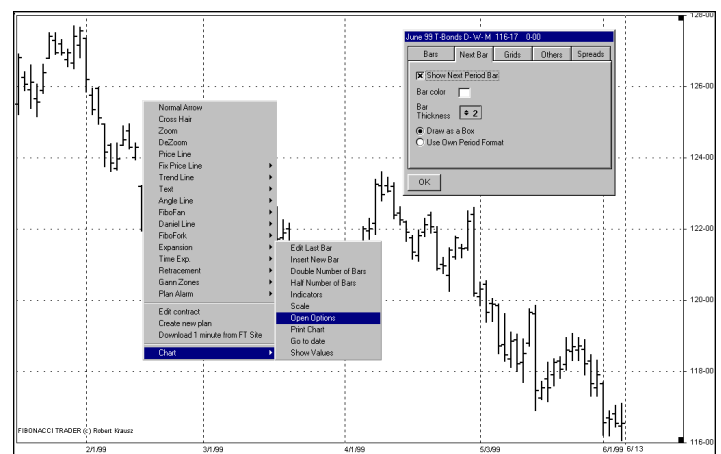


Figure 1: June 99T-bonds Daily/Weekly/Monthly Plan. Encapsulation is found by clicking on "Open Options" and then "Next Bar."

First, the weekly bars accomplish the primary use of indicators, in that a weekly bar removes the noise generated in a daily bar format. For example, looking at the downward trend from point A to B you can see that each week's high was lower than the previous week's high. The lower highs indicate a downward trend.

Notice what stopped the market: For three weeks, the T-bond market (points 1, 2 and 3) could not move lower. The three support points on a weekly basis (*Next*) was 119-22, 119-09 and 119-23. This pattern is called an MVP or maximum vibration point (some traders call this an isolated low). Compare this to the insert that is the daily bars for the same period without the Encapsulation. You can see the boundaries of the trading range but the Encapsulation format really highlights the important price levels.

Now that we can see that a support level was established in the *Next* time frame, if the trend is going to change direction the

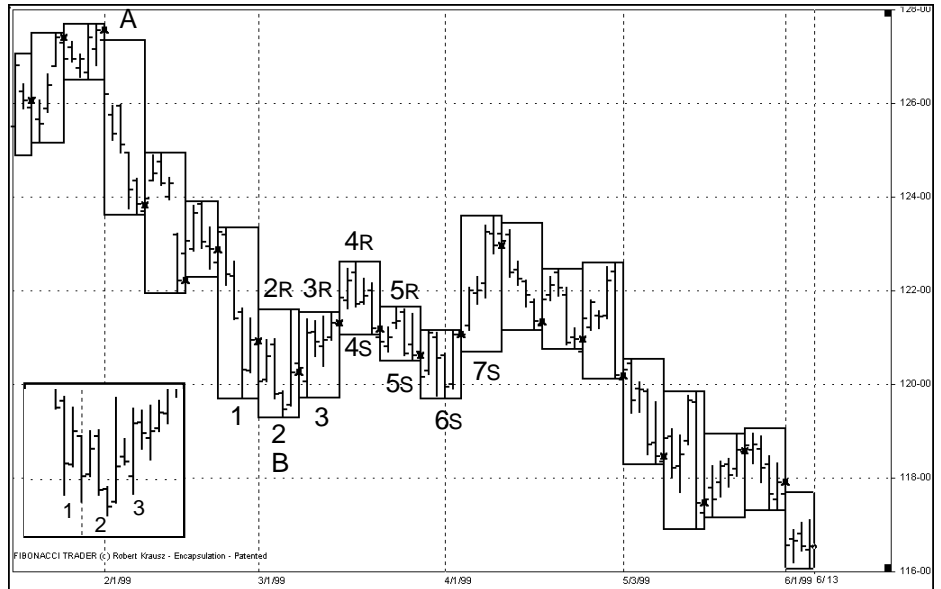


Figure 2: June T-bonds, Daily/Weekly/Monthly Plan. The Encapsulation is the High, Low, and Close bar of the weekly (*Next* time frame) bar around the daily (*Own* time frame) bars. Points 1, 2, and 3 show an MVP bottom.

market has to take out a resistance level. This, in turn, will place a large number of traders on alert that the trend is changing to up.

Points 2R (121-19) and 3R (121-17) are two weeks of resistance. The Monday following the close of the weekly bar 3, the daily bar closes above these levels, signaling a breakout. However, on Friday the market closed back below the original resistance levels (week 4) indicating a false breakout.

Week 5 shows an interesting aspect of paying attention

to the *Next* time frame while looking at the daily bars. Notice how the market moved up during the week, but traded only to the original resistance levels points 2R and 3R. The right hand side (5R) of a bearish MVP is shaping up.

So where does the market go? Right back down to challenge the major support levels from points 1, 2, and 3 (point 6S). But this level holds for a second time with Friday the market closing near the high of the week, a bullish indication. And again, the next Monday's low

(Figure 3, point 7S), the same support MVP pattern repeats itself as the low at point 7S is the right hand side of the support MVP compared to the low below weekly bar 5, point 5S.

The market then advances sharply for the week, closing above the highs established three weeks before. But the market fails again. Why?

Take a look at Figure 4. Here we use the Fibonacci Trader's Retracement Tool. The first top (C) that formed after the bottom B is a 38.2% retracement of the decline A-B. The second top (D) forms as the market hits the 50% retracement. Peaking at these levels after a downtrend is bearish.

Returning to Figure 3, we can see that the market forms a two week top at this 50% retracement level (points 7R and 8R), and closes at the low for the week. The next two weeks forms a lower top (points 9R and 10R) at the same level of resistance as the top labeled point C. This continues to be bearish market action. The final signal comes next.

On Tuesday (point 11) the

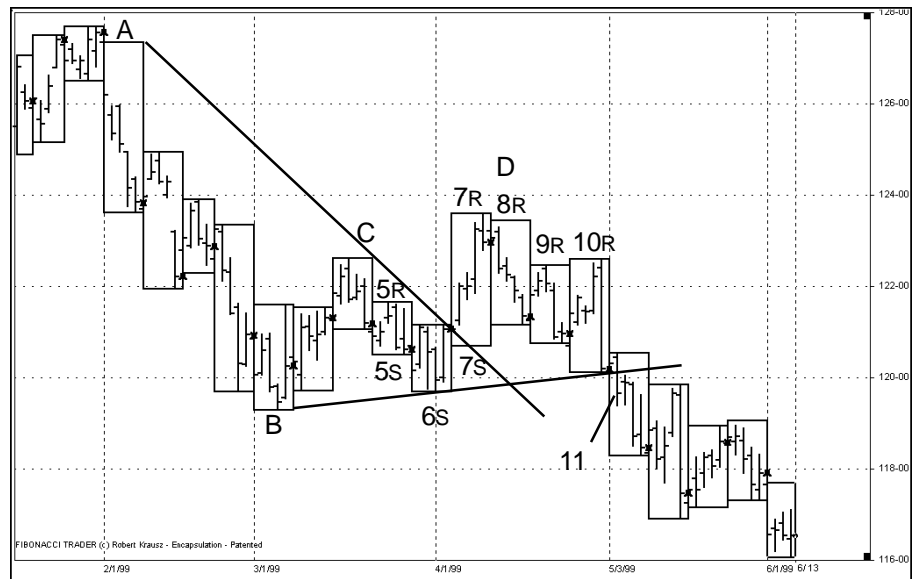


Figure 3: June T-bonds, Daily/Weekly/Monthly Plan. Draw trendlines based on the *Next* time frame. Use penetration by the daily bars for signals.



Figure 4: June T-bonds, Daily/Weekly/Monthly Plan. Peaks C and D were 38.2% and 50% retracements of the down trend.

market closes below an uptrend line drawn from point B through point 6S. Notice that we are focusing on the close of the *Own* time frame

bar below the trend line based on the *Next* time frame and the important support at point 6S. We don't wait for the close of the week to act. This was your

final signal that the trend run to the down side was clearly underway. The market trend continued with lower weekly highs, and two inside weeks before another new low was established. A move of nearly four points.

INTRADAY TRADING

Can this same concept of watching for penetration of MVPs be used for trading on an intraday basis. We'll look at an example using a 10-minute/50-minute/Daily plan (Figure 5).

It turns out that there is a major difference in the way a market behaves on an intraday basis compared to daily and weekly bars.

The intraday volatility of most markets is driven by many factors, ranging from large money managers moving in and out of the market to the locals on the floor attempting to push the market through key levels to discover if more buying or selling is uncovered. We'll continue with the same concepts to identify support and resistance, and the trend as well as bring out one

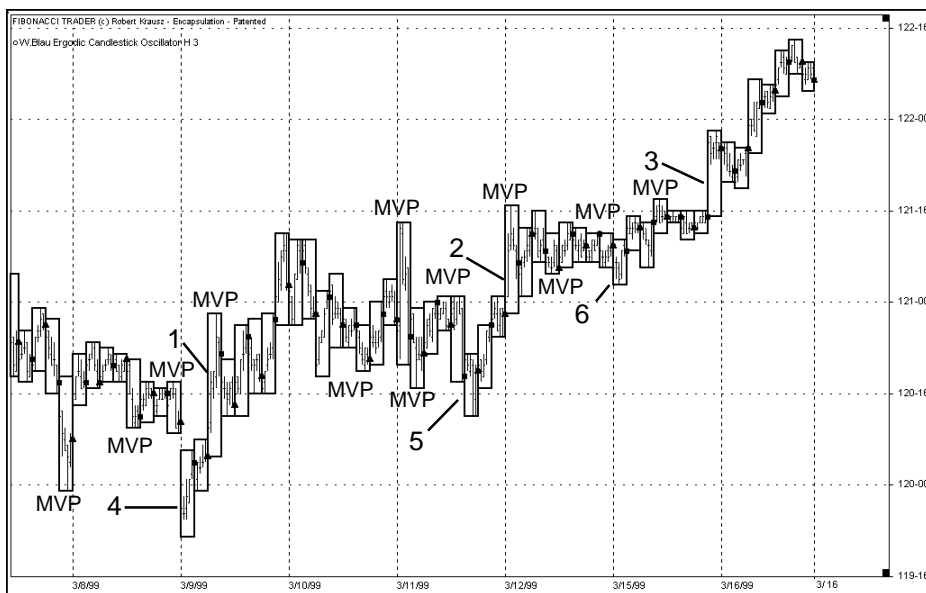


Figure 5: June 99 T-bonds 10/50/Daily Plan. Points 4, 5, and 6 are examples of false breaks of support MVPs. Points 1, 2, and 3 are examples of successful breaks of resistance MVPs.

of our favorite indicators as a support tool to aid to identifying the trend.

Looking at Figure 5, we can see that there are numerous MVPs that represent support or resistance points, and the price penetration of these support or resistance points, generally, signals a trend was underway (points 1, 2 and 3). The best uptrends are a series of rising MVPs, supported by rising MVPs, and the best downtrends are falling MVPs with lower MVPs.

But, when the market moves into congestion intraday, there are many false

breakout signals. Points 4, 5 and 6 are examples of false breakouts. Is there a way to filter the breakouts, perhaps with a higher time frame indicator to use as support for the trades? Let's take a look at using William Blau's Ergodic Candlestick Oscillator.

Set the ECO to the *High* time frame, and a period of 3. Our guidelines are to only buy if a resistance MVP is taken out to the upside by two ticks, and the ECO is signaling the trend is up (the ECO is above the Signal line). Use a trailing stop and go flat, if a support MPV is broken by two ticks. Our sell sig-

nals use the opposite signals. If short, go flat if a resistance MPV is broken by two ticks.

Looking at Figure 6, we can see that the High ECO works as a nice filter to keep us from getting on the wrong side of the trend. It's not the perfect, but a good indicator of the daily trend.

Look at how the 3 period daily ECO was in an uptrend this entire view even though the market broke down though numerous support points such as points 1, 2 and 3, while penetration of resistance points 4, 5 and 6 had more follow through buying. So there is opportunity here, how can we best use it?

Recall in the Fibonacci Trader Journals 8 and 9 we talked about using a set approach based on the Dynamic Trio Next and the Dynamic BP Step High for the 10-minute/50-minute/Daily plan of the June T-bond.

We would take a signal to go long two contracts based on the Dynamic Trio Next if the Dynamic BP Step High is below the prices (the trend is up).

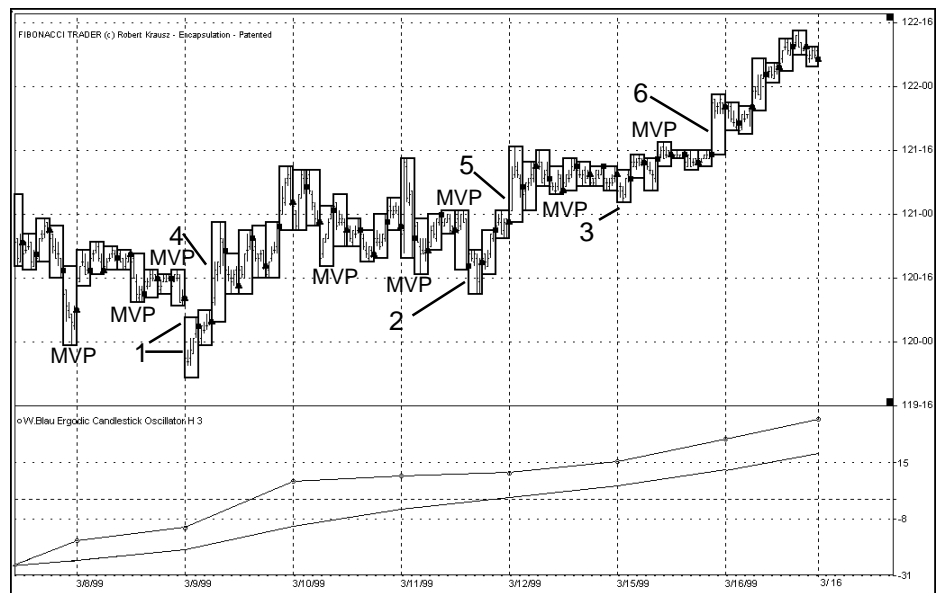


Figure 6: June 99 T-bonds 10/50/Daily Plan. The bottom indicator is the Daily 3-period ECO and Signal Line. The indicator was bullish during this period.

Sell short signals based on the Dynamic Trio Next would only be taken if the Dynamic BP Step High is above the prices (the trend is down). Any other signals would be an exit and go flat scenario.

The first contract would be exited if the target price of 20-ticks (based on the MFE analysis) was hit and the second contract would be exited based on one of the system's indicators flipping direction. Through the MAE analysis we also determined a 10-tick stop loss exit.

With what we have just learned let's add another wrinkle to this plan, a pyramiding rule. If

the system goes long and the Daily 3-period ECO is bullish and a resistance MVP is taken out by, or after, the buy signal then we will add one extra contract to the Target plan of the system. If the system issues a sell signal and the ECO is bearish and a support MVP is taken out then add an additional contract to the Target plan. Otherwise trade the two contract plan.

Figure 7 shows a couple of trades. Point A the system goes flat because the 50-minute bar closed below the Dynamic Trio Next but the 10-minute bar closed above the Dynamic BP Step High. At point B the sys-

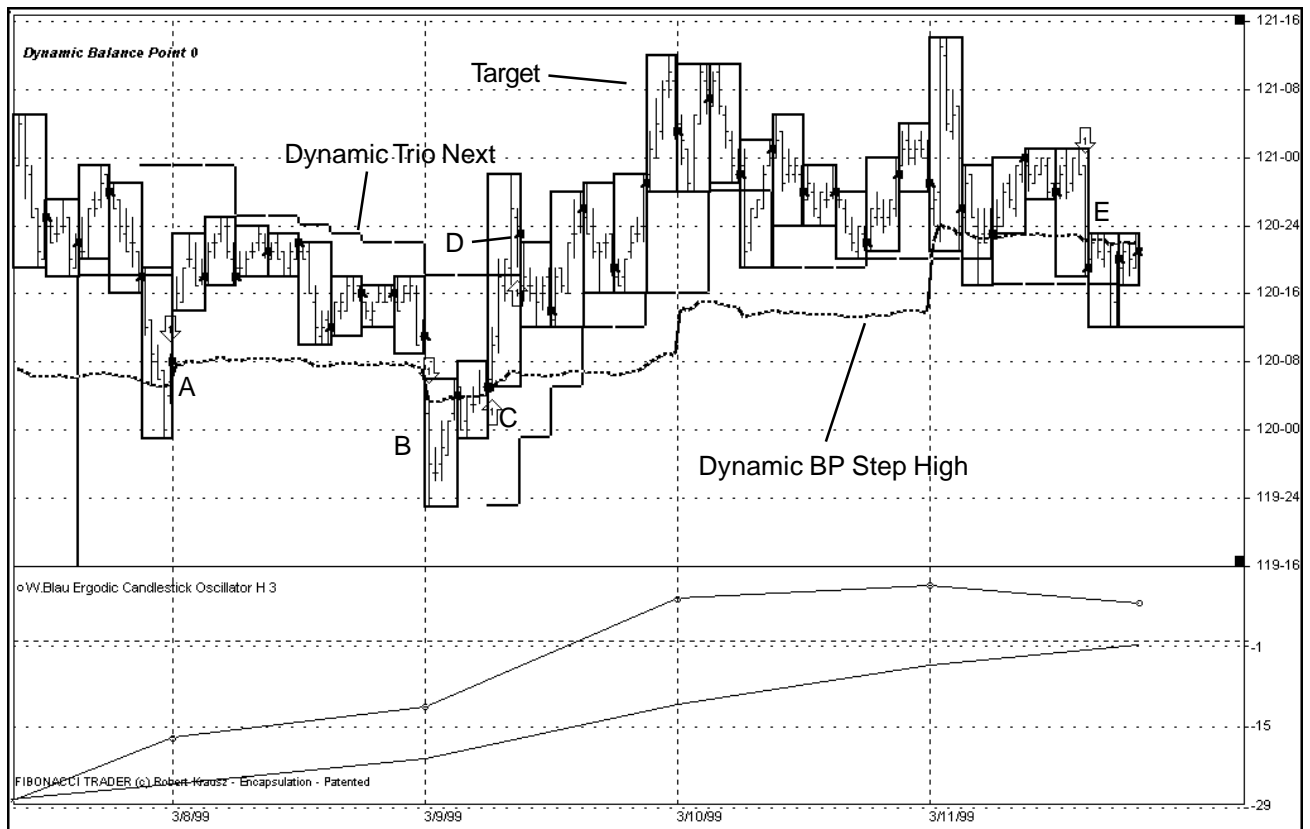


Figure 7: June 99 T-bonds 10/50/Daily Plan. Don't sell an extra contract on Bar B because the Daily ECO is bullish. Add an extra contract to the buy signal at D because the ECO is still long.

tem goes short two contracts, we do not add an additional Target contract because the ECO is bullish. This trade is stopped out for a ten tick loss at C. Point D the system goes long on the close of the 50-minute bar and an additional Target contract is added. The twenty tick target is hit near the close of the day. At point E the system goes flat because the 10-minute bar closed below the Dynamic BP Step High.

There is one point to keep in mind when using the *High* ECO for a plan such as a 10-minute/50-minute/Daily plan because the *High* ECO is calculated on a dynamic basis, that is the *High* ECO is live, as if the close of each 10-minute bar is the close for the day.

Therefore, the ECO could during the early time of the day signal to be short, but late in the day the price action could reverse the ECO and say to be long.

The way to handle this is as follows: Watch the close of the *Next* time frame bar (the 50-minute bar) which you will see due to the Encapsulation format to manage the extra target contract. For example, if the *High* ECO is above the Signal line, then hold the extra long target contract. If the ECO is below the Signal line then sell the extra contract. In other words, use the ECO to confirm holding an extra contract based on the action of the *Next* time frame with the *High* time frame.

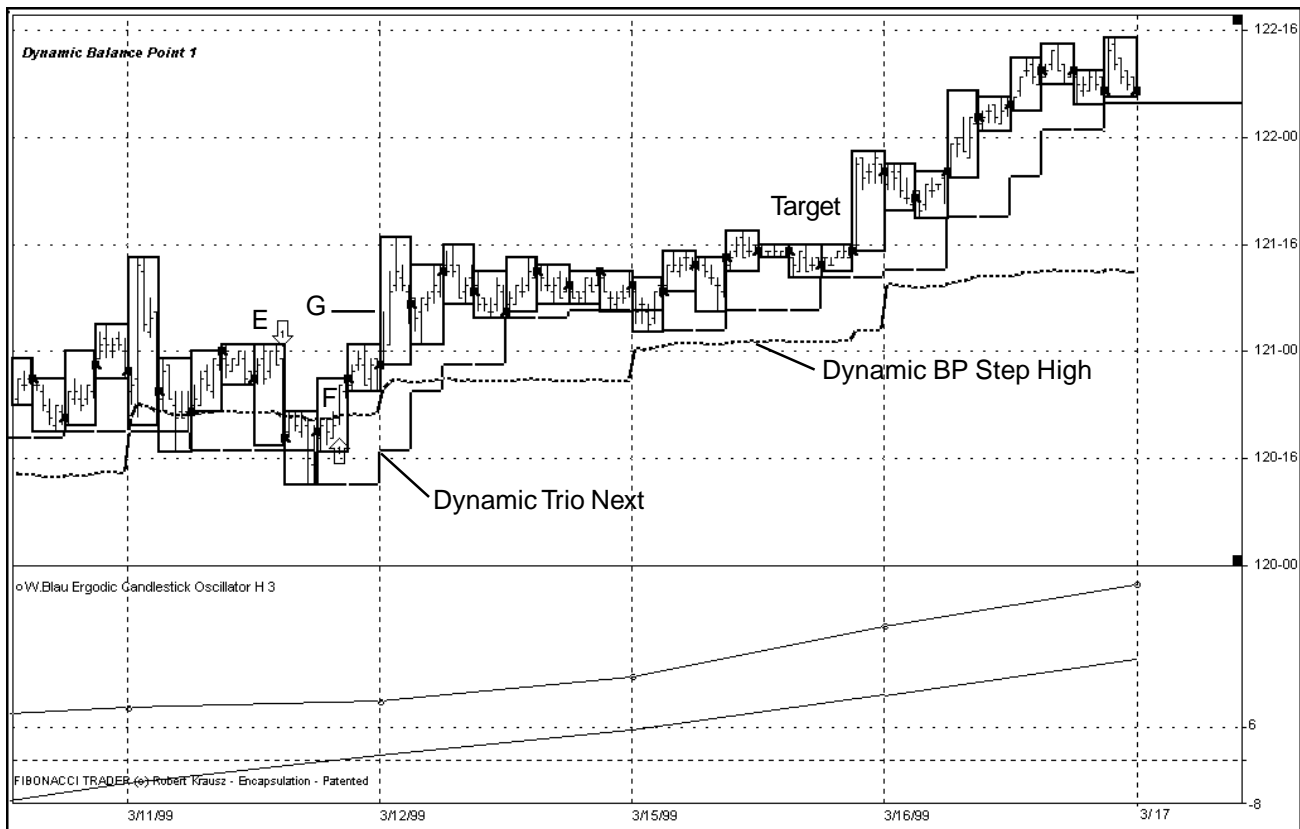


Figure 8: June 99 T-bonds 10/50/Daily Plan. The buy signal occurred at F, but it was not until Point G that the resistance MPV was taken out. Add the extra contract at point G.

Figure 8 picks up from point E. Point F, the system goes long because the 10-minute bar closes above the Dynamic BP step High and the Dynamic Trio Next is already long. We add a contract at point G because the ECO is bullish and the resistance MVP to the left is taken out. The target is hit late during the next day.

the Fibonacci Trader. Use the *Next* time frame to identify important support and resistance levels, and the penetration of these levels to signal the trend.

Using any of the concepts discussed here should be reviewed on your own with a thorough back test.

After all, there is no *Holy Grail*, just sensible tools to aid us as technical traders. Once again, you can see the how the multiple time frame approach gives you your best opportunities.

I wish you excellent trading,

Robert Krausz, MH, BCHE



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SUMMARY

Encapsulation is another exclusive technique available in



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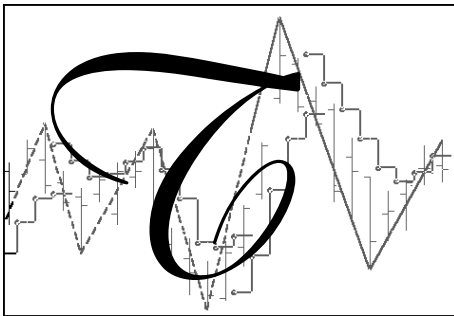
FIBONACCI TRADER®

JOURNAL

Volume 1, Issue 11

THE ECO HISTOGRAM

◆ MAJOR INNOVATION ◆



Today, there is a nervousness in the markets worldwide as we approach the Y2K date. Most of the talk is hype. I expect that as the days march towards January 1 of 2000 the volatility will increase to a point, but then fade as many will stand aside and wait to see what happens.

After the dust has settled though, I expect the volatility to return to the markets, both the stocks and commodities, which could very well make short term trading techniques become more fruitful.

Therefore, in this the eleventh issue of the Fibonacci Trader Journal, we will focus on short term directional trading. To begin, our first example of short term trend trading will look at the S&P 500 futures contract, and follow up with some examples using Amazon.com.

One of the technical tools we will highlight is our old friend, the Ergodic Candlestick Oscillator (ECO), and once again my thanks to Bill Blau for sharing this excellent tool with us. In this issue I will show you a new way to look at this indicator.

But trading is more than just having the best technical tools available. You have to have guidelines for dealing with the realities of the day-to-day action

in the market place. For example, you might be interested to know that I do not hold positions overnight in the T-bonds or S&P futures when the next day a major government economic statistic such as GDP, the Employment report, PPI, CPI and ECI will be announced. I also do not hold positions when Mr. Greenspan is giving evidence to Congress, or speaking somewhere about the economy.

The fact is the reaction to any of these economic releases creates a very sudden rise in volatility and very illiquid conditions in the markets.

I may reenter the market some 10-20 minutes after the economic numbers come out if I have a valid entry signal. This is part of my personal money management technique and I wanted to share this with you. The important point is that I have a response plan to a given situation, so I take the stress off of myself.

Lastly, Fibonacci Trader Corp., has a booth at TAG XX1 in Las Vegas November 20-22. If you are attending then please visit us at our booth, number 611. See our web site at www.fibonaccitrader.com for a special offer to attend the TAG Conference.

I wish you excellent trading,

Robert Krausz MH, BCHE

One key aspect of intraday trading using a multiple time frame approach is the increased chance for success if you trade in the direction of the daily trend and the daily momentum. So for our first topic, we'll look at the ECO as our tool for determining the direction of the daily trend and momentum.

Figure 1 is the December 1999 S&P 500 futures contract drawn as a daily/weekly/monthly plan with the ECO projected directly onto the daily bars. If you prefer, you can use the typical indicator window below the bar chart (Figure 2). Either view can be set up by clicking on the Edit button when you first add the W. Blau Ergodic Candlestick Oscillator to your plan from the Indicator menu.

When the Edit widow opens click the Sub Chart tab and select Chart 1 if you want to overlay the indicator on the daily bars as I have in Chart 1, or click on Chart 2, if you want the indicator below the daily bars.

As I mentioned in the introduction we have new settings for the ECO. Please change the length to 3.618, as well as set the ECO line and the Signal line to two different colors and thickness. I personally use white for the ECO line and blue for the Signal line, but choose whatever you like. Don't forget to select one line and add one of the symbols to make it easier to tell the ECO line from the Signal line.

So let's look at Chart 1 and a simple concept: If the Signal Line is below the ECO line then the

momentum is up then we should be looking to buy. If the Signal Line is above the ECO then look to sell. For example, Figure 1, we can see that from points 1 to 2, the Signal line was above the ECO line and the S&P dropped over 50 points. Next, from points 2 to 3 the Signal Line was below the ECO and the market underwent a 30 plus point rally. Last, the Signal line moved above the ECO line and the S&P contract dropped approximately 60 plus points as of this writing. Simple, but effective!

Now, let's take a closer look at the action of the ECO line. Here, we'll follow just the slope of the ECO line and ignore the slope of the Signal line for the moment. First, we have marked key points of changes in the ECO's slope with the letters A and B. Point A is on one side of the

Whether the high or low bar is point A or B it will often show as part of a Pivot High or a Pivot Low.

Signal line, and point B is on the opposite side. Notice, at points 1, 2 and 3 how the direction of the daily bars tend to follow the same direction of the slope of the ECO line (points A and B) when it crossed the Signal line. Looking at point 4, we can see that the ECO line has not yet crossed (as of this writing) and therefore point B has not yet developed.

Please note that point A, which is the first turn

in the new direction by the ECO line could be the high or low bar of the current trend. Please note that I am saying that this *could be*, not that it *will be* the high or low bar of the trend. Sometimes Point B will be the extreme, such as point 2 shown in Figure 1.

But whether the high or low bar is Point A or B, it will often occur as part of a Pivot High, such as points 1 and 3, or as a Pivot Low as in Point 2, and possibly point 4 as I write this.

Let's turn it up a notch, and look at the ECO in a new light and work more closely with the Pivot Highs and Pivots Lows. For Figure 3 we will use the same ECO indicator but discover some useful information by setting up the indicator as follows through the Edit window:

INNOVATION

- 1) Plot the ECO in sub chart 2, and keep the length at 3.618.
- 2) Click on the Draw Type tab and change the ECO line to a Histogram format.
- 3) Click on the Symbol tab and use the symbol called Circle 2.

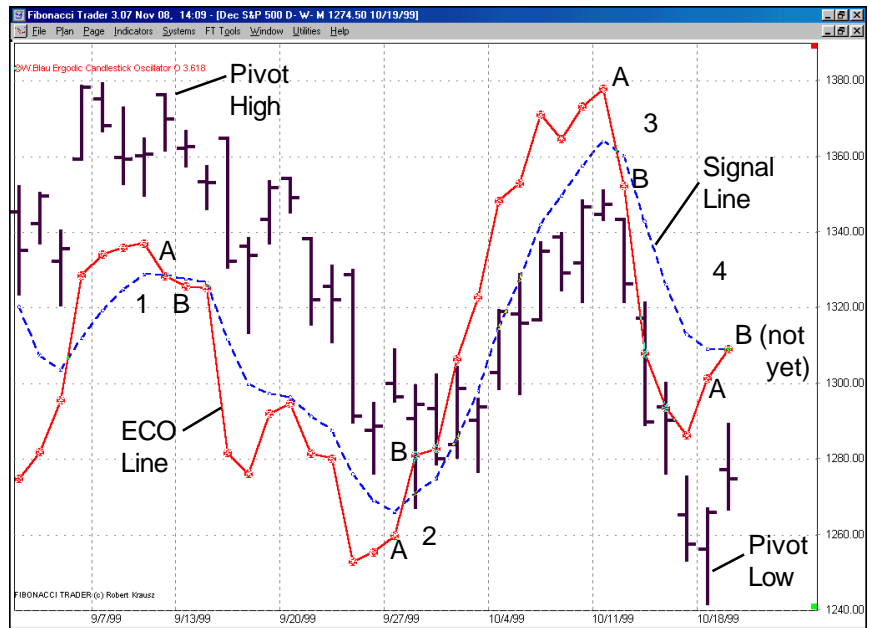


Figure 1: December 99 S&P 500 Daily/Weekly/Monthly Plan. Points A & B are changes in the slope of the ECO line and a crossover of the Signal Line.

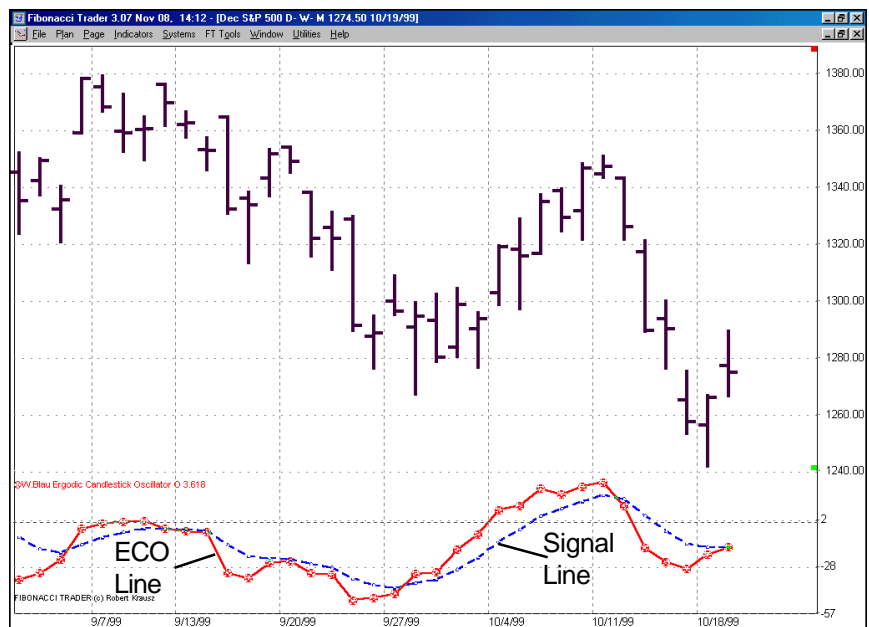


Figure 2: December 99 S&P 500 Daily/Weekly/Monthly Plan. You can plot the ECO Line and the Signal Line over the daily bars as in Figure 1, or in the indicator window as shown here in Figure 2.

3) Change the Signal line to “None” under the Draw Type tab, and use the symbol Circle 2. Keep the colors as before, then click Exit out of the Edit Indicator menu. Your chart should look like Figure 3.

Let’s tackle this new layout and check each piece of new information step by step. We have three classification or setups, and each classification is labeled either 1, 2 or 3. Sorry to be so pedantic, but all of this new information needs to be classified.

Classification 1: The daily histogram unit block goes level with the zero line, or crosses below from above or crosses from below to above the zero line. This crossover of the histogram indicates the previous direction of the daily trend has changed. This change of direction can last one day or many days.

Figures 3, 4 and 5 are the December 1999 S&P 500 futures contract. Figure 3 is recent action from September through mid October, and Figures 4 and 5 are from June 20 to September. We

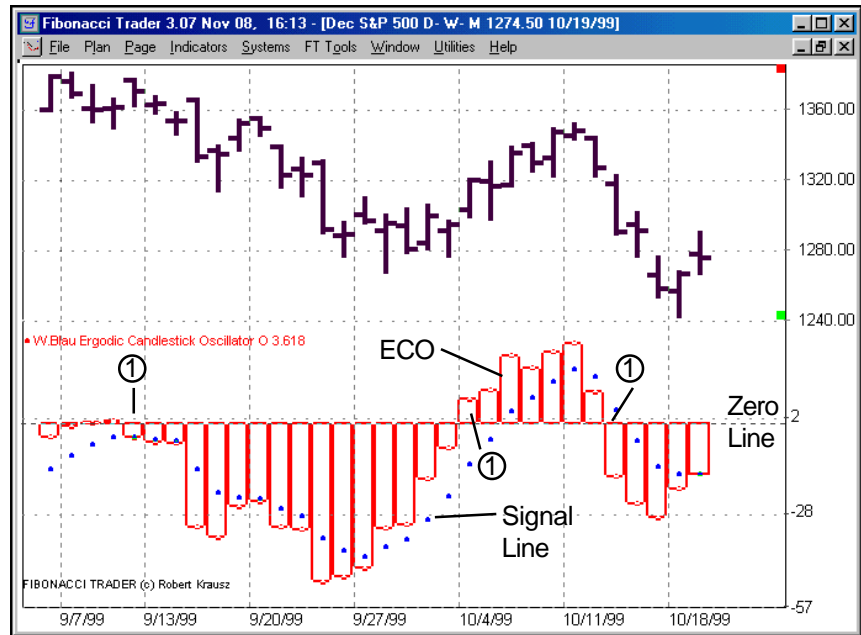


Figure 3: December 99 S&P 500 Daily/Weekly/Monthly Plan. Here the ECO is plotted as a histogram and the Signal Line is a dot.

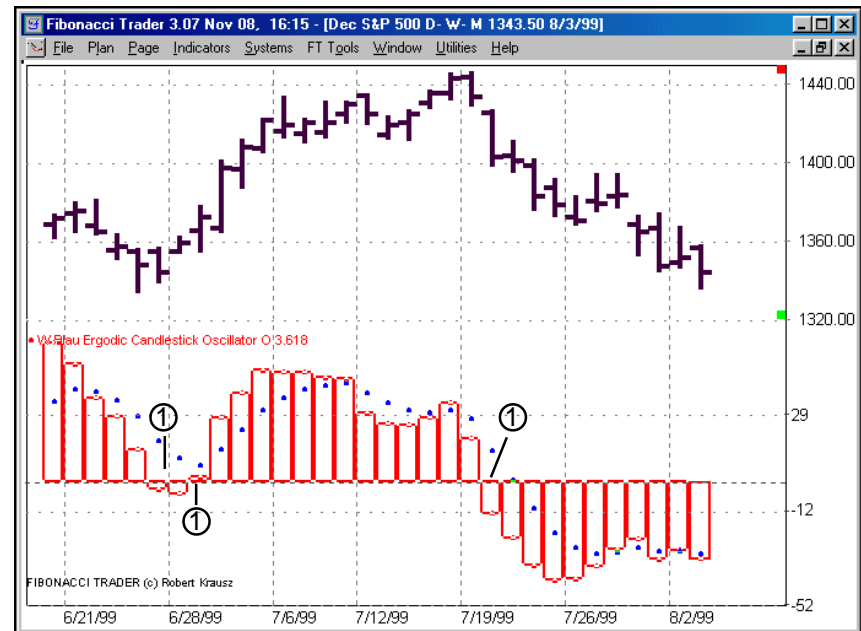


Figure 4: December 99 S&P 500 Daily/Weekly/Monthly Plan. The circled 1s are the classification 1 occurrences.

can spot nine occasions when the histogram showed a possible change of direction for the trend of the daily bars by the histogram crossing the zero line or moving to

be level with it. Of these nine observations, one was a clear failure. However, by close scrutiny of the price action of the accurate signals we can come up with a

simple qualification or criteria for a valid signal.

The criteria for a valid reversal signal is the day *after* the histogram changes direction the prices must either trend in the new direction for at least one more day, or at the very least the daily high for an uptrend must match the high of the bar that caused the histogram to change direction, or if a downtrend is signaled the next day's bar must match the low of the bar that caused the Histogram to change direction. Let's look at some examples.

Starting with Figure 3, the ECO histogram on September 10th pushed below the zero line. The next four days the market made lower lows. Next, on October 4th the histogram block pushed above the zero line. Notice that the market moved higher for the five days, which is a nice trend run.

What was our failed signal, on September 7th, the histogram went level with the zero line, but instead of the market rallying, the next day the market closed down. Could this failure, or if you prefer to call it divergence between the histogram turning positive and the

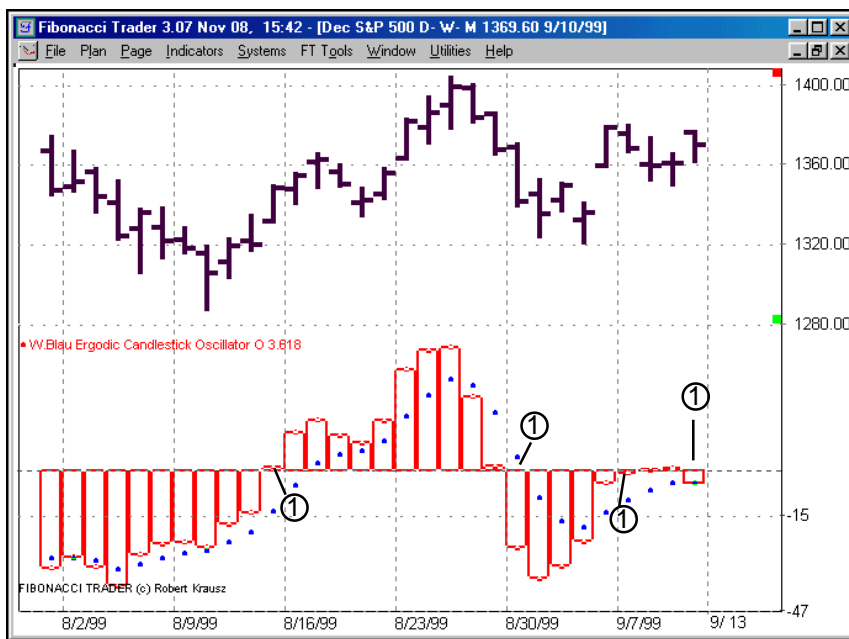


Figure 5: December 99 S&P 500 Daily/Weekly/Monthly Plan. On September 7th the ECO histogram went level with the zero line but the market failed to rally the next day.

price action not turning positive been a warning of the decline that followed.

Figures 4 and 5 cover the periods mid June up to September 10th, and show the remaining signals based on our first classification. I am aware that nine observations is a not enough examples to make any blanket statements of a statistical nature, that's where you have to do a little home work to test this concept more thoroughly. The real benefit to you though, is if you follow through on researching this concept is you'll gain much more confidence from having worked through this yourself.

We have two other classifications of setups using the ECO, but let's change horses for a moment because classification 1 can tie in nicely as a confirmation tool when used with another favorite, the HiLo Activator. Plus, I know how interested everyone is in trading stocks so let's use Amazon.com for this next concept.

Figure 6 is a daily/weekly/monthly plan for Amazon.com using the ECO with the HiLo Activator set up with the following settings: set "Length" to 13 periods, the "By number of ticks" to 8, the "Real Time" is Yes, and "Wait for the Close" is



Figure 6: Amazon.com Daily/Weekly/Monthly Plan. The daily bars are tracked by the HiLo Activator. Notice how the ECO histogram dropped below the zero line in September and yet the HiLo Activator supported prices.

Yes. These are parameters that suit me but you may experiment with the settings as you like. Also, please note that these settings are not universal to all stocks. Individual stocks have their own level of volatility, so you have to set your indicators accordingly on a case by case basis.

Now I will propose a simple application. We will qualify signals from the HiLo Activator, which is you would go *long* if the market

closes *above* the falling HiLo Activator and it flips, or go *short* if the market closes *below* the rising HiLo Activator and it flips, by a confirmation from the ECO.

Our confirmation or filter for the HiLo Activator is the ECO is in a new direction by having recently crossed the zero line from the previous direction. On Figure 6 each valid entry is marked with an arrow pointing in the direction of the trade. If the HiLo Activator

does not show a buy or sell signal we can ignore the ECO histogram signals.

Let's turn our focus onto most of the trading activity in September. First, notice how the ECO dived below the zero line the first of September while the 13 period HiLo Activator remained long. The 13 period HiLo Activator was supporting the market the entire time. This shows that the ECI is not a stand alone indicator,

and is used to confirm the 13 period HiLo Activator.

There was one instance when the ECO moved above the zero line on September 22nd, but when Amazon took off the ECO confirmed the rally by a real jump above the zero line the last two days of September.

For those of you that are trading real time and have the real-time version of the Fibonacci Trader then set the HiLo Activator to not wait for the close of the market. Also, the ECO histogram is live in the real-time program so if the zero line was crossed after the opening then day traders will have an early opportunity. For our work here, we'll be basing our decisions on the close. Figures 7 and 8 cover Amazon.com from December of last year up to October where Figure 6 picked up.

Let's return to the December 1999 S&P 500 futures contract (Figure 9) and I'll explain the other two classifications. The second classification is labeled as point 2 on the chart and indicates that the Signal Line (the dot) is equal to the ECO histogram. This can be a handy warning just before the direction changes. The dots do not have to be exactly



Figure 7: Amazon.com Daily/Weekly/Monthly Plan. Here are the daily bars beginning from the first of the year.



Figure 8: Amazon.com Daily/Weekly/Monthly Plan. Here are the buy and sell signals for late March to the end of June.

equal to the top or bottom of the histogram but must be touching such as October 19th (as well as June 22nd and July 16th in Figure

4). Once again this does not work every time, but it can be a handy tool.

Our third classification is

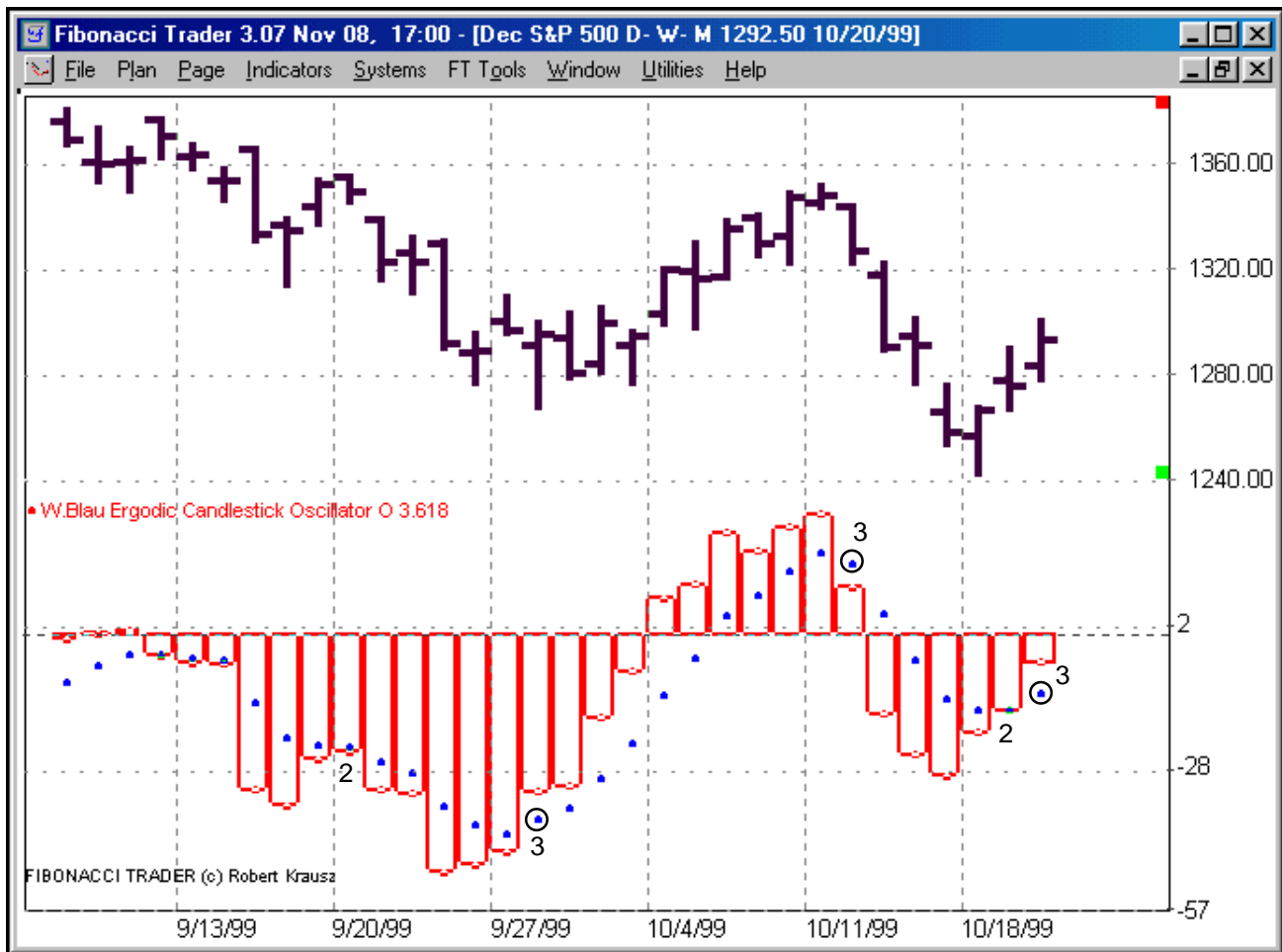


Figure 9: December 99 S&P 500 Daily/Weekly/Monthly Plan. The occurrence of the Level is signified by the number 2, and the Flip is labeled by the number 3.

what I call a "Flip" of the ECO dot and the occurrence is labeled point 3 with a circle around it.

The Flip occurs when the Signal line dot jumps out of the ECO histogram block. This is often a warning that the previous trend run may be ending and a new direction is emerging. In some cases it can be tricky to see but often the flip is obvious.

Go back and review Figure

6, which have the dots circled when the classification 3 or Flip occurs. As an experiment circle the Flip situations yourself on Figures 7 and 8 and you'll see the leading nature of the Flip for the direction of the trend of the daily bars.

In the next issue, we'll look at using this same concept with America Online, both daily and intraday plans, plus some suggested money management rules.

I wish you excellent trading,

Robert Krausz, MH BCHE



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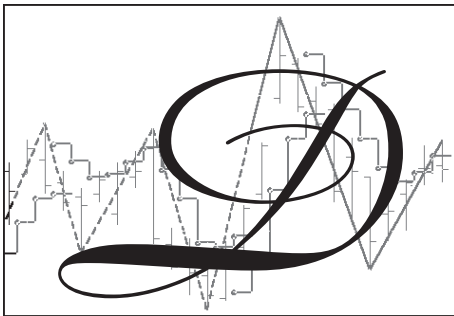
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JOURNAL

Volume 1, Issue 12

THE ECO HISTOGRAM PART II



ear Trader,
Here we are, Issue number 12. That means that we have been publishing the Fibonacci Trader Journal for a year. One more issue will

make number 13, the final issue that I promised you .

You may have noticed that with each issue the techniques described have become a little more sophisticated, and that I laid out a smorgasbord of tools and concepts rather than precise strategies.

This was no accident. My goal with the Fibonacci Trader Journal was to show some of the unique and what I believe are some very special tools available in the program, and guidelines on how to use them. Within the guidelines I strive to give entries and exits, such as in the last two issues, and suggested strategies.

I believe that I have hit my target by the letters I receive. I've learned that there are many traders in different countries, trading different markets. It's very nice to hear success stories from using one or more of the tools described in these pages.

And speaking of letters, many thanks to those that have sent in their compliments and thoughts to Thom Hartle and me regarding the first two lessons from the Wizard On Wall Street home study course. Please keep the letters coming, even the critical ones.

The driving concept of the Fibonacci Trader Journal, as you already know, is we base our analysis and trading decisions on a *multiple time frame* approach. This concept is beginning to catch on. I understand that at the Omega Research seminar the multiple time frame concept was the flavor of the month. I guess being copied is actually the greatest compliment.

Often I am asked if I don't get somewhat annoyed when one of our ideas is copied by a technical analysis software seller, and probably someone who doesn't even trade at that. In reply may I quote the English poet and writer, Rudyard Kipling:

"And they asked how I do it,
and I gave them the scripture text,

You keep your light so shining a
little in front o' the next,

They copied all they could follow,
but they couldn't copy my mind,

And I left'em sweating and stealing
a year and a half behind..."

I wish you excellent trading,

Robert Krausz MH, BCHE

In the last issue we introduced an innovative way of applying the Ergodic Candlestick Oscillator (ECO) using a new setting of 3.618 and the histogram format. We will carry on with another example of this trading concept, but this time using American Online. We will use the same guidelines and combinations of indicators, the ECO and the HiLo Activator, plus later on we will incorporate the Balance Point Step.

Figure 1 is America Online daily with the 3.618 ECO histogram in the lower half of the

chart and the 13 period HiLo Activator set to a close of 8 ticks as our trading indicator. However, we look to the ECO as a confirmation tool. Therefore in order to buy based on the price closing above the falling HiLo Activator the ECO histogram has to have recently crossed from below the zero line to above.

Likewise, a sell signal triggered by the price closing below the rising HiLo Activator has to be confirmed by the ECO histogram having recently crossed from above the zero line to below.



Figure 1: America Online Daily/Weekly/Monthly Plan. Here are seven trades based on the 13 period HiLo Activator and confirmation by the ECO histogram. The circled dots represent the Signal line dots moving out of the ECO histogram block, a early warning of a potential trend change.

walk through some trades in Figure 1. Trade 1 is a simultaneous situation where the price closed above the HiLo Activator, the ECO crossed above the zero line from below, and the dot (Signal Line) moved out of the ECO histogram block.

Trade number 2 occurs when prices close below the HiLo Activator. The confirmation had already occurred one daily bar before when the ECO histogram moved below the zero line. Notice the Flip, which is the circled dot, and indicates that the Signal line has moved out of the ECO histogram block, this occurred on the second bar after the peak bar, which is a Pivot High, for the previous uptrend. One cannot ask for more of an early indication than that.

Trade 3, which was suspect from the start because even though the ECO did confirm the buy signal by crossing above the zero line, it only stayed above the zero line for one bar. But, according to our rules, the fact the histogram went below the zero line is *not* a signal for action. And sure enough, the market did ultimately edge higher and the ECO histogram moved back above the zero line. The advance was short lived however, as the market faltered and dropped back below the HiLo Activator. Notice again, that a flip occurred on the very high bar

Trade 4 was forewarned by the Flip we just discussed, and was confirmed by the ECO histogram on the same bar as the entry signal from the HiLo Activator.

Trade 5 is interesting from a number of aspects. First of all, the low near \$80.00 is a second test of major support established back

in August, so you should especially be on your toes at this point in time. And what happened? A Flip occurred on the very low bar! Next, the ECO histogram crossed over the zero line two bars ahead of the signal from the HiLo Activator. This is the kind of setup you would like to see when a market is testing major support.

The Signal line dot moved out of the ECO histogram block on the second bar after the peak bar... an early indication!

Trade 6 was short lived, only four days and the second loss in this series, as we always say there is no holy grail, nothing is 100%.

Our final trade, number 7 which is still open as of this writing, had a simultaneous Flip, crossover of the ECO histogram and buy signal from the HiLo Activator.

Clearly, this approach has some real benefits for traders looking for a technique to trade trends on the daily bars that can last up to a month. And, with a little money management technique we can improve upon the performance. We'll review these trades as an example of steps to take for your own work. Now, I have to stress that the sample size of this series of trades is too small to consider trading, as you need at least 30 observations, but will work as an example of the kind of research we do and you should too.

Recall from Fibonacci Trader Journals #8 and #9 we introduced the concept of Maximum

Favorable Excursion (MFE) and Maximum Adverse Excursion (MAE). To review, the MFE is the peak open profit each individual trade experiences between entry and exit. The MAE is the worst open loss for each trade between entry and exit. There are a number of valuable uses for this information. For example, you might be considering a trading system that had a nice return on a closed profit basis, and perhaps the worst closed loss seemed acceptable to you. However, if you analyses the MAEs of the individual trades you might conclude that the method is not suitable for you because of the amount of heat you would constantly feel.

The MFE is valuable because you can develop a target strategy for partial profits. No one likes to see a good trade turn into a mediocre trade, so by having a set target based on the average MFE for a series of trades you increase your opportunity to consistently make profits. Finally, all of this information is generated by the combination of the attributes of the system and how it matches the rhythm of the markets. There is no guesswork of arbitrary influence from the trader's emotions.

Let's say that you trade a stock that is around \$100/share and every time you enter into the market via your signals, long and short, the market goes at least \$10 your way for every trade, and you have no losers (please call me at once!). A \$10 move is a 10% return if the original price of the stock is \$100. I point out using percentages because in today's stock market some of these high tech stocks can double in price or lose 50% in a matter of days, so using percentages gives you a more accurate representation. Plus you can then compare different trading methods on different stocks.

Figure 2 is our table of the trades for America Online we discussed from Figure 1. We have set it up by trade number, long or short entries, the entry price, the maximum favorable excursion (both the extreme price and open dollar profit), the maximum adverse excursion (both the price and open dollar loss) and the price the trade was reversed as there were no trades that did not have confirmation.

By reviewing the MFE we can see that five of the seven trades exceeded a profit of more than eight dollars, and most of the traders were near \$100 so

TRADE#	L/S	ENTRY PRICE	MFE		MAE		REVERSE PRICE
			PRICE	\$	PRICE	\$	
1	Long	110-00	129-04	19-04	0	0	113-09
2	Short	113-09	76-00	37-09	117-06	4-00	96-14
3	Long	96-14	105-00	8-02	93-03	3-10	93-04
4	Short	93-04	80-08	12-12	98-10	5-06	97-08
5	Long	97-08	124-02	26-10	0	0	109-00
6	Short	109-00	105-02	4-02	118-00	9	118-00
7	Long	118-00	125-10	7-10	0	0	Open

Figure 2: Trading Results. For each trade track Maximum Favorable Excursion (MFE), which is the peak open profit and the Maximum Adverse Excursion (MAE), which is the largest open loss to better understand your system.



Figure 3: America Online Daily/Weekly/Monthly Plan. Here, the Balance Step Own is added for a slightly faster set of signals. Use the ECO histogram crossover of the zero line as confirmation.

we could set a target for partial or total profit of 8%. You can look to the MAE of each trade and determine what the typical open loss or heat you have to cope with while you are in a trade. If you reviewed, say some thirty or more trades, you probably will be able to determine a cutoff point or point of no return for a trade. That would be a typical open loss that never recovers to be a gain. The fact is most trades do go against you somewhat, but hopefully recover and go onto a profit. However, some are bad from the beginning, and you can use MAE analysis to exit a trade before the system does. Plus MAE analysis gives

you a better idea of your risk of each trade when you actually place the trade, and avoid having to wait for an indicator to reverse the trade.

If you would like to have a somewhat faster entry system then the HiLo Activator then work with the Balance Point Step “Own” set to five periods. Use the same criteria that a close past the Balance Point Step must be confirmed by the ECO Histogram. Figure 3 shows the same chart as Figure 1, except we have added the Balance Point Step Own (Daily on the Daily) for your perusal.

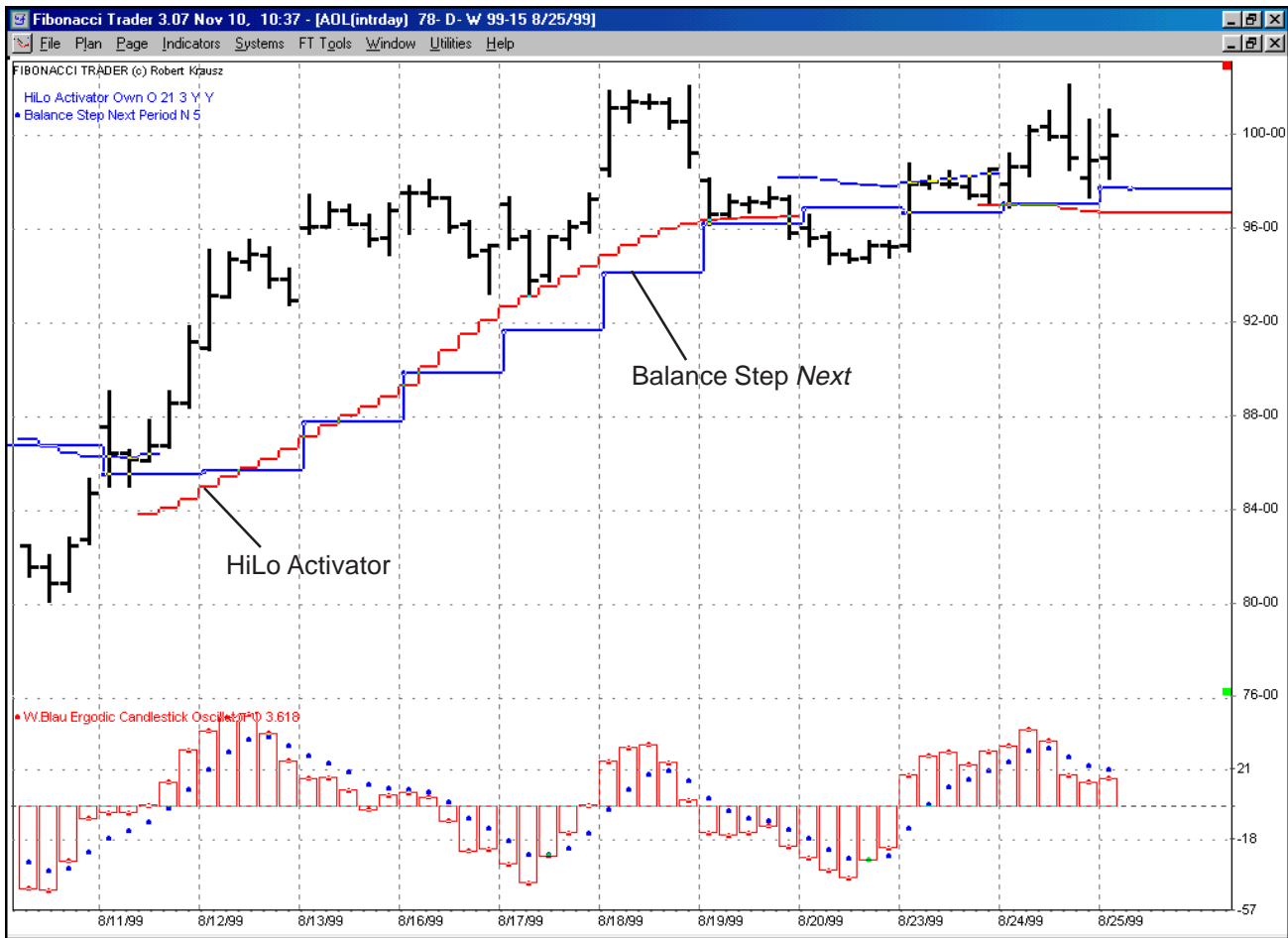


Figure 4: America Online 78-minute/Daily/Weekly Plan. The HiLo Activator is set to 21 periods and the Balance Step Next, which is the Daily Balance Step, can be used as part of an intraday trading plan.

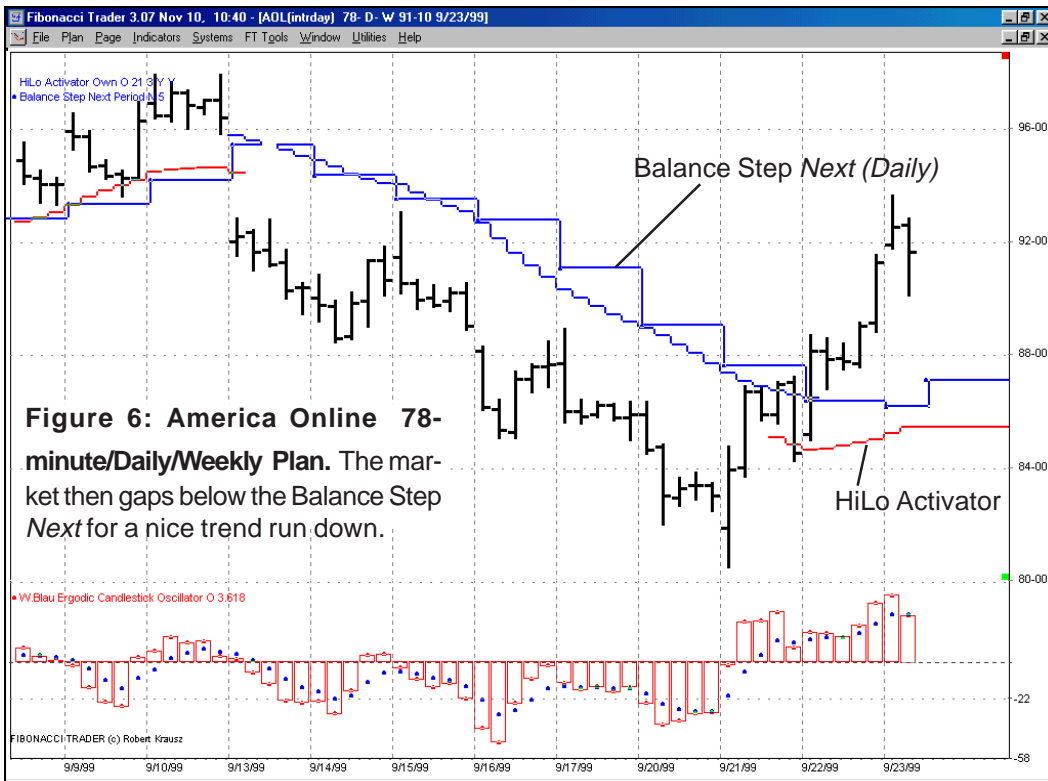
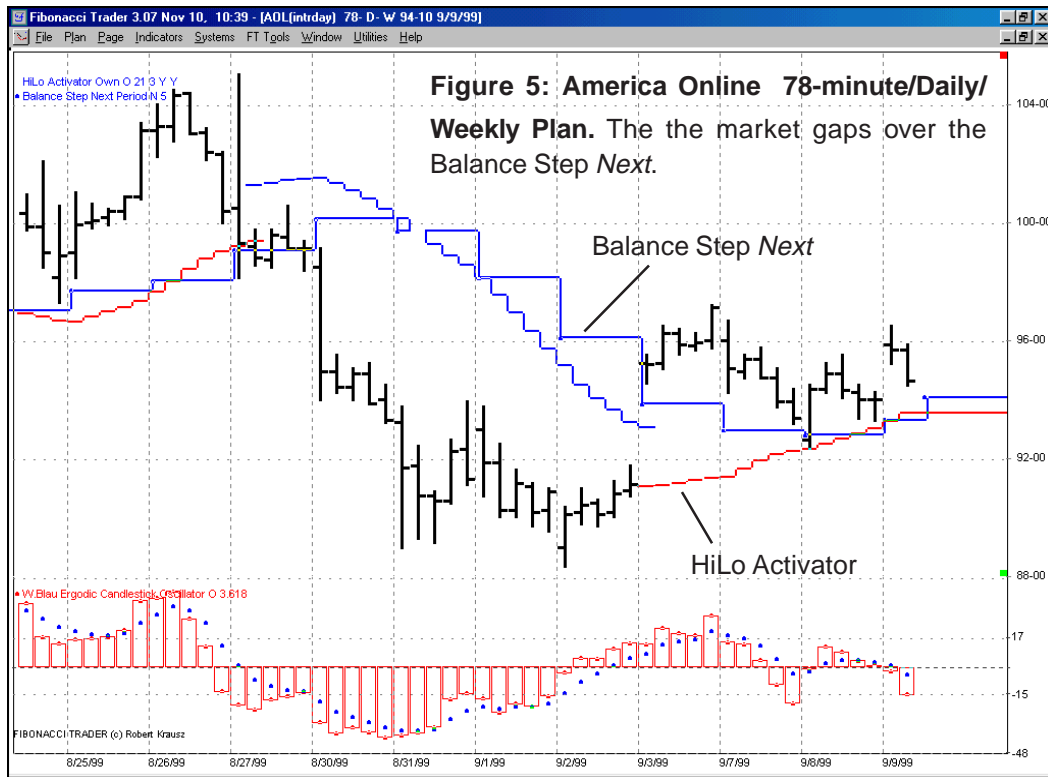
There's a keen interest today for intraday trading strategies for individual stocks. So we have four charts here of American Online using a 78-minute/Daily/Weekly plan over some of the same time period as the Figure 1.

You can see by the individual intraday bars that there are sudden trends and then sideways trading that will last all day. Therefore, we want to lengthen the HiLo Activator for our purposes as an intraday trading tool.

Change the length to 21 periods from 13. Leave the ECO as it was, and then follow the same guidelines. This is only one possible setup among many. Spend some time with these indicators discussed in the last two issues, and try different parameters. Before you risk any capital do yourself a big favor and adequately test the idea over historical data.

With the Fibonacci Trader you can scroll

continued on page 8



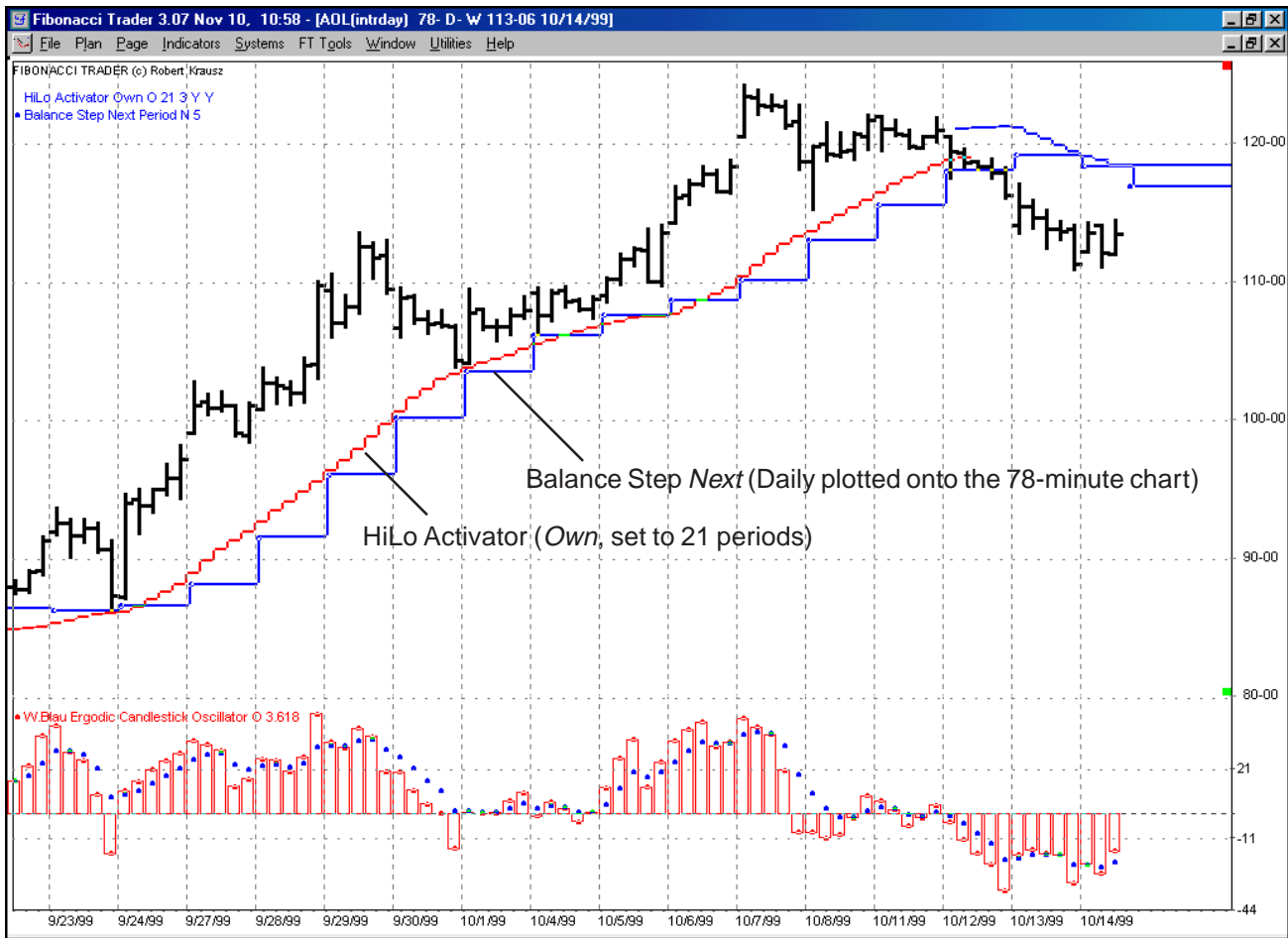


Figure 7: America Online 78-minute/Daily/Weekly Plan. From Figure 6 the prices close over the HiLo Activator near \$87 and then the Balance Step at \$88 and as you can see here the prices ran up to more than \$120 before reversing direction.

back through the data with your indicators presented. Hit the space bar to advance the program one bar at a time to simulate a more real time trading situation. Now you can train yourself to act according to the rules of your plan. If you find yourself suddenly unsure of what to do when a certain

condition arises on the screen you will know right then that you still need a more developed set of rules. Far better to make that

determination during a practice session then during real-time!

I wish you excellent Trading,
Robert Krausz MH, BCHE



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FIBONACCITRADER CORPORATION

1835 US1 South 119, Suite 352, St. Augustine, FL 32086.

Phone: 512-443-5751, Fax: 512-443-7119, www.fibonaccitrader.com

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