Welcome to the

Larry Williams' Protégé Program

This is my personal opportunity to teach you the best of what I have learned over the last 40 years and, hopefully, jump start your trading and learning. I'm looking forward to it.

Larry Williams

MARKET ADDAGE #1---Charts don't move the Markets... Markets move the charts.

Despite what you have read, heard or come to believe, by and large, it is my experience that technical analysis (chart reading) is not an effective investment strategy. Its usage is limited to timing our entry and exit into and out of trades.

Thus, I want to begin this workshop revealing to you what does work, what does set up major market up and downswings. I have isolated the major "fundamental" conditions seen at these significant market turning points over the last 30+ years. These conditions set the stage for market move which technical analysis can "time". Without these conditions, we are destined to a life of perplexion and confusion. With these conditional set ups, we will be working with the major causes of market movements.

The "SET UP" criteria you will learn:

1. HOW TO DETERMINE FUNDAMENTAL UNDER AND OVER VALUATION
2. HOW TO GET IN PHASE WITH THE POWERS THAT MAKE THE MARKETS
3. WHAT IS THE "END OF THE TREND" INDICATOR
4. WHAT IS THE PINCH AND THE PAUNCH TOP AND BOTTOM INDICATOR
5. HOW TO FADE THE USUALLY WRONG PUBLIC
6. HOW TO SUPERCHARGE SEASONAL TRADING STRATEGIES
7. WHAT IS THE OPEN INTEREST "PLAY" I'VE BEEN USING SINCE 1970
8. THE SECRET MESSAGE OF SPREADS...PRICE PREMIUMS

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IT'S ALL ABOUT SYNERGISM- While it is true that many major highs and lows are correctly "called" by any one of these tools, the best plays come from a cluster of at least 4 of these Set Up tools being present. I'm a team player. I want at least 4 members of my team present when I venture out to bag major highs and lows; 3 is the bare minimum.

1.) *HOW TO DETERMINE FUNDAMENTAL UNDER AND OVER VALUATION*

Technicians have bandied about the concepts of "overbought" and "oversold" since the first chart was drawn, but what they looked at was only price action. Indeed, the DJIA was overbought from 1983 until 2000. All bull markets are "overbought"; all bear markets are seriously "oversold".

In 1998, while searching for a better way to determine value, a novel thought crossed my mind. Value in stocks is measured by P/E ratios, dividends and the like, things not available to us as commodity traders. "What is value" is the notion I wrestled with during most of 1997 and 1998. How could I determine if Wheat was overvalued? And, would that same measurement work for Pork Bellies or Cotton? What is value, and how do we measure it?

History and most major religions teach us there is an ultimate storehouse of value...Gold.

This got me to thinking, back in 1996, "Why not compare the price of all commodities to this ultimate storehouse to see if major undervalued and overvalued zones vs. gold could be isolated?" The search began with a study of spreads and almost at once I knew I was on the track of something very good. The evolution of this idea can now be stated quite simply.

Divide the price of any commodity by the price of Gold (this shows the spread relationship) and multiply this by 100 to normalize. Then construct either a 2 week or 2 period exponential average of this spread. Also construct a 22-week average or 22-period exponential of the spread. It does not make much difference which mathematical formula you use. Finally, subtract the 2 period averages from the 22 period averages. The resulting product, the Preliminary Valuation Index (PVI), clearly shows high and low *levels of valuation that are not present* in any technical indicators I know.

***UNDERSTANDING WHAT YOU ARE LOOKING* FOR**...Initially, I was not able to isolate a "be all, end all" number that represented +/-values for all commodities. My next step was to do the same thing with this index that I do with the Commercial and Public Sentiment Index. By that I constructed essentially a %R indicator. The math is to take the current week's reading and subtract from that the lowest reading of the last three years. That amount is then divided by an amount derived by subtracting the lowest reading of the last three years from the highest reading of the last three years.

What we have accomplished is the construction of an index we can use to measure overvalued and undervalued zones for all markets across the board. All one needs is a long-term weekly chart of the commodity under question and the **Williams Valuation Index (WVI)**.TM.

I simply draw a line across the extreme readings found at major market highs and lows. As an example, using the Genesis Charting Software we see that most all major highs come with the index in the 75 area while most major lows are indicated by a reading in the 15 area. You are free to "move" these zones around a bit, but generally speaking, you will see these are the readings associated with major highs, (75% or higher) and major lows, (under 15%).

NOTE: Some times the index will be a little early, and yes, sometimes it may not even be in the major high/low zones. Since we are using a combination of our tools of the trade, don't let this bother you. Plus, we still need to determine our entry levels. Suffice it to say, though, that once an overvalued or undervalued zone is indicated, we need to be alert. Big game is near, get your guns ready.

Also note, this does not work at all like a technical oscillator. As I will show in the seminar, there are numerous times a market is flat or even declining, yet the Valuation Index clearly---and correctly---tells us the market is over valued. The opposite is equally true.

Now let's look at some examples. The first is Wheat and I'm presenting charts covering the last 30 years, 1968 to 1999. Just this index alone alerted us to almost all major highs and lows in this market. This is remarkable consistency.

See Pages 1 Through 5

Cotton has little in common with Wheat, but the same thing can be seen in the **WVI.** Again, almost all major highs appear with our index in the 75% area and with the lows in the 15% area. Additional long-term charts are shown for your understanding a personal "track record" of the major commodities.

See Pages 6 & 7

Pork Bellies or Platinum all show the same relationship to Gold as the next charts demonstrate. I'm also showing here almost all major markets with my **WVI tm** for your study and historical records.

See Pages 8 Through 22

SO, HOW DO WE MEASURE OVERVALUED AND UNDERVALUED IN GOLD???

Obviously, we can't spread Gold vs. Gold, so what are we do to? My answer to this is to construct the same measurement, but spreading Gold against Treasury Bonds. As I will show when we discuss Will Go, there is a very strong and powerful correlation between these two markets.

See Pages 23 Through 24

CONCERNING THE CURRENCIES---Currencies do well with the **WVI,** but perhaps do better spreading against the Dollar Index and/or TBonds. The next charts show each of the major commodities against both Gold and the Dollar Index. I'll let you choose, I want 2 of these 3 measures to be there.

See Pages 25 Through 30

2.) GET IN PHASE WITH THE POWERS THAT MAKE THE MARKETS

CLEARING UP ON THE COMMERCIALS

Many, many analysts have passed by this treasure house of market forecasting techniques. I was first, introduced to the concept by Bill Meehan in the late 1960's, so I guess it's safe to say I have more experience with this tool than any other current analyst.

There are several critical points I need to share with you about this index. To begin, let's talk about the index itself. First of all, it is constructed of just the large hedger activity as released by the Commodity Futures Trading Commission and can be garnered every week (in the old days it came only once a month). On their web site at www.cftc.gov, there is a bar there that says "Commitment of Traders"; click on it for the data. This is the only data I use from the CFTC, I do not use the large traders; (funds and trend followers), or small traders; data.

I construct the index by taking the highest to be possessive net difference between long and short positions for the current reporting period, and subtract from it the lowest such reading of the last three years; this value is then divided by the difference between the highest and lowest readings of the last three years. This normalizes their activity. You can use other time periods.

Keep in mind the Commercials are the ultimate trend enders. They are not top and bottom pickers, they accumulate and distribute. As such, they are usually early. Also, the mere fact they are, or have just become, net long or short may not have great meaning. This is not like a light switch that is on or off, bullish or bearish.

There are three important ways to use this index.

1. Extremely high/low readings

2. 12 month high/low readings
3. The Crouch (rollovers/rollups)

A) **EXTREMELY HIGH/LOW READINGS**--- There does appear to be absolute levels that are found at major market highs and lows. Certainly any reading greater than 75% is bullish and less than 25% bearish.

B) **12 MONTH HIGHS AND LOWS**---What I'm looking for here are readings that are higher than all values for the last 12 months; that's bullish. Readings lower than all postings for the last 12 months are bearish. In both instances, this is *irrespective* of the % or absolute raw value reading.

See Pages 31 Through 35

AN OVERVIEW OF COMMERCIAL ACTIVITY ---For the last 25 years, I've been talking and writing about how this group of traders sets the tone for most all market activity. Nothing has changed. The markets were set up by these people and brokers to facilitate business. The exchanges are not there to accommodate speculation; they serve a commercial purpose, and we speculators are mere pawns, and useful ones, in the grand scale of things.

Traders have taken the wrong view of Commercial activity. It is not a light switch that is on or off. What does matter is a very high level of buying/selling over the last 12 months. That's the initial set up. We can measure this by taking the 3-year difference between the high and low of Commercial activity and dividing that into the current reading minus the 3-year low. That's the COT index you'll see in most chart books and the Genesis software.

In this fashion, we can watch the pendulum of Commercial activity to see when it has reached an extreme. It will surely move from one extended reading to another, to the opposite side, from bullish to bearish, and in the process will go from positive to negative. This change in direction from more to less bullish is not bearish, nor is a change from + to -.

Indeed, it is often a positive sign, indicating the move is underway. You need not worry about this and in fact can use the roll over as a sign the move has begun! The examples prove my point. The roll over is an early indication the trend move has begun, not that it is over!

See Pages 36 Through 41

The long and short of Commercial activity is that a 12-month high/low in their buying/selling is a signal for a trend reversal. These people do not try to buy tops and bottoms; they accumulate and distribute. My final point is that when they are diametrically opposed to the public, major moves usually develop, i.e., if the public is excessively bearish while the Commercials are heavily long, prices will rally.

C) **THE "CROUCH" WITH THE COMMERCIALS**

But there's another point you should know, one I call the "crouch", as it looks like the commercials crouch into their buying/selling, then spring from this extreme position and a new trend begins. The amazing rule is...

WHEN THE COMMERCIALS INCREASE THEIR SELLING THE MARKET RALLIES!

WHEN THE COMMERCIALS INCREASE THEIR BUYING THE MARKET DECLINES!

Yes, you read correctly! An increase in Commercial buying is bearish ---If It comes at a time when they have moved to an extended level of selling. When they decrease their level of buying (increase selling) from a high level of buying the markets usually rally. This is like a turn of the tide and signals excellent points to hop aboard as the following charts illustrate.

LARGE TRADERS

TRADING HABITS REVISITED

The myth of the large trader and floor traders is that they are out to get us...that they are smarter and shrewder than we mere mortals. This month I continue to expose that, "it just ain't that way".

To understand this group, you need to realize that the classification of Large Trader consists more of funds than any other type of entity...it does not reflect just single hotshot traders as much as the title implies.

UNDERSTANDING THE FUNDS---To make sense of all of this, you need to understand that Commodity Funds, huge pools of managed money, are, by and large, trend followers. Typically they buy when price trades above the highest high of X days or weeks. Others buy when an intermediate term moving average crosses above a longer one. And recently, these guys have been buying at the average of X weeks plus a standard deviation or two above the centered moving average.

For the most part they are not the "In and Out" traders we tend to think of, gunslingers or guys and gals with inside information, eking out their living by outsmarting—or---snookering we, the great-unwashed public.

Far from it; these are professional management teams that try to ride trend move. Hence, the more advanced a trend is...the more longs they have on.

In their heart and souls---above all else---they believe in the trend...and that no one knows when it ends. So they buy, and buy and buy more if the trend is still advancing.

THE ULTIMATE TREND END INDICATOR??

INTRODUCING THE LARGE TRADER INDEX---I'm tempted to call this the LATE index because, as you will see, these guys do tend to all get aboard too late in the trend. The index is an easy one to construct and parallels my work with the commercials.

To begin, you will need to have the net long/short position for the last X weeks. Then subtract the current weekss reading from the lowest value reading of the time period you choose to use (I like 15 weeks for these guys) and divide this value by the difference of the highest reading of the time period minus the lowest reading of the time period.

By doing this you create and index that shows, from 0% to 100%, the level of buying done by this group over the time period you are using.

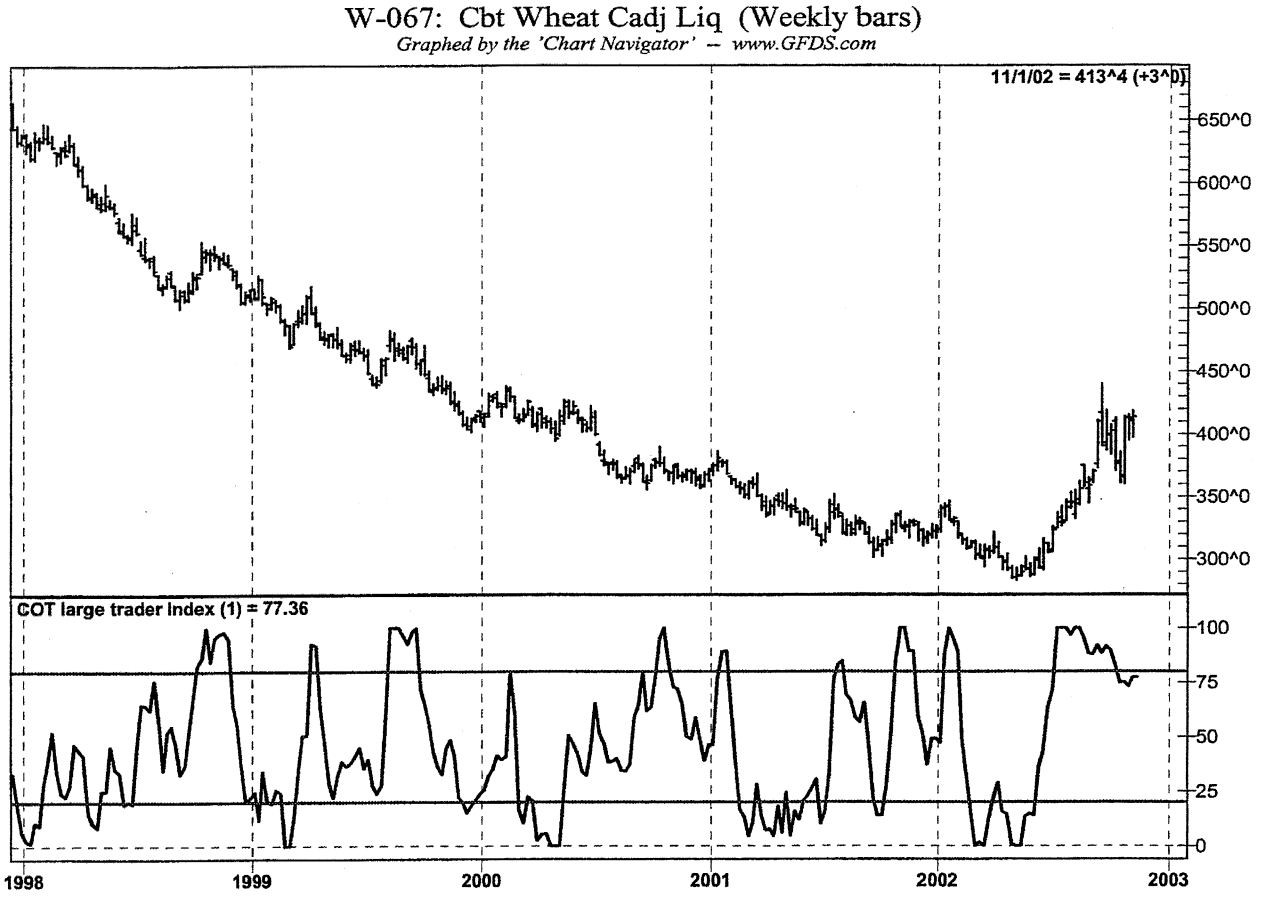
NOW LET'S LOOK AT SOME EXAMPLES---I am showing you the Index of a randomly selected group of the major commodities. The only one I wanted to look at, for sure, was Wheat, as this is such a big, broad and Commercial market. What's more, it's been in a long term down trend for several years.

In theory, if the Large Traders are good, we should see low levels, under 20% of buying, close to or at the highs of this bear market.

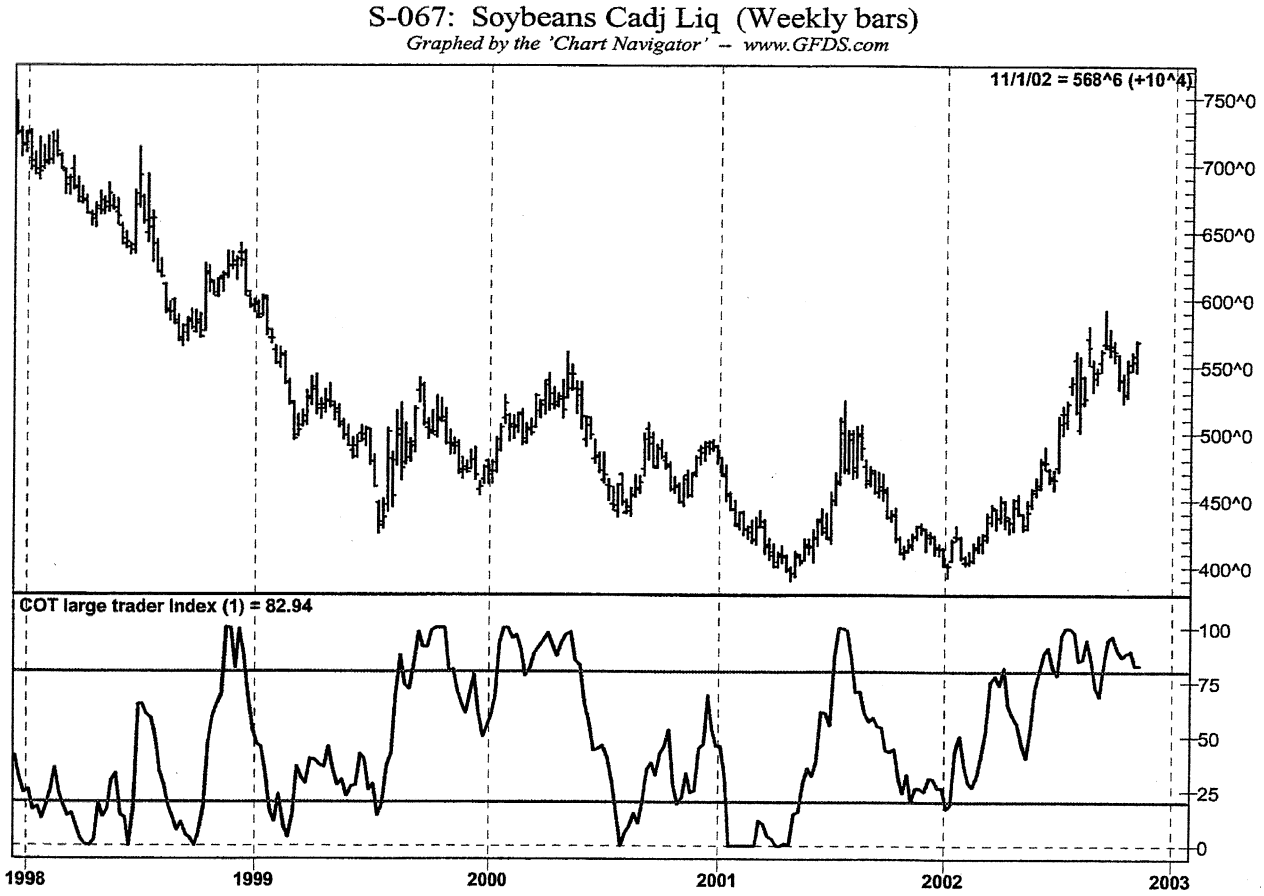
What we see is just the opposite!

At virtually every down turn in Wheat, the Large Traders Index shows them more than 80% long! And, significantly enough, at all of the market lows they were not long, and in fact short vis-a-vis the index.

Staggering thought here; the Large Traders, at least in Wheat, do the wrong thing.



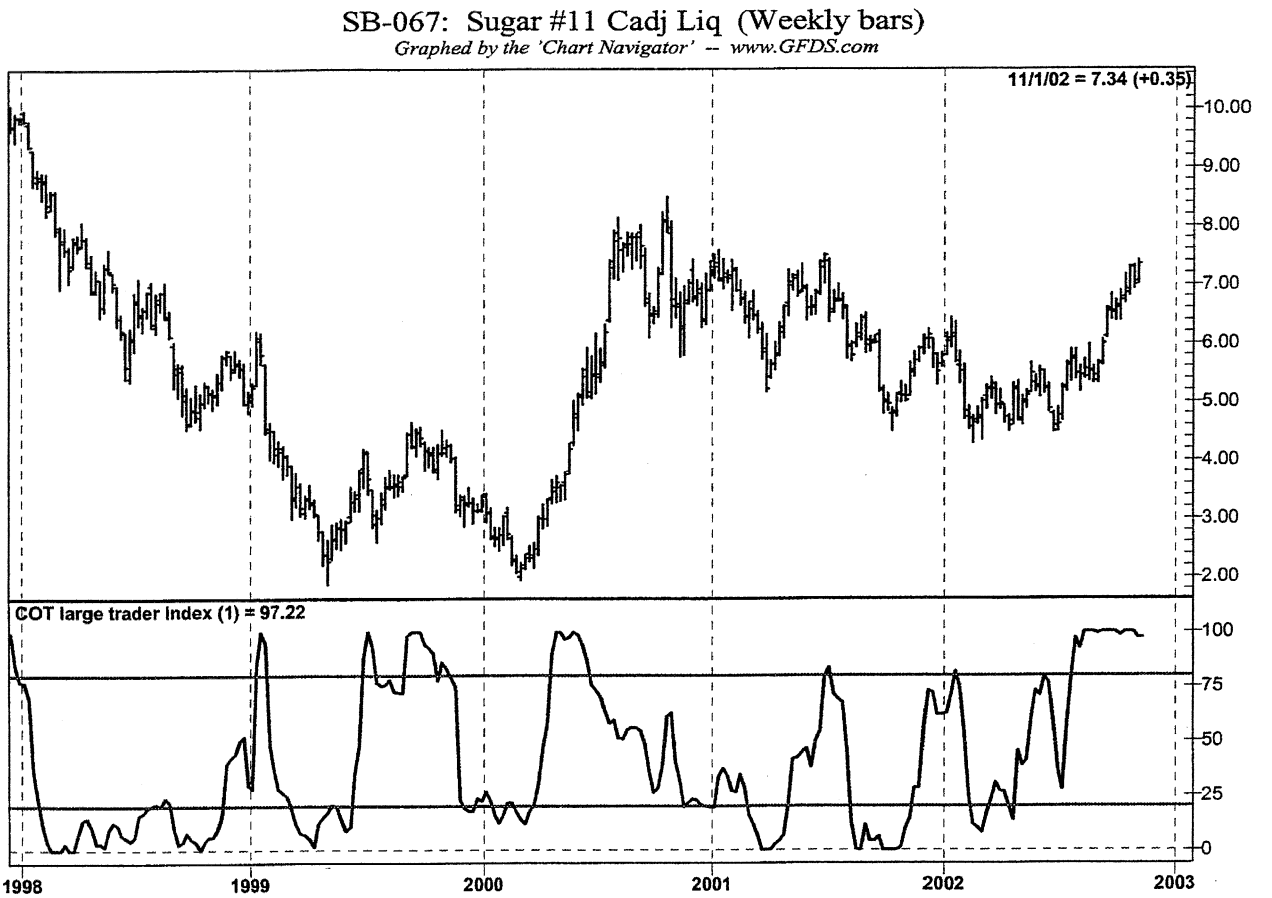
SOYBEANS, SAME SCENARIO---Beans show pretty much the same pattern. On these weekly charts we see that major highs are associated with them in a net long position of over 80%...while lows are consistent with readings under 20%. Can this be? Is it possible? Well, those who know me, know of my pragmatic nature...I prefer data to opinions, and in this case, the data is very clear.



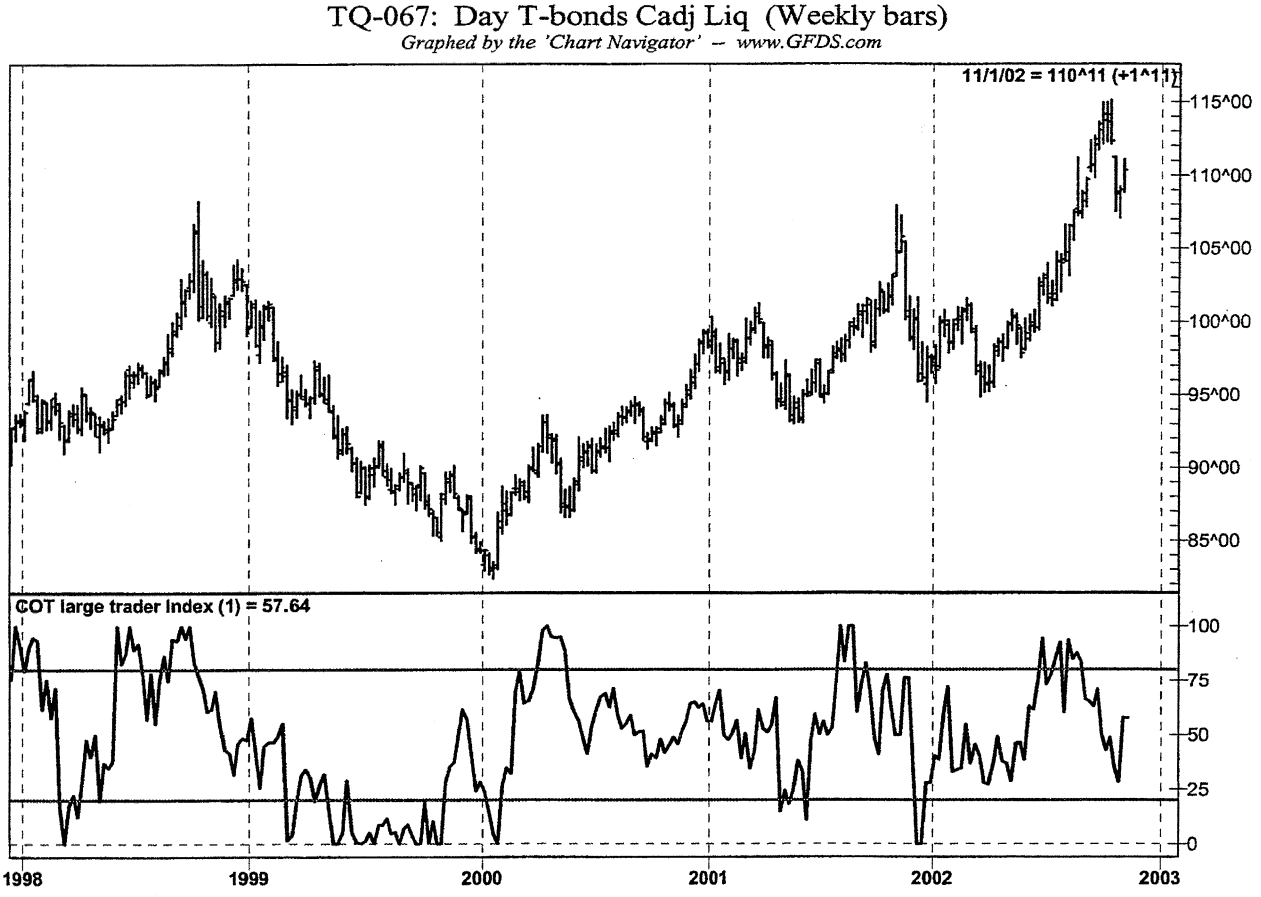
SUGAR AS WELL

At virtually every important low in this market for the last 4 years, we find the Large Trader Index reflecting under 20% buying and over 80% buying at the important market highs.

While this looks easy, it's not quite that much of a cream puff...note the Large Guys got bullish in early 2000 as the market began its up move. But with that exception...as they became excessive in their buying, markets topped; excessive in their selling, bottoms were soon at hand.



BONDS AS WELL...I can't think of any more disparate markets than those show. Beans and Bonds are not even traded by the same people, by and large. Everyone in the world trades bonds. Yet the same pattern repeats; Large Traders are too long at highs, too short at lows.



THE POINT OF ALL THIS---First, hopefully this eradicates any thoughts you might have that large traders have some knowledge or advantage over you.... that there is some inside group that rigs markets. There isn't.

Next, we have a new indicator to use in helping us to identify intermediate term market highs and lows. Use it; use it well...go forth and prosper!

3.) THE "END OF THE TREND" INDICATOR

Discovery consists in seeing what everybody has seen and thinking what nobody else has thought.

Albert Szent-Gyorgi

Years ago, Welles Wilder and Gresham Northcott came forth with the Directional Market Index and the ADX line. I have found this a very, very valuable long-term tool to call major highs and lows when used in a certain fashion. Unfortunately, this does not signal all tops and bottoms, but

when it does, especially in conjunction with Sentiment and/or Commercials, you have as sure a deal as I know. This understanding on the index is original to my work.

+60 DMI SELL SIGNALS
AND MAJOR BUYS

These are even fewer and farther in between, but they are a snap to spot. All you need to look for is a DMI reading of over 60. Such readings have an excellent record of saying a top is at hand. Readings of > 60 in market declines indicate excellent buying opportunities at hand; in rallies, a sell signal is near.

Excellent sell signals have also come from readings over 40, but I would want such selling indications to be backed by BOTH Sentiment and Commercial sell signal as well.

Do not be misled by the fact that it takes only two paragraphs to define these signals! Readings over 60 present wonderful opportunities for the informed risk taker.

Pages 42 Through 53

DIVERGENT SIGNALS WORK VERY WELL HERE

We'll also be looking for markets that go to new highs, but are not matched by new highs in the DMI. Market buys can be just the reverse, a new low not matched by higher DMI readings. Finally, I have noted major lows that have had lower DMI readings, then on the plunge a very high value > 40 is registered, indicating a selling panic.

Even a quick study of your charts will reveal the amazing power of this approach. Note that this technique was FIRST fully revealed in January 1994 to hundreds of fellow traders.

4.) THE PINCH AND THE PAUNCH

I have noticed one more relationship in the DMI (ADX) and Stochastic inner workings that can be of real value to the trader looking for intermediate term set up plays.

Keep in mind the DMI simply shows if a market is trending; in other words, does it have any strength to what it is doing? If so, the DMI will be steadily increasing; if not it will be declining.

Stochastic on the other hand measures how far the market is getting away from price x days ago, regardless of the integrity of the move.

THE PINCH....So consider what it means when Stochastic is rising and above 75%, the usual overbought area, while the DMI has been declining. This suggest to me that the price move that pushed Stochastic higher had no "umph", or meaning, behind it, and any sells coming should be good ones. This appears as a "pinch" on charts; as the DMI is coming down, and the Stochastic is coming up, the lines pinch together. There is no "level" for ADX to be below...it's the continual downtrend that I am looking for.

A buying indication is just the opposite, with the Stochastic declining and below 25%, while DMI is rapidly advancing. This suggests a selling panic as usually price declines on a declining DMI. This appears as a widening between these two lines, a "paunch" effect.

See Pages 54 Through 64

THE PAUNCH SIGNAL...When the weekly 7-bar ADX line rises above 40, a buy point of lasting duration is at hand. The + 40 reading does not cause the entry, it only tells us the time is ripe.

CRITICAL POINT ...This pattern, of going from below 40 to above 40, only creates buy signals if the market is substantially oversold as the crossing takes place. What is going on is that not only is the market oversold, Stochastic below 25%, but downside volatility has picked up. This means a selling climax is at hand and a market bottom is very near as not only have prices been suppressed, but sellers have become irrational, almost dumping at the market; hence the DMI picks up. (Another ideal confirmation comes from the Market Sentiment or Commercial data confirming a high or low).

Additionally, it will pay to wait for a turn down in the index to signal the trend move is over or at least in the terminal stages of market atrophy.

See Pages 65 Through 73

IF YOU WILL JUST LIMIT YOURSELF TO THESE TRADES YOU WILL TRADE LESS OFTEN AND CATCH MOST ALL MAJOR HIGHS AND LOWS.

ON DAILY CHARTS TOO--- Yes, these formations do appear on daily and even/interday charts and are usually pretty good set up patterns to alert us to important trend changes for the time frame we are trading. My use here is to help us further evaluate and zero in on major trend changes using weekly bar chart data.

AN ADDITIONAL USE---In recent years I have noticed that a very low DMI/ADX reading, below 20, at the same time the Commercials are heavy buyers sets up beautiful---and immediate---buy signals. This makes sense; what's going on is an apparently lackless market where it appears nothing is going on, but under the surface, the commercials have been accumulating, telling us to expect higher prices.

5.) *HOW TO FADE THE USUALLY WRONG PUBLIC*

While the Commercials are usually correct, but early, the public is often correct---mid stream---but when they become excessively bullish or bearish they are most often dead wrong. This is even more so true when they are bucking the commercials.

Hence our best sentiment play is these two groups in opposition,

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I use the Market Vane index (626) 395-7436 or the Genesis Data index. Both are similar in nature. Market Vane measures the most wrong crowd, newsletter writers at brokerage firms. Using just this index, many major highs and lows appear. It is a good check on your own emotions. There are shorter, daily measures of sentiment; they work well for that time frame, not for longer-term set-ups.

See Pages 74 Through 86

In conjunction with Genesis Data I now offer my sentiment index for most stocks and all commodities. I believe it has a much better record than the older indicators; look at the seminar and you can judge. Mine "speaks more often", and does not seem to miss as many points as the other indicators.

6.) SUPERCHARGING SEASONAL TRADING

THE YEAR IS NEVER WHAT IT STARTS OUT TO BE...

(Really possible...real time trading with 85% accuracy?)

There are few sure bets in trading commodities, but one of the better bets is that what investors are doing at the first of the year will be wrong! In short, the highly emotional "planning" time, right at the first of the year, is most often apt to be wrong...all those investors' dreams will soon be put to bed. I will use weekly charts to establish all of the following points.

To check this thesis, I carefully recorded, for the last 8 years, what the Market Vane measure of investor sentiment was telling us at the start of each year. Readings of over 75% bullishness I took to indicate tops, readings below 33% as buys. The following list indicates the potential buys, when the index was under 33% and the sells with readings of greater than 75%. Here are the results:

SELLS

1988 Copper, Beans, Wheat, Sugar
1989 Crude Oil, Corn, Oats, Meal, Wheat
1990 Gold, Crude Oil, Cattle, Feeder Cattle
1991 Gold, Copper, Corn, Coffee, Sugar, Cattle, Feeder Cattle, D. Mark
1992 Wheat, Pound, D. Mark, Swiss Franc.
1993 Oats, Meal, Soybean Oil, Coffee, Lumber, Feeder Cattle
1994 Gold, Silver, Beans, Meal, Soybean Oil, Wheat, Sugar, Bonds Corn, Cotton
1995 Beans, Soybean Oil, Sugar, Cattle, Feeder Cattle

BUYS

1988 Cocoa, Crude Oil, Bellies
1989 Silver, Cocoa, D. Mark
1990 Copper, Cocoa, Cotton
1991 Beans, Meal, Cocoa, Hogs, Swiss Franc
1992 Copper, Corn, Sugar, Cattle, Hogs
1993 Gold, Sugar, Bellies
1994 Coffee, Hogs, Yen
1995 Beans, Meal, Crude Oil, Brit. Pound, D. Mark, Yen, Swiss Franc

These "start of the year excesses" have proven to be excellent set-ups for major long-term moves. Now, no one, at least no one I know, can predict 12 months in advance and I don't think any of my tools can, but they can tell us about trends for the first 3 to 6 months. Then the integrity of those trends will tell us if that condition will last all year long.

The purpose of measuring investor sentiment is to tell what the crowd is doing, as they are usually wrong. What I have discovered is the crowd is even better at being wrong at the pivotal start of the new-year time period!

While not perfect, seasonal patterns are a tool every trader should have in his or her arsenal when you go hunting for big game. The problem is, these patterns are not repeated every year; gosh that would not make trading any fun. Hence, the pattern or tendency becomes a tool or backdrop to place trades against.

I think the ideal trade will have three of our major tools AND be backed by a seasonal. If I have two "set up" trades, one with a seasonal, one without, I will take the one with; seasonals are tie breakers.

THE STRONGEST SEASONAL TRADES

I had no idea what an "industry" my 1974 book, "Sure Thing Commodity Trading", "How Seasonal Factors Influence Commodity Prices", would create. Maybe that's because it was the first book ever written on the subject, but more than likely, because we never envisioned how easy it would be to study these influences with the advent of the computer.

While my original work was done by hand and took over 12 months of looking at charts and tabulations of prices, this same work can now be done in an afternoon with a laptop.

But a problem remains; the seasonal trades are about as reliable as Mark Fuhrman's testimony. Which got me to thinking, the reason these trades are so spotty is that most studies the seasonal crowd uses are based on 5 to 15 years of data. That means the current database they use goes back to 1985.

The following tendencies were based on two time periods, the most recent 15 years...plus... I went back to my original 1974 book, which covered 1960 to 1973 and found the trades that still exhibit themselves in the current data. I next put these into a monthly trade recap. These recaps do not give specific buy sell dates, as I do not think that is the best use of the information. The best use is to advise us of these very strong patterns. In each case the pattern is that most all of the time, prices have closed up/down for the months in question; hence these indicate pretty big trades. What we have here are the ones that have held up the best "out of sample."

JANUARY

SWISS FRANC	DOWN
D MARK	DOWN
BPOUND	DOWN
OATS	DOWN
CATTLE	UP
HOGS	UP
LUMBER	UP

FEBRUARY

TBONDS	DOWN
S FRANC	DOWN
COPPER	UP

S MEAL	DOWN
S OIL.	UP
CATTLE	UP

MARCH

WHEAT	DOWN
B POUND	DOWN (IST HALF OF MONTH)
SBEANS	UP

APRIL

O JUICE	UP

JUNE

TBONDS	UP
BPOUND	DOWN
SMEAL	DOWN
O.JUICE	DOWN
COTTON	DOWN
LUMBER	DOWN

JULY

T. BONDS	DOWN
GOLD	UP
CATTLE	UP
COTTON	DOWN
LUMBER	UP

AUGUST

B POUND	UP (ALL CURRENCIES BEST
J YEN	UP TO MIDMONTH)
D MARK	UP
S FRANC	UP
S MEAL	DOWN (FIRST TWO WEEKS ONLY)
CATTLE	DOWN
BELLIES	UP
COFFEE	UP (STARTING MID MONTH)
COTTON	DOWN

SEPTEMBER

BONDS	UP (FOR FIRST HALF OF MONTH)
B POUND	DOWN (TOPS FIRST FEW DA YS OF SEPT)
J YEN	UP (BOTTOMS SECOND HALF OF MONTH)
D MARK	UP
S FRANC	UP
COPPER	DOWN
COTTON	DOWN (STARTS MID MONTH)
LUMBER	DOWN

OCTOBER

B POUND	DOWN (ABOUT OCT. 1OTH)
J YEN	UP (FIRST HALF OF MONTH)
D MARK	UP
S FRANC	UP
S MEAL	DOWN
COCOA	DOWN
COFFEE	UP
COTTON	DOWN (this is just so-so)

NOVEMBER

T BONDS	UP (STARTS ABOUT 5TH TRADING DAY)
S FRANC	DOWN
COPPER	DOWN (FOR FIRST HALF OF MONTH)
S MEAL	DOWN
SUGAR	DOWN (FOR FIRST HALF OF MONTH)
LUMBER	UP (RALLY STARTS ABOUT THE 20TH)

DECEMBER

TBONDS	UP
B POUND	UP (LATE IN MONTH)
JYEN	UP
SFRANC	UP
D MARK	UP
GOLD	DOWN
COPPER	UP (AFTER FIRST WEEK)
BEANS	DOWN
S MEAL	DOWN
HOGS	UP
COFFEE	UP
SUGAR	DOWN
O.J.	DOWN (STARTS MID MONTH)
LUMBER	UP

MOST RELIABLE TRADES

LUMBER	SHORT	IN MID MARCH
CURRENCIES	SHORT	IN MARCH
COPPER	SHORT	APRIL
COCOA	BUY	LATE JUNE
TBONDS	SHORT	FEBRUARY
B POUND	SHORT	JUNE
D MARK	"	"
SFRANC	"	"
S MEAL	SHORT	DEC
CORN	SHORT	LATE JUNE
WHEAT	BUY	

BELLIES	SELL	NOVEMBER
CA1TLE	BUY	JANUARY/FEBRUARY
BONDS	A JANUARY DECLINE INTO MARCH LOWS, RALLY INTO JUNE 15th, DECLINE OR SIDEWAYS UNTIL LATE SEPT, RALLY INTO CHRISTMAS	

MAJOR SEASONAL PLAYS...Jake Bernstein is certainly the most noted author of seasonal plays. Jake and I have been buddies and competitors since the late 1970's. Certainly Jake has done more than any other individual to study seasonal influences. The following indications are based on **over 40 years** of data Jake has painstakingly compiled. Several of his favorites call for **COPPER** to top in March, bottom in June, and rally well at the end of the year. **SOYBEANS** should rally from January to a May-June peak, decline into a September-October low, and then stage a year-end rally. **BONDS** have usually rallied from mid February to mid May, slumped into a mid-July low, and rallied into mid November. **COFFEE** is most apt to rally from the end of December to mid-June, then tank until October, where it bounces up until the end of the year. **BEAN MEAL** bottoms in February, tops in late June, and declines into an October low. Look for a low in **SUGAR** in mid-April, with a bullish bias all the way to a mid November high, then back down to the April lows. **PORK BELLIES** have most often rallied from March to July-August, then declined into November lows. ***WHEAT IS THE MOST CONSISTENT SEASONAL I HAVE FOUND***. Expect selling pressure from January to late July, then a rally until after Christmas. **CORN** has been just the opposite; it rallies from February to mid-July, and declines until right around the end of the year .The February/March rally has been very reliable.

AND A FEW MORE----From 1959 forward, soybeans have rallied in 33 of the 43 years, for at least 5 days starting on October 30th. The average gain was 2%, the average loss –1.3%. A ten day hold had 34 out of 43 winning years and show an average gain of 2.8%. Lumber, since 1975, has rallied 77% of the years from the end of October for 20 days, and shown an average gain of 5.4%

The astute trader will focus on seasonal indications and look for confirmation from trend indications as well as the rest of our tools during these windows of opportunity.

7.) THE OPEN INTEREST "PLAY" I'VE BEEN USING SINCE 1970

Opening up the way we can use this exciting early warning indication

While you may have read about this tool in my other writings, we need to be reminded of this once again. As you may recall, the operating rule is that IF price is in an up trend, then enters a trading range and Open Interest declines (usually about 20%), expect a rally. Sells come from a down-trending market entering a trading range, while Open Interest increases about 20%.

This is the basic rule taught by Bill Meehan in 1970. The reason it works is that the decline in O.I. indicates the commercials are most likely covering their shorts. Keep in mind, they account for about 60% of market volume and/or they are usually hedging, selling. Bill felt the reduction meant they were bullish and he expected a further trend move.

I'm showing a few of the 1997 O.I. plays for your study. The first is Sugar in October. Notice the nice up trend, next an elongated 3-month trading range, then a rapid decline in O.I. before the break to new highs!

Live Cattle gave a similar buy in June 1997 when O.I. fell off in the face of a trading range, and shortly thereafter, prices skipped to new highs.

Silver, while not fitting our rule of being in a trading range, had a massive O.I. reduction while the Commercial/Public data was bullish. AG sprang from $4.60 an ounce to $5.30 in just a matter of days.

Copper in March/ April 1997 (a move we traded) was a perfect example of this technique.

This last trade opens up an interesting door...can we take O.I. formations that do not have the trend factor going---if we have our bigger guns blazing away? The answer is yes. In fact, there appears to be some relationships between the Commercials getting excessively bullish/bearish, and O.I. moves, but I have not been able to codify trading procedures...yet.

My studies show some excellent trades can be made using the following sequence; first we have the Commercial/Public set up, then a rally off the lows, followed by a trading range with our O.I. reduction. Typically, Commercials sell rallies, so if we see a reduction, following a set up, it's a decent bet prices will move higher.

8.) THE SECRET MESSAGE OF SPREADS...PRICE PREMIUMS

As you know, spreads are among the most powerful and fundamental of all market indicators. Yet, most analysts blow them off like Al Gore at a Republican fundraiser. I've never been able to figure this out because even a cursory glance reveals how important they are. I look at a spread (that is the difference between the nearby contract's closing price and the next or successive months) in two major ways.

1. ***Price Premium Structure***
2. ***Strengthening and weakening of the spread***

PRICE PREMIUM STRUCTURE-This term, "a premium" simply means the nearby contract is trading at a higher price than the next month out. This is a fundamental anomaly; it should not be this way. The distant months should always sell at a higher value.

The only thing that can create a premium is someone wanting the nearby contract badly enough that they are willing to pay more for it than the distant months. My belief is that this can only be the Commercial; hence, this designates a commercial bull market. A non-premium, or "carrying charge", market is meaningless, telling us nothing.

The important point is not just that there is a premium; after all, a market can be at a premium, but winding down or losing it. Thus, what we will be looking for is the "premium coming on", that point in time when the nearby actually trades at a higher value than the distant. That's

bullish, telling us to look to get long. Traditionally markets go to a premium in approximately one of the following two ways:

See Page 87

ONCE THE PREMIUM IS THERE... We need to turn our attention to what the premium IS doing in relationship to the market. A new high in price should have a new high in the spread. If it does not, that is a negative sign, buyers are no longer bidding for the nearby.

On a correction, the premium should outperform price action, i.e., price makes a new short-term rally low and the premium does not...it "holds up". That is very bullish action telling us the correction is not the start of a market slide.

The fact that there are only three paragraphs here should not dissuade you from studying this relationship. I have written about it in other places.

LARRY WILLIAMS ENTRY TECHNIQUES AND RULES

Most traders begin and end with entry techniques. I don't see it that way...my base is set up trading, but I still need entry points. Here they are...

1.) CHANNEL BREAKOUT TRADING

Don't sneeze at this...first popularized by my friend Dick Donchian in the late 1940's...it hit the big time with Richard Dennis and his Turtles in the 1980's. Years ago, the Turtles are reported to have made about $100,000,000 on their managed funds. Granted, they had a zillion dollars under management, and have implemented many of their own rules, but still...$100,000,000 is a lot of money!

I broke the dam wide open when in 1988 I promoted seminars for Russell Sands, the first "Turtle to Talk" and reveal all. The system, which Russell still teaches, is based on buying 20-day breakout (of the highest high of the last 20 days, lowest low for selling) with a 10-day stop or 50 day breakouts with a 20-day stop.

This works.

We can make it work better by waiting for a setup market---then and only then---using a channel break out. My research shows a 12-day breakout works best for the set-ups.

THE IMMUTABLE LAW OF AVERAGES

Markets can only be understood backwards;
But the problem is they must be traded forward
Larry Williams

Timing is always a traders' greatest problem/opportunity. I do not know of ANY purely technical timing system that maximizes profits. My thinking is that by selecting trades based on the above, and then bringing in the timing tools, we will have more success than just taking technical buy and sell signals.

Surely, this is one of the most important laws operating on our planet. Just as with the Law of Gravity, this law impacts our everyday life, every day. On average the weather in San Diego is 72 degrees, with fluctuations above and below the average. WHENEVER the temperature rises above that average for very long it's a sure bet that eventually things will cool back down. Even our personal relationships are that way; they are pretty good on average, yet run in hot and cold streaks.

2.) THE 18 BAR PATH OF RIGHTEOUSNESS

I have chosen to use an 18-day moving average to help us understand commodity prices. There is no magic to this average; it was chosen largely because it has been used for years and is readily available in chart books and software.

While none of us would resist the Law of Gravity, traders every day disregard the Law of Averages. The basic rule is that if price is below the 18 bar average, you probably don't want to be long unless there is an EXCEPTIONAL REASON to buck the trend.

See Pages 88 Through 92

SIMPLE TREND ENTRY TECHNIQUE

Precise timing of our entry is the greatest problem/opportunity. I do not know of ANY purely technical timing system that maximizes profits. After all these years, thousands of research hours, and who knows how much money in research. I still have not found a highly profitable timing system that can be used on just one market. Trend following systems work only on a big basket of commodities, on the assumption something in the basket will have a big move and payoff the little losses.

THE ESSENCE OF MY METHOD IS TO FIND A MARKET SET UP BY COMMERICALS, PUBLIC, SEASONAL, OPEN INTEREST, DMI/ADX, ACCUMULATION DISTRIBUTION, PREMIUMS AND THE LIKE—THEN, AND ONLY THEN, ESTABLISH A POSITON ONCE THERE HAS BEEN A CHANGE IN TREND. THERE ARE TWO COMPONENTS; THE SET UP (WHICH IS NOT A REASON FOR ENTRY), AND THE ENTRY, WHICH IS A TIMING MECHANISM (NOT THE REASON FOR THE TRADE).

HARD AND FAST RULES FOR THE 18-DAY AVERAGE

A buy signal will require that we have two consecutive days with lows that are above (greater than) the 18-day moving average of closing prices. Neither of these days can be an inside day (that's a day with a lower high than the previous day as well as a higher low). Given this condition, we will go long at the highest high of these two bars.

A sell signal will require that we have two consecutive days with highs that are below (less than) the 18-day average of closing prices. Neither of these can be an inside day. Given this condition, we will go short at the lowest low of these two bars.

This system does make money on its own as you can see from the following listing of taking all buys and sells without any setup criteria. This is comforting; we know it works, but the accuracy

is low and it is replete with whipsaws. Our purpose as traders is to bypass as much of this as possible. I know of no better way than with the setups, thinking and common sense.

PATTERNS TO THE LAW OF AVERAGES

KISS AND COLLAPSE---This is the primary pattern that sucks traders into losses, but not for us! The length of the moving average does not matter; the length simply identifies or isolates your time frame. When a market has been in steep down trend and takes a run up to the moving average, it will usually trade there for a bit, then---just when most go long---collapse, pulling back to the dominant trend.

BUMP AND RUN --This is the pattern I like to use to buy after an upside trend reversal. In this case, price triggers our entry, then declines back into the moving average (perhaps just running into it horizontally) . As most traders give up hope at the 18-day crossing, we are looking for a new or re-entry as the trend is most apt to get moving again...especially if there has been a set up condition at the lows.

18 *DAY MOVING AVERAGE WITH 2 OUTSIDE BARS--10 YEARS RESULTS*

COPPER	29.2 (THOUSANDS)
S FRANC	48.9
B POUND	132.9
CORN	35.8
GOLD	83.4
J YEN	147.5
COFFEE	188.0
H OIL	30.2
BEANS	87.9
EURO	30.5
SUGAR	96.0
WHEAT	41.5
D MARK	79.1
T BONDS	44.8

3.) QUALIFIED TREND LINE BREAK ENTRY

This is a steal from Tom DeMark, my trading buddy of more than 25 years. Tom has come up with many novel trading ideas and ways of looking at market movement, as most of you know.

A few years ago Tom told me how to tell if a trend line breakout would succeed or not. The idea Tom shared with me is that if the day before the expected trend like break (to the upside for a buy signal, reverse it for a sell) has an up close, the breakout IS suspect. Exceptions would be inside days following down close days and up days that close below the opening; those days would not disqualify taking a trade.

Tom has added that gapping above the trend line, even if the up close day was present, it is ok for entry Tom does like to see such a gap move up from the opening a few ticks to confirm the buy; down a few ticks to confirm a sell.

I've made some improvements myself as we will discuss, they are:

1. If the day that just closed is an inside day and the close would invalidate the signal, we will still take the trade if the prior days' close would have been valid. As an example an up close inside day would still let us buy tomorrow if the prior day was a down close. It's just the opposite for a sell.

2. An inside day up close validates all sells; an inside day down close validates all buys.

3. Smash days with up closes validate buys or down closes validate sells. (See text)

4.) A NEW INDICATOR PRO-GO

Many, many years ago I wrote about how to separate public buying from professional buying. The essence of the technique was to create an A/D line for the public that shows the change from yesterday's close to today's open. The professional A/D line is then constructed by using the change from today's open to today's close. Those two lines clearly "tip" us as to what is really going on.

We can take this one step farther by simply constructing an index of the previous close to open +/- values and then taking a 14 day average which is plotted against a 14 day average of the +/- values of the open to close.

I can see at least two ways to use this data, and there may be more. The first is to simply look for divergences between price and the Professional index. Price lows not matched by the Pro index are bullish. New highs not matched by this index tend to be bearish.

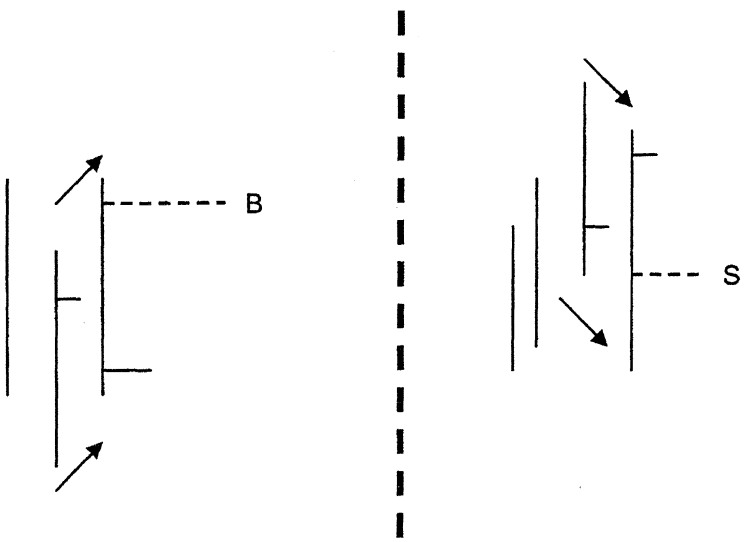
Additionally, crossings of these two indicators have given some excellent intermediate term buy and sell signal as the charts below depict. This can be used as an entry or timing technique with the rules provided at the seminar.

See Pages 93 Through 100

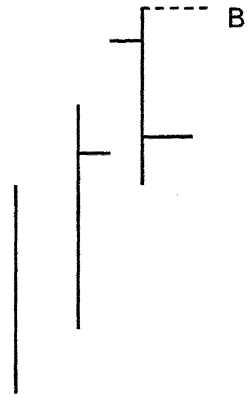
5.) THE FAILURE DAY FAMILY

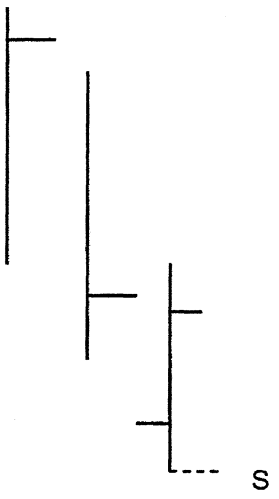
The market loves to catch people by surprise. Never forget that statement. The following patterns can be used to enter the market, taking advantage of what looks like a strong market move. The underlying truth of these patterns is that the day after the pattern, prices do exactly the opposite of what "the crowd" was expecting.

***FAKE OUT* DAY**---Here we have a higher high, higher low and lower close than the prior day for a buy. The sell is just the opposite, a lower high and low with a higher close. Buy/Sell at the prior day's high/low.

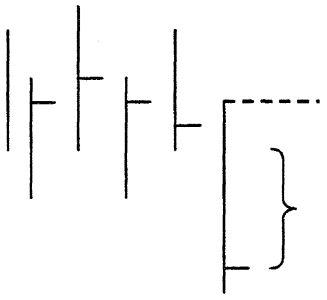


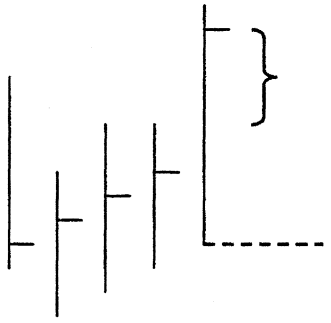
SMASH DAY ---This is a bit like a fake-out day. The pattern to look for is a day with a higher high, low and higher close. ***BUT, the close is substantially below the open***. Taking out this day high is very bullish. The sell is just the opposite, a down close substantially above the open, with a sell at that day's low tomorrow.



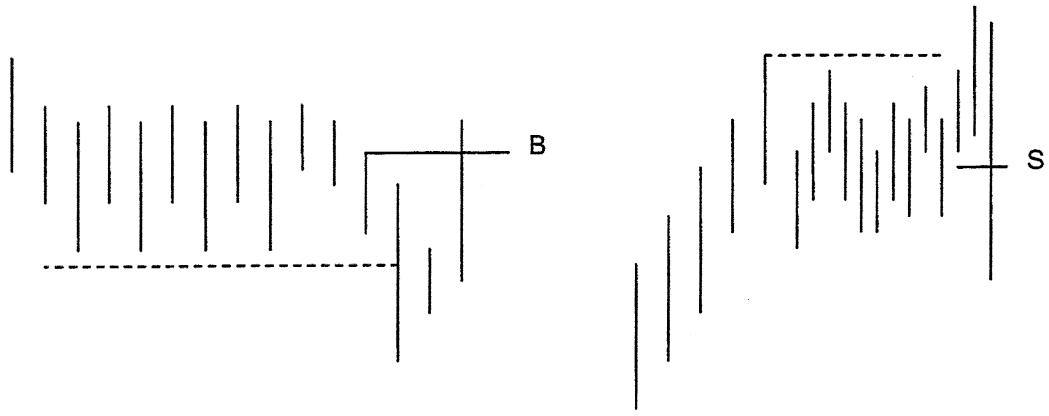


NAKED CLOSE DAYS--- This is a nice term coined by Joe Stowell. They are easy to spot. A naked close "buy set up" requires a close lower than yesterday's low; buy at the high of this down close. A "sell set up" requires a close above yesterday's high; sell at the low of this up close.





SPECIALISTS TRAP- For a sell, look for a strong uptrending market, that goes into a trading range, or "box", for 6 to 20 days, and then thrusts up on a big breakout day. It may go on, or it may not. Our sell will be at the true low of the day before the break out day. If prices are in a down trend and go into that box, the reverse of the above, buy long at the high of the day before the breakdown day.



WHEN TO EXIT

Well, let's see; we've narrowed down the markets we will trade for big moves, and have also determined our buy and sell points. All that's left is to tell how to get out of the trade.

1) MY LEAST FAVORITE EXIT TECHNIQUE

I hate this exit technique, but it is the most important one in the world. What it is, is simply a dollar stop. While this is not fancy, it's protection, and that's what we all need. The amount you are willing to lose on a trade is dependent upon three things: 1.Your belief in the trade, 2.The size of your bankroll, and 3.The volatility of the market.

I believe all these trades will work, but know some won't ...this means I cannot fall in love or marry a position; some of them will not work out...the sooner you accept that hard dose of reality, the better your trading will become.

These major mega trades we are looking for have often made $5,000 to $10,000 a contract, so I'm willing to use a stop of about $1,500 as final proof I am wrong. Smaller traders may want to risk less, but the closer your stop is, the greater the probability that you will be stopped out just before the big move begins. Each of us must ultimately decide how much we want to lose.

I will also protect against loss by a rally to new highs, if short; new lows, if long. This does not mean I'm through with it...I'll be back on the next buy/sell...if the conditions are still there.

2.) *THE AMAZING 3 BAR ENTRY/EXIT TECHNIQUE*

This is one of the very best trading techniques I have ever developed; it is really quite simple. Once the market is in a run away move, as I call it, a "Rock and Roll" market, then, and only then, do we use this entry exit. Price must be out of a trading range.

If so, and we are long, determine the ***highest close (inside days don't count)*** in the up move so far. Count that as day one and go back to get two more days. None of these can be an inside day. Once all three days have been noted, then determine the lowest true low of those three days. Place your stop to exit (sell short?) a tick or two below that price.

If short determine the ***lowest close (inside days don't count)*** in the down move so far. Count that as day one and go back to get two more days. None of these can be an inside day. Once you have all three days, note the highest true high. Place your stop to exit (buy long?) tick or two above that price.

AN IMPROVEMENT?? In recent years I have noted this; in the buy example, if the day before the low close was an up close, then go back one more day, and again use no inside days. If the high close, in a sell example, has a down close the day before, go back one more day. Again, use no inside days.

See Pages 101 Through 103

EXTRA EXIT/ENTRY TECHNIQUES

If I'm not stopped out the only other thing that can happen is to take a profit! I will use one of the following techniques to exit.

1.) **STOCHASTICS**...I will be very tempted to take profits when the slow % D hits 75% if long, 25% if short. If the market is trending quite strongly I may wait for a crossover of the %D and %K, and again, I'm using the 14 bar weekly series. This may get me out too early, but there's little perfection in this business.

2.) **3 BAR**...I also use the 3 bar exit technique...as discussed earlier in this presentation. This is an excellent technique to use when a market goes in a tight trend move. IN FACT, THIS IS THE BEST TRAILING STOP TECHNIQUE I KNOW OF TO HOLD ON TO ONE OF THESE TIGER MOVES...IN AN UP OR DOWN MARKET.

3.) **THE 18-DAY MOVING AVERAGE**...You can use the 18 bar moving average as an exit technique. This works well for holding onto very long-term trend moves.

4.) **CHANNEL BREAKS**...If all else fails, I will exit at the highest high of the last 20 days if short; lowest low of the last 20 days if long.

No one has perfected long term trading. If so, we would see funds with more consistent results. But there is big, and relatively easy, money to be made by locating markets that make major highs and lows, getting aboard, and staying with them as long as possible.

5.) **TARGET SHOOTER**...Finally, don't forget to use our handy dandy target shooter to determine levels were price should go and bounce.

See Pages 105 Through 107

ADDITIONAL COMMENTS

THE "CROUCH" VERSION TWO-- WITH PRICE THE SECRET TO THE INTERNAL TRIANGLE. OR SOMETHING LIKE THAT

Chartists have long been fascinated with chart pattern, such as the 5 point reversal or expanding wedge first written about by a fellow named Wetzel in the 1920's, and then popularized by Gartley in 1935, only to be picked up by Edward and McGee, and then re-popularized by Wilder in the 1980's!

Price seems to "crouch" down into a formation and then spring into a major move. The problem is the more you study these patterns the more confused one can become. Curtis Arnold was the first person to mechanize and prove there are profits in these configurations with his PPS systems.

My twist to all this has been to identify two crouch patterns we can trade and establish some rules, especially rules for when the patterns change mid stream, which they often do.

Let's start with the traditional Triangle. Schabacker called these coils; Gartley coined the word triangle and identified that there must be four points of contact with point one starting after what he called the mark-up move. He also went to the heart of the problem saying, "...triangles appear as continuation patterns, as well as reversal patterns!"

What I have noticed is that there must be two lower highs and two higher lows to establish the possibility of a triangle, and that the expected move will be in the direction of the mark-up move (These swing points or triangle points should have 3-6 days on both sides to be valid). In other words, the move that created point one is the most likely move to develop. Now, lets' look at a chart to establish our references, as I have identified them. ALSO NOTICE WHERE THE STOP POINT CAN BE A VALUABLE CONTRIBUTION FROM ARNOLD.

The problem comes with false breakouts. Can this inherent problem be overcome? I think so by waiting for a close that is above the last triangle point if buying, or below the last triangle valley if selling. By doing this, should a new triangle develop, we will be able to reconstruct the next triangle within the even larger triangle and take appropriate action. Hopefully the following diagram will show you how this develops. The key to this pattern is to keep in mind you must have two lower highs with a low point in between that is greater than the previous low if selling. For buying, you need two higher lows with a high point in between that is less than the previous high. The triangles shown may help you get the point.

CONGESTION BREAKOUT TRADING
MY 8 WEEK BOX APPROACH

Major market moves frequently come out of congestion ranges. Here's how to spot and trade these set-ups.

About one third of the time, a market will trend; the other two thirds, it's in congestion zones, backing and filling almost with a mind of its' own to find stops, and punish or frazzle traders' endurance. Then, low and behold, one day it rips out of the congestion zone, leaving most traders on the sidelines nursing their wounds, cursing their "luck".

SPRINGING THE CONGESTION TRAP IN YOUR FAVOR... Instead of getting caught in these traps, let's turn them to our advantage! The way to do it is to scan through your charts looking for any market that has been in a sideways move for at least 8 weeks. A further "definition" that may help is that it has been at least 8 weeks since a new rally high or low has been seen.

Isolate the 8 weeks and identify what the major trend move was coming into that 8-week box, and expect a break out in the same direction. But, keep in mind that 12 weeks later you have a new 8-week box, and the major swing direction may have changed. In any event, mark off the major trend lines in this box. Our wager is price will smash out of these trend lines. Our game is one of waiting for these congestion ranges to set up before we get involved...this is a waiting game...if you can't wait, don't play.

Our timing indication of this can come in many ways. Some of the better are extreme Commercial Public readings, VAN-DIV setups, DMI loss of trend integrity, 3 point trend line break outs, Pro/Go, seasonal indications and all the other tricks of our trade. I also use Tom Demarks' qualified trend line entry technique.

...AND HERE'S THE SECRET...KEEP SWINGING...

OK, you've been patient, and got into the congestion on a breakout up or down on the assumption this should catapult the market. Hopefully it will. But, happy camper that you are, don't become complacent...it may well be a false breakout.

Which means you need to keep a new 8-week box, and take opposite breakout signals until one of them is the big one.

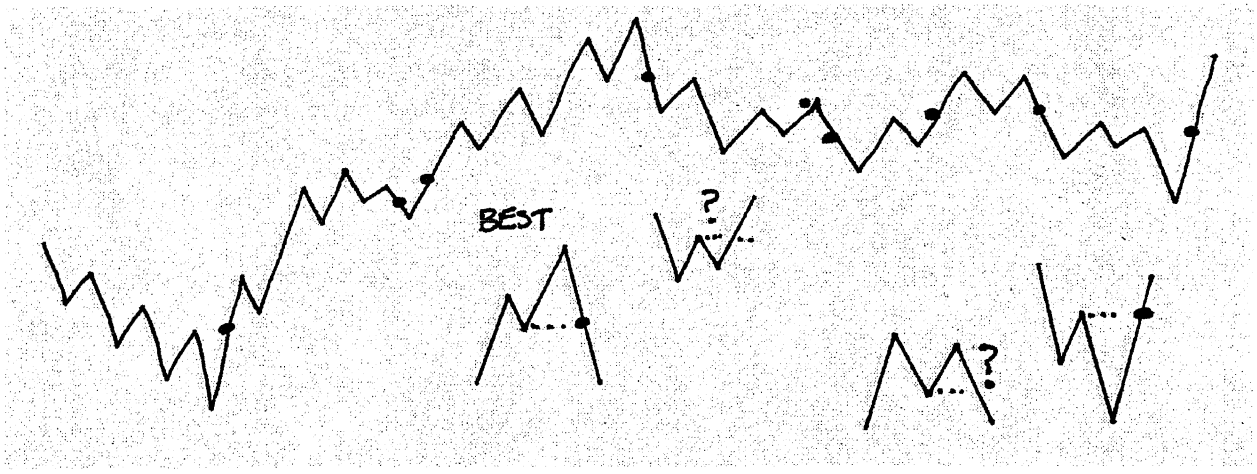
Clearly this means you may be whipped around a little, my guess is 1/3 of these initial signals will be wrong and you will be stuck in the mud with other traders. BUT, you got in later, and you know one of these days it will break out, and more importantly--- YOU DON'T CARE WHICH WAY IT ULTIMATELY BREAKS OUT ---in fact you must trade these congestions with 1) no

predetermined belief and 2) the conviction and bankroll to take all breakouts until the big one bites your bait, knowing you may loose a few lures first. That is your cost of doing business.

If you cannot stay the course, do not take these trades. If you can, you will catch some of the biggest moves on the year.

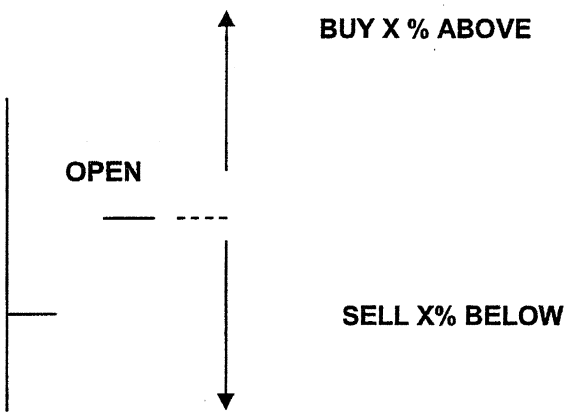
ENTRY TECHNIOUES Here are other approaches I use:

Short term swing points...I will buy/sell at the penetration of the last short-term trend point, as shown below. But again, keep in mind there must first be a set up of some sort; I will not take just any reversal.



RINGED HIGH AND LOWS--- We can identify a short term high as any day that has lower highs on both sides, a short term low as any low that has higher lows on both sides. None of the bars "on either side" can be inside days.

Volatility breakouts...generally speaking...when the market is "primed", I will buy at the open the next day + 90% of the previous days range. This can be a smaller figure for some markets, but year in and year out, it has been very good.



HOW TO IDENTIFY ALL SWING POINTS

A short-term high can easily be identified as any day that has lower highs on both sides of that day's high. (Inside days cannot be used)

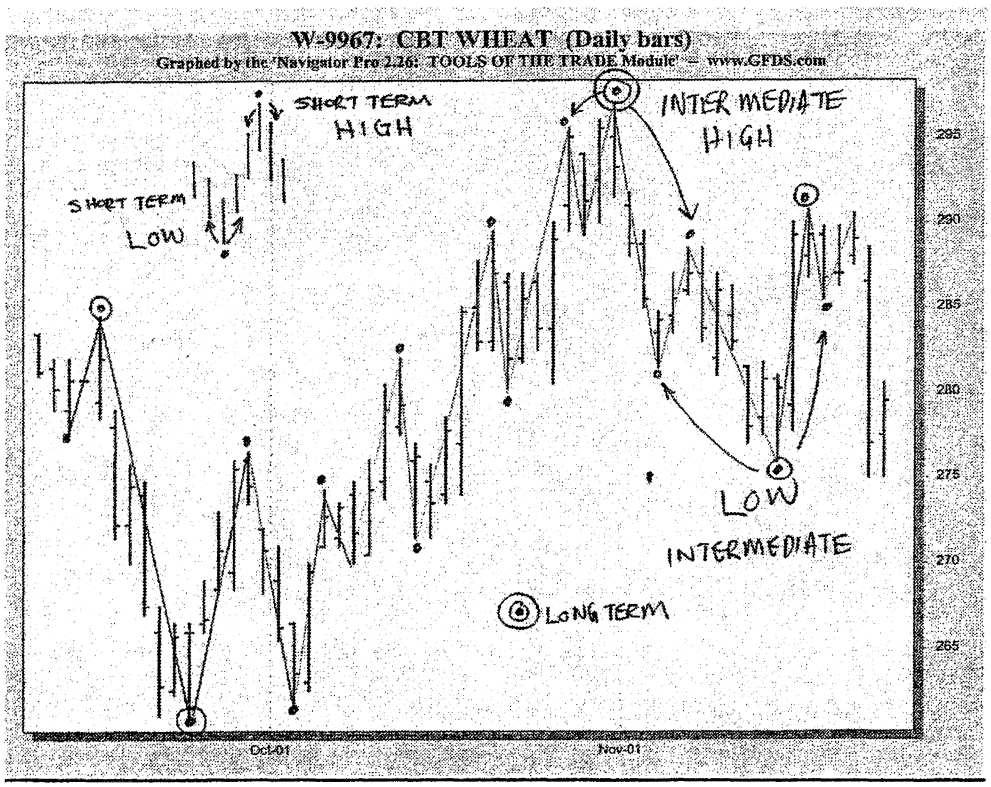
By the same token, a short-term low can be identified as any day that has higher lows on both sides of that day's low. (Inside days cannot be used)

This is a very important basic building block we can use to identify virtually all swing points in the marketplace. Once you have identified a short-term high, you then know that if you have a short-term high with lower short-term highs on both sides of it--- that high point is an intermediate-term high.

And when you have an intermediate-term high that has lower intermediate-term highs on both sides of it, you have developed, or formed, a long-term high. Intermediate and long-term lows are just a reverse of this.

The following diagram shows the ringing structure of how I ring or circle these short-term highs and lows to further develop the intermediate, and then long-term, highs and lows. Trend lines can be drawn using the two most recent short-term highs, or two most recent short-term lows… these are the key points we will use for our qualified trend line entry techniques.

As they say, one picture is worth 1000 words; it may serve you better to study the following "picture" to further understand this concept.



STOCHASTICS...THE MOST OVER-RATED TOOL OF TECHNICAL ANALYSIS

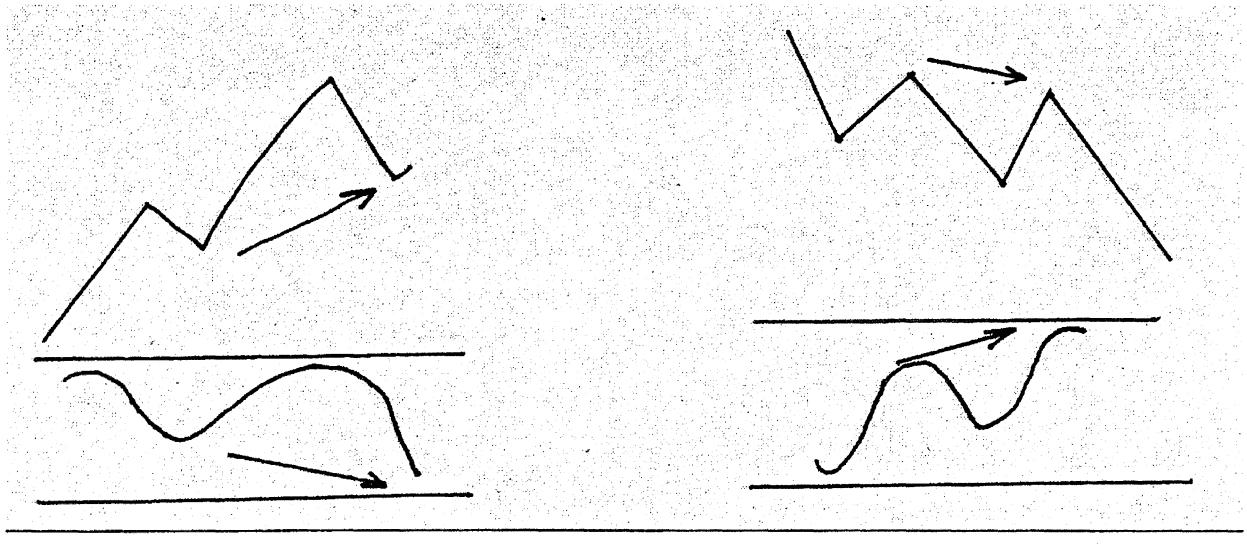
I am not much of a fan of oscillators of any sort. They are dangerous, they are treacherous, yet there is a place for them when used selectively, and here is that place:

1.) TREND TRADING WITH AN OSCILLATOR

What I'm about to show you works well with any of the standard oscillators. It is to simply buy when the index gets above 60%, sell when it falls below 40%. This is a good entry tool when the rest of our "work" tells us a top or bottom is at hand. It waits until the turn is made, but not too long, and will keep us in for a long-term trade, should that develop.

2.) VANDIV...The divergence signals that really works

Nick Van Nice showed me this excellent divergent pattern that can be used on short or long-term data. It is a new concept, so I will go slowly. A buy is established when price makes a higher low than the previous one, yet the oscillator makes a lower low. The reverse is true for a sell. Price will make a lower high, while the oscillator makes a higher high. I'm showing the basic pattern to look for and then actual examples.



BULL MARKETS AND THEIR DIFFERENCES

Not all bull and bear markets are the same. A Commercial driven bull market will have few pullbacks, and those will be short in time and price. Speculative bull markets will have major swings, up and down, along the way. They are not buy and hold markets, as are the Commercials. The way to tell the difference is the tight Commercial markets will have a premium, and/or the DMI will be rising as price rises; there will be Accumulation Line divergences in speculative bull markets at intermediate term highs and lows. The big "key" is the lack of pullbacks of any size; if that's taking place, you know you are in a Commercial driven bull market. One should also monitor the Commercial long/short position as well.

MY INSIGHT INTO CYCLES

Traditionally, chartists look for cycles in time, 30 days from low to low, etc. While these cycles do exist, the ones I prefer have nothing to do with time. They are as follows, and will help you determine the future direction of price.

HIGH/LOW CLOSE CYCLE...As price begins to decline; the closes are in the upper half of the range. Right at, or near the low, the close is at or near the low of the day. Then, as price rallies, the close "creeps" closer to the high of the day until it closes at or about the high, at which point the up swing is about over. Also note large range up days or weeks don't dip much below the opening; large range down days do not rally much above the opening.

RANGE CYCLE... There is a natural cycle on going from small ranges for a few days to large ranges, back to small ranges. Short-term traders want to await small ranges, take a position, exit with profits on large ranges, and then stand aside until small ranges again appear.

TRADING RANGE TO TREND...As above, prices spend a good deal of time in trading ranges...then have run ups or downs and go back into trading ranges. Trend runs "suck" in traders, when what we should await are trading ranges as they "produce" the trend swings we need.

MONEY MANAGEMENT...THE KEY TO THE KINGDOM

All the hot systems and winning trades in the world will not create massive wealth on their own. It is the ability to parlay winnings that creates fortunes.

The way I traded $10,000 to $1,1000,000 in 12 months was mostly due to money management, not arcane market secrets.

The secret to it all is that as soon as you have made more money, you must increase your number of contracts based on the new equity. As soon as you lose, you must cut back on the number of contracts.

YOU'LL NEVER LEARN TO FLY UNTIL YOU LEARN TO FALL...

There are several formulas you can use. The simplest is to take the margin required to trade, plus a system drawdown and trade one contract for that amount of money. Once you make that much money, start trading two contracts, then three, etc.; if you lose that much, then cut back one contract, and on and on it goes.

The problem with all of this is after a big string of wins, you will have way too large a position on for the inevitable loss. Then, as you have a string of losses, and have been cutting back, you will not have enough contracts at the start of the equally inevitable winning streak.

A solution to this has been provided by PORTFOLIO MANAGER, software developed by Mark Thorn now available from Genesis Data 1-800-808-3282 that allows you to test just about any combination of money management, as well as various elements of your system, like entries, exits, stops and the like.

One of Ryan Jones's solutions is to ***not increase and decrease*** the number of contracts at the same rate. As an example, if you increase one contract for every $10,000 gained, you might decrease, one contract for every $5,000 lost. This protects your winnings. Now the problem is if you follow an equity dip, you increase at the old rate of one contract per $10,000, it may be pretty slow going. So, Ryan suggests increasing once you have turned the corner and are making money again. The obvious solution is, once you have a win, to increase now by the same amount you decreased until you get back to the old equity high, then go back to the original game plan, increasing by the $10,000 amount instead of the $5,000.

ON THE END OF A LIMB AND SAWING IT OFF

The problem with and optimal F approach or fixed fraction of your account is that once you get on a roll, you roll too fast. Let me prove my point. If your average win/loss trade is $200 and you have 10 trades per month, and you increase on contract at every $10,000 of profits, it will take you 50 trades, or 5 months to add that first additional contract. Then only 2.5 months to go from

2 to 3, about 7 weeks to boost it up to 4 contracts, 5 weeks to jump to 5, one month to 6, 25 days takes you to 7, 21 days to 8 contracts... 18 days later you are at 9 and 16.5 days trading a 10 lot.

Then disaster strikes, as it surely must. You have now scooted out on the end of a limb and are sitting there with lots of contracts on while the limb snaps when you have a large losing trade, one 3 times the average of $200, or $600 per contract times the 10 lot so you just dropped $6,000. You have not given back $10,000 yet, so you trade a 10 lot on the next trade and lose another $6,000. Now in two trades you are down 12,000 from your equity high at $100,000.

The next trade is also a loser; 3 in a row, for the average of $200 times the 9 lot you are now trading and you get tagged for another $1800, let's call it $2,000, so you are now down $14,000.

Meanwhile a "smarter" trader decreases faster than you, cutting back two contract for every $5,000 lost. So on the first hit, he/she is back to 8 contracts, losing only $2,400, side stepping another $6,000 hit...and on it goes.

AND IT CAN GET WORSE BY FAR...

Let's take a winning system. It wins 55% of the time and you decide to trade 25% of your bankroll, starting at $25,000, on each trade. Wins are equal to losses at $1,000 each. Here's the way the trades played out;

$20,000 *.25 = 6 contracts on the first trade margin is always $1,000 in this example

1.	-6,000	15,000
2.	-3,000	12,000
3.	-3,000	9,000
4.	+2,000	11,000
5.	-2,000	9,000
6.	-2,000	7,000
7.	+2,000	9,000
8.	+2,000	11,000
9.	+3,000	14,000
10.	+3,000	17,000
11.	+4,000	21,000

You made $1,000, yet had a 65% drawdown, while a single contract trader would have dipped to $16,000, a 20% drawdown!

Let's look at another scenario where we hit it right from the get-go, winning 5 of 8 trades, a great deal, right?

1.	+5,000	25,000
2.	+6,000	31,000
3.	+7,000	38,000
4.	+9,000	47,000
5.	+11,000	58,000 (WOW)

6.	-14,000	44,000
7.	-11,000	33,000
8.	-16,000	13,000 WHAT??

Look at these...5 winners, 3 losers and you are down. How can this be; well, it's a combination of two things. One the money management that got you to the $58,000 also brought you down. Plus, I threw in a kicker; the last trade was just like what the market gives us all the time, a loss 2 times greater than the average loss. Had it been the traditional loss your account would be at $26,000. The smart trader who cut back twice the amount after the first loss would have lost $5,000 on trade 7, taking him to $29,000 and -$8,000 on the double hit on trade #8 to show a net of $31,000!

MONEY MANAGEMENT STRATEGIES

For years we have looked for the fastest way to get to the end of the game. What I have learned is that this is certainly the riskiest, and more importantly, correct money management should be about you and your comfort levels, not maximizing gains.

If you divided this amount, $20,000, by the drawdown of the system, let's say that's $5,000 so that you can trade four contracts and sleep at nights. That would be your starting point.

Now, when do you increase and decrease? The kicker is the largest losing trade---it will come back to bite you again---and sooner rather than later, so we need some protection. If our largest loss is, say, $3,000, this one trade, one contract can cause a 15% reduction of our $20,000; at 5 contracts, that's a $15,000 hit, consuming almost our entire equity dip cushion.

If money management is our only defense in this risky game, what type of shield can we employ to protect us from the largest loss?

In private talks with Ralph Vince, I learned that there are several things one can do. Ralph likes the idea of dividing the Kelley number into the largest loss to tell how much money one needs to increase and decrease contracts by. By and large the Kelley ratio number will usually come in at .30, so we will use that for all systems. If my largest loss is $2,500 divided by .30 means I need to make $8,333 to bump up to an additional contract.

This seems high to me; I might require just two times the largest loss generated in new profits to trade an additional contract. In this case, that's $5,000. Where the "truth" is no one knows at this time, but we are in the ballpark here by basing our ups and downs on the key ingredients of the system, not just % accuracy and risk/reward ratio as Kelley does. Both Ralph and I feel you need to make more than 100% of the largest loss before you can increase contracts. He may have hit the nail on the head with the Kelley relationship; it certainly is adaptable to all systems. (You may also consider dividing the largest loss by Kelley; in our example above, that's $8,333, and then dividing this in to the maximum equity dip you want. In the example above, that's $20,000/$8,333, telling us you can trade 2.4 contracts on your $50,000 account. Once you make $8,000, you will trade one more contract. An even more conservative approach would be to take

40% of the new equity, 58,000 *.40/8,333, which tells us we can now trade 2.7 contracts. This is probably the safest way to use these numbers.

I hope you get the point…this is not the perfect scenario, but it gives you room to create a money management program for you and your system...strategy will vary not only from system to system, but also from person to person, and now you can tailor your system to your comfort levels.

THE PROOF IS IN THE PUDDING...Now let's take a look at what happens when we employ such an approach in trading. We'll use a very simple system that buys on the opening every Monday if that opening is less than Friday's close. Our exit is standard BailOut with a $1,750 stop. Trading just one contract on all signals makes $79,200 with 69% accuracy and a risk reward ratio of .81. That's the first clip.

The Kelley formula gives us a number of about .30, so that divided into a maximum loss of #1,800 tells us we can "re-up" every $6,000. I stopped trading at 100 contracts. The next clip shows these results...$868,875 of profits, over 10 times more dollars gained. It took from 1/1990 get to 100 contracts. I stopped there and started over. The system has just now stepped to 2 contracts (12/20/96). Staying fixed at 100 contracts trading up hill now would have been an equity dip to $763,725, while one lot trading has made $11,850!!

//ALL TRADES-Test 1\\

Total net profit	$79,200.00		
Gross profit	$174,600.00	Gross loss	$-95,400.00
Total # of trades	172	Percent profitable	69%
Number winning trades	119	Number losing trades	53
Largest winning trade	$6,375.00	Largest losing trade	$-1,800.00
Average winning trade	$1,467.23	Average losing trade	$-1,800.00
Ratio avg win/avg loss	0.81	Avg trade (win & loss)	$460.47
Max consecutive winners	15	Max consecutive losers	5
Ave. #bars in winners	1	Avg. #bars in losers	0
Max closed-out drawdown	$-10,400.00	Max intra-day drawdawn	$-10,400.00
Profit factor	1.83	Max # of contracts held	1
Account size required	$30,400.00	Return on account	260%

//ALL TRADES-Test 1\\

Total net profit	$868,875.00		
Gross profit	$2494,275.00	Gross loss	1625,400.00
Total # of trades	138	Percent profitable	74%
Number winning trades	103	Number losing trades	35
Largest winning trade	$260,000.00	Largest losing trade	-180,000.00
Average winning trade	$24,216.26	Average losing trade	$-46,440.00
Ratio avg win/avg loss	0.52	Avg trade (win & loss)	$6,296.20
Max consecutive winners	15	Max consecutive losers	3
Ave. #bars in winners	1	Avg. #bars in losers	0
Max closed-out drawdown	-360,000.00	Max intra-day drawdawn	-386,250.00
Profit factor	1.53	Max# of contracts held	100
Account size required	2386,250.00	Return on account	36%

HOW TO DESIGN YOUR MONEY MANAGEMENT STRATEGY

Thanks to Mark Thorn, there now exists software that will tell you everything you ever wanted to know about how to best manage the dollars behind your system.

His software allows you to do just about any possible scheme of money management---and more importantly---also enables you to note which parts or rules of your system are the most efficient.

Of all the tests I have run, and we are talking thousands here, the simplest for the average guy or gal in the street is presented here;

TAKE 10% OF YOUR ACCOUNT EOUITY AND DIVIDE THIS BY THE LARGEST LOSS YOU WILL ACCEPT OR YOUR SYSTEM ALLOWS

If your account balance is $20,000, we know the 10% figure is $2,000. Divide this by the largest loss, let's say $1,000, which means you would trade 4 contracts. As your account balance moves up and down, so will the number of contracts you will trade.

This is the formula my 16-year-old daughter used to take $10,000 to $100,000 in 1997. Need I say more? Yes, traders would do better if they spent more time on this aspect of speculation, and less on buy/sell signals. It's money management that makes fortunes- --not systems. This is the most important data presented to my Cracking the Code members.

What do you think...has this lesson in money management been worthwhile???

CRACKING THE CODE "SHORT TERM" TRADING APPROACH

Short term trading is a complex and confusing business. A trader's mind and ego are constantly butted about by reality. That reality collision is the result of hopes and predictions of how life should be, running into how life is.

The problem will always exist, in my opinion, as a great deal of market activity, the gyrations of the dance, is totally random. Yes, totally.

Sure, the beat is there, but the cacophony is more chaotic than a pack of whirling dervishes. So what are we to do, give up ship? No way; this is too much fun to play. But it is the playing that gets us into trouble; hence, I suggest you keep this adage in mind:

It is far better to be on the ground wishing you were flying...

Than to be in the air wishing you were on the ground

BACK TO BASICS FOR BONDS-Short-term trading, as I see it, is very similar to long-term trading. What's needed is a basis to operate upon, an advantage, a bias or a tipping of the scales. There are many ways we can gain an advantage in the game, so let's begin at that point...establishing a bias...then developing trading rules around a known and provable condition that is the cause of market moves, not a consequence of them.

There are several such advantages we can use in trading U.S. Bonds, among the best are;

1. Trade Day of the Week
2. Trade Day of the Month
3. National Holidays
4. The Power to Gold
5. Specific Price Patterns

1.) ***TRADE DAY OF THE WEEK***---The following table reflects buying on the opening of each trading day of the week and exiting on the first profitable opening. Note that it is clear that some days are not so good, by and large, for trading.

DAY OF WEEK	+/- $ PROFITS	% WINS	AVERAGE $ TRADE
MONDAY	41,568	79	83

TUESDAY	32,951	76	73
WEDNESDAY	-18,615	73	-37
THURSDAY	-13,108	70	-26
FRIDAY	14,426	73	30

There are 52 Monday opportunities a year for trading, 52 Tuesdays and 52 Fridays giving us a total of 156 potential trades. Maybe we should just feast, upon these!

2.) ***TRADE DAYS OF THE MONTH AS WELL***--The same bias or advantage can be garnered from TDOMs. The first table lists buying on the opening of every TDOM; the second only buying if Gold has closed lower than 25 days ago. Clearly there is a difference; clearly a short-term trader should be alerted to these set up opportunities.

TDOM	$+/-	%Wins	Avg Profit	TDOM	$+/-	%Wins	Avg Profit
1	18,827	68%	72	1	15,507	70%	100
2	-22,641	58%	-107	2	-19,711	57%	-128
3	-41,047	56%	-159	3	-22,158	57%	-141
4	-18,547	60%	-71	4	10,457	60%	-67
5	6046	67%	23	5	12,500	70%	83
6	-28,297	61%	-109	6	-6060	62%	-42
7	-18,797	60%	-72	7	-6271	61%	-42
8	29,608	69%	114	8	6153	64%	43
9	17,640	69%	68	9	18,603	71%	126
10	7015	68%	27	10	8740	67%	57
11	-14,422	63%	53	11	5370	69%	36
12	-16,047	62%	-62	12	-3791	64%	-24
13	-11,016	63%	-42	13	1670	64%	11
14	-20,096	61%	-78	14	-7740	63%	-52
15	353	68%	139	15	808	70%	5
16	-7430	65%	-29	16	1545	69%	10
17	-3430	65%	-13	17	4605	68%	29
18	3822	67%	15	18	1406	67%	10
19	-4401	67%	-18	19	3610	68%	25
20	9166	65%	46	20	-4628	61%	-37
21	4531	68%	30	21	10,856	72%	120
22	2842	67%	31	22	8298	76%	162
23	3902	73%	169	23	4807	85%	343

3.) ***NATIONAL HOLIDAYS*** --There has been a clear-cut advantage to trading around the national holidays every year .Why, I am not sure, but since I was first alerted to this in 1962, and have seen it hold up---in real time trading---ever since, I'm trading these biases as well.

The results are quite good. The next tabulation reflects the trading strategy I will teach. These results are from 1978 forward, use a $1,400 stop, and exits on the first profitable opening. The $50,956 of profits, with a drawdown of only $1,978, is among the best I have ever seen. We only have 8 holidays a year, but they are dandies, netting a trader, on average, $2,500 + a year. If that doesn't sound like much, keep in mind that's about an 80% a year gain with only 16 trading days of "exposure" per year.

The rules below show the holiday, and how many days before the holiday to take action, as well as the best strategy, buying or selling on the open or the close.

HOLIDAY	DAYS BEFORE	OPEN OR CLOSE ENTRY
NEW YEAR'S DAY	Sell Close Third	TD Before Holiday
PRESIDENTS' DAY	Buy Close Fifth	TD Before Holiday
	Sell Open First	TD Before Holiday
EASTER	Sell Close First	TD Before Holiday
MEMORIAL DAY	Buy Open Fourth	TD Before Holiday
INDEPENDENCE DAY	Buy Open Fifth	TD Before Holiday
	Sell Open First	TD After Holiday
LABOR DAY	Buy Close Third	TD Before Holiday
THANKSGIVING DAY	Buy Close Fourth	TD Before Holiday
	Sell Close Sixth	TD Before Holiday
CHRISTMAS DAY	Buy Open Second	TD Before Holiday

EXPLANATION---As an example, the trade for New Year's is to sell on the close of the market three days before the holiday. Keep in mind "0" means the day before the actual holiday. For Easter, sell on the close of the day before the holiday. For Thanksgiving, buy the close on the 4th day before the holiday.

Data: DAY T-BONDS
Calc Dates: 01/10/78- 07/06/99

// ALL TRADES -Test 1 \\

Total net profit	$52,200.00		
Gross profit	$67,942.50	Gross loss	$-15,742.50
Total # of trades	190	Percent profitable	84%
Number winning trades	161	Number losing trades	29
Largest winning trade	$2,986.25	Largest losing trade	$-1,451.25
Average winning trade	$422.00	Average losing trade	$ -542.84
Ratio avg win/avg loss	0.77	Avg trade (win & loss)	$274.74

Max consecutive winners	20	Max consecutive losers	2
Avg # bars in winners	1	Avg # bars in losers	.2
Max closed-out drawdown	$-1,978.75	Max intra-day drawdown	$-1,978.75
Profit factor	4.31	Max # of contracts held	1
Account size required	$4,978.75	Return on account	1,048%

4.) **THE POWER OF GOLD**--Gold, or at least the trend of Gold, has a powerful effect on Bond prices. Not always, but often enough that it should be used to further develop the hot hand we are wishing to construct. I do not want to trade every day, only days that have the odds heavily in my favor. The trend of Gold does that. If we do this same study above but buy requiring that the closing price of Gold be less than 25 days ago we notice the following results;

DAY OF WEEK	**+/- $ PROFITS**	**% WINS**	**$+/-AV. TRADE**
MONDAY	25,883	84	187
TUESDAY	31,168	82	222
WEDNESDAY	1,037	74	7
THURSDAY	8,825	76	53
FRIDAY	22,075	81	133

S &P 500 TRADING RULES

TRADE DAY OF THE WEEK

As with bonds, TDW and TDOM reveal a great deal to the short term trader. The first table reflects buying on the opening and exiting on the first profitable close with a $3,500 stop for every day the week

MONDAY	$169,810	71%	230
TUESDAY	$39,927	65%	50
WEDNESDAY	$-33.842	65%	-39
THURSDAY	$30,592	65	35
FRIDAY	$-34,665	63%	-40

TRADE DAY OF THE MONTH

Some days of the month are better than others for buying or selling, as our next table exhibits. Here you see each TDOM, with our bailout and $3,500 stop.

TDOM	$+/-	%Wins	Avg Profit
1	4175	64%	20
2	-5505	66%	-27
3	-5970	61%	-29
4	16,867	67%	83
5	-31,490	64%	-155
6	-4412	62%	-21
7	14,170	70%	69
8	-7947	68%	-39
9	-16,210	62%	-79
10	48,202	69%	237
11	-10,535	60%	-51
12	12,262	68%	60
13	54,505	65%	268
14	-7282	61%	-35
15	11,307	66%	55
16	-32,915	60%	-162
17	17,205	70%	84
18	-12,927	66%	-64
19	25,635	64%	130
20	35,490	70%	209
21	27,922	73%	234
22	21,124	72%	286
23	7975	90%	398

THE POWER OF BONDS

Bonds, and interest rates, have more power on stock prices than anything I have yet uncovered. Here's some hard proof; we see each TDW now, but with Bonds in an up-trend, i.e., greater than 14 days ago;

MONDAY	$133,330	72%	239
TUESDAY	$58,650	65%	133
WEDNESDAY	$5,022	65%	10
THURSDAY	$15,597	64%	33
FRIDAY	$-6,792	65%	-14

It's the same story with TDOMS as the next listing illustrates. Here we have each TDOM, and then next to it, only trades when bonds were greater than the close 10 or 15 days ago.

TDOM	$+/-	%Wins	Avg Profit
1	-7292	61%	-52
2	-15,807	63%	-110
3	-12,280	60%	-87
4	10,030	66%	73
5	-16,207	68%	-122
6	21,040	66%	153
7	30,355	74%	237
8	5857	68%	46
9	-19,115	60%	-148
10	36,970	67%	260
11	8170	64%	58
12	12,017	70%	85
13	51,872	68%	378
14	12,137	65%	88
15	27,727	65%	202
16	-19,382	59%	-155
17	14,847	69%	111
18	-7567	64%	-58
19	26,657	65%	218
20	18,112	68%	152
21	7477	71%	93
22	15,860	69%	305
23	4385	92%	337

S&P HOLIDAY TRADES

Our Holiday trading strategy works well here too. The following table lists the holidays, with the entry rules. The exit was to bailout after holding for one day past entry; in other words, buy/sell today, hold tomorrow, then look to bailout. The stop is a very small $2,500 from entry hit.

NEW YEAR'S	Buy Open Third	TD Before Holiday
PRESIDENTS' DAY	Buy Open Third	TD Before Holiday
	Sell Close Second	TD Before Holiday
EASTER	Buy Close Second	TD Before Holiday
	Sell Open First	TD After Holiday
MEMORIAL DAY	Buy Close First	TD Before Holiday
JULY 4TH	Buy Open Fifth	TD Before Holiday
LABOR DAY	Buy Open First	TD After Holiday
THANKSGIVING	Buy Close Third	TD Before Holiday
CHRISTMAS	Buy Open Fifth	TD Before Holiday

Data: S&P 500 IND-9967 12/99
Calc Dates: 08/09/82 -07/02/99
// ALL TRADES -Test 1 \\\

Total net profit	$108,675.00		
Gross profit	$173,940.00	Gross loss	$-65,265.00
Total # of trades	170	Percent profitable	63%
Number winning trades	108	Number losing trades	62
Largest winning trade	$13,355.00	Largest losing trade	$-9,995.00
Average winning trade	$1,610.56	Average losing trade	$-1,052.66
Ratio avg win/avg loss	1.52	Avg trade (win & loss)	$639.26
Max consecutive winners	7	Max consecutive losers	5
Avg # bars in winners	1	Avg # bars in losers	1
Max closed-out drawdown	$-9,995.00	Max intra-day drawdown	$-9,995.00
Profit factor	2.66	Max # of contracts held	1
Account size required	$12,995.00	Return on account	836%

S&P 500 ADDITIONAL SIGNALS

First of month Bond-filtered trades -Buy the first trading day of every month from 1982 to 1998 with a 2-day exit and 90% of the range stop makes $182,350 with 56% accuracy and $991 per trade. That's good; even better is the exact same scenario except Bonds' close is greater than 32 days ago. Results: 59% accuracy, $147,925 and average profit per trade is $1,286. Also consider the TDOMs, month by month, when backed by Bonds.

OOPS! Day of Month -To improve, my OOPS! performance simply takes buys around the end of the month. Taking trades from TDOM 19 on makes $45,000, with 83% winners on 18 trades, and an average profit per trade of $2,500 with $2,750 stop and bailout. Taking signals on TDOM 4 through 7 makes a total $72,875 with over 80% accuracy.

The best TDOM sell days are 3,6 and 17 netting $56,675 with 77% accuracy, sporting an average profit per trade of over $800.

TREASURY BOND ADDITIONAL SIGNALS

First of month Gold filtered trades -Buy the first trade day of every month, since 1977, with a 3 day exit and $1,400 stop for $40,062 of profit and 55% accuracy on 241 trades, or just take these trades when Gold has closed lower than 5 days ago for 57% accuracy on 142 trades and $34,344 in profits. Average win jumps from $166 to $241, a 45% increase, while draw down plummets from $12,500 to $4,800. Also consider the TDOMs month by month, when backed by Gold.

OOPS! Day of Month -Same game here as with the S&P; combine the OOPS! signal with the strongest days of the month for some wonderful trades and further proof that a combination of non-technical ingredients makes for the best trading medicine. Best buys are TDOMS 1,4,17 and 19 with a total profit of $48,906, a hefty average profit per trade of $520, and 80% accuracy.

The best TDOM sell periods are TDOMs 1, 3, and 4 with $33,387 profits on 41 trades and an average profit per trade of $814. TDOM 16 is also hot with 83% winners on 36 trades, making $12,812, or $355 a trade.

SP 500

BEST SHORT TERM BUY DAYS OF THE YEAR

JANUARY	9	9/13	69%	10,710
FEBRUARY	4	9/12	75%	7,910
MARCH	18	12/13	92%	12,170
APRIL	2	10/13	76%	11,165
MAY	15	9/11	81%	9,075
JUNE	14	11/13	84%	4,135
JULY	17	11/13	84%	11,585
AUGUST	18	11/13	84%	9,260
SEPTEMBER	20	12/13	92%	13,545
OCTOBER	11	11/14	78%	12,725
NOVEMBER	6	13/15	86%	14,040
DECEMBER	12	10/14	71%	11,805

BEST SHORT TERM SELL DAYS OF THE YEAR

JANUARY	1	9/13	69%	7,295

FEBRUARY	13	12/14	85%	8,540
MARCH	15	11/13	84%	7,930
APRIL	14	10/11	90%	5,605
MAY	3	10/13	76%	5,825
JUNE	2	11/13	84%	17,085
JULY	15	13/14	92%	14,910
AUGUST	11	10/13	76%	7,285
SEPTEMBER	3	11/13	84%	10,465
OCTOBER	19	10/14	71%	14,450
NOVEMBER	7	11/13	84%	9,395
DECEMBER	21	11/14	78%	11,790

In the Bond Market I have found the best short-term trades to be those below. The rules are slightly different; buy on the opening of the day shown, plus 7% of the previous day's range added to the opening. Use a $1,800 protective stop or exit on any profitable opening after 3 days.

T BONDS BEST BUY TRADE DAYS WITH 4 DAY HOLD

JANUARY	15	7756	15/18	83%	-2050	3106	430
	7	10025	13/17	75%	-2018	3325	589
FEBRUARY	14	10150	12/17	70%	-3725	5075	597
MARCH	NONE						
APRIL	4	8443	13/18	72%	-5075	2950	469
MAY	21	11575	10/11	90%	-1862	3168	1052
	22	5250	5/5	100%		1450	
JUNE	6	15737	16/19	84%	-1862	5200	828
	1	7881	14/18	77%	-2143	4512	437
	17	7325	14/16	87%	-1862	1825	457
JULY	18	9106	13/16	81%	-1862	2356	569
	5	7962	16/17	94%	-1862	1981	468
AUGUST	21	6056	12/17	70%	-4662	2825	356
SEPTEMBER	20	15606	13/16	81%	-1862	4075	975
(19-19)	2	6012	14/16	87%	-1862	2293	375
OCTOBER	18(19,20)	14818	16/18	88%	-2081	3106	883
	15	8781	13/15	86%	-1862	2606	585
NOVEMBER	5	13662	15/18	83%	-1925	2387	759
	20	8993	10/12	83%	-2887	2887	749
	13	7800	12/14	85%	-1862	2548	557
	21	4418	4/4				
DECEMBER	10	12018	15/19	78%	-1862	5168	652
	12	11443	14/18	77%	-1987	4356	635
	14	11412	16/18	88%	-1862	2293	634
	15	6518	13/14	92%	-1862	1512	465

T BONDS BEST SELL TRADE DAYS WITH 4 DAY HOLD

JANUARY	2	12650	14/17	82%	-1881	2887	744
	3	9231	14/16	87%	-3525	2762	576
	20	8718	17/20	85%	-1987	2793	435
	22	6387	6/6	100%			
FEBRUARY	2	9268	15/19	78%	-4343	3793	487
	4	7043	12/16	75%	-1881	2856	440
	20	3381	3/3				
MARCH	1	10350	14/18	77%	-3756	5326	575
	5	9831	14/19	73%	-4068	3137	517
	18	4718	15/12	80%	-1862	1606	314
APRIL	11	12393	15/19	78%	-3725	3793	652
(10-14)	22	3381	3/3				
MAY	NONE						
JUNE	10	9100	14/18	77%	-4006	2918	505
JULY	3	7987	16/19	84%	-4000	3168	420
	11	7743	14/17	82%	-2387	2356	455
AUGUST	12	11293	15/16	93%	-1862	2575	705
	14	6643	16/19	84%	-3556	1793	349
SEPTEMBER	11	7450	14/16	87%	-1862	1981	465
OCTOBER	6	6412	15/18	83%	-2437	2731	356
NOVEMBER	NONE						
DECEMBER	4	13306	15/17	88%	-2175	3606	782
	20	9506	15/18	83%	-1862	2512	528
	17	8918	14/16	87%	-1862	1918	557

THE POWER OF % R

The year was 1966; I had begun actively trading, and even more actively keeping a myriad of market indicators. Having cut my teeth on Joe Granvilles' book, I soon expanded out to the tools of that era; the Dunnigan Thrust, Copcocks trend index, the Cutis Dahl moving average approach, and best of all, Gil Halllers work.

Acutely aware of my lack of market understanding led me into the T.S. Elliott wasteland of market indicators; oscillators. These little babies looked so perfect in calling market highs and lows. Then, as now, the authors dredged up charts showing how divergence between the oscillators and price "caused" market highs and lows.

"Egad", I muttered to myself, "This is it the perfect tool, just look at all the tops and bottoms these things called oscillators spot...I'm going to need more bank deposit slips."

In October of that year stocks bottomed and began a rip-roaring 18-month bull market. I was lucky enough to have been a buyer at the bottom, and did in fact use a few of those deposit slips.

About 5 months into the bull market, I saw on my charts what I had seen in the books.... stock after stock making new highs, 2 or 3 times in a row, while all my oscillators did not make new highs.

The books said this was a great sell signal...so I sold. Apparently the stocks I shorted had not read the books. They went higher, and higher. Some went much higher.

I scrambled around, covered shorts, got long, and back aboard the bull market. But, darn, I got "a hair cut" as traders in China say. (Of course, back then, China was under Mao and there was no stock exchange. Now there are more traders in China than the United States. Strangely, in many ways there is more freedom there now than here, even more so in Russia. Go figure, life and the markets take strange twists!)

The number one oscillator, then as now, was stochastics, developed by a fellow in Chicago, Ralph Dysant. (NOTE: George Lane now claims credit for the index; he was an office boy for Dysant). The problem with the index, that I saw, was that it took lots of math and calculations...remember back then we did everything by hand...so I wanted an easier version of this index. Allan C. Davis had also developed an index along these same lines, which gave me the thought to develop my own measure of today's close to the total market range of the last X days.

I hand been burned by oscillator divergence and wanted something better...hence %R was given birth. Instead of looking for divergences, I wanted a tool that told me when a stock or commodity was over-bought or over-sold.

THE FORMULA

The math of it all is quite simple it is expressed as

TC-LL /HH-LL

TC= TODAYS CLOSE HH= HIGHEST HIGH LL=LOWEST LOW

In short you subtract the LOWEST LOW of the time period chosen from TODAY'S CLOSE and they divide this by the range of the HIGHEST HIGH minus the LOWEST LOW of the time period. What we then have is an index that tells us where today's close is in relationship to the range of the time period.

When the value is greater than 75%, tops are usually near and when less than 20%, bottoms usually form. (Parenthetical note here…over the years, the formula has been reversed by some publishers. I use it as presented here.)

After using the index for some 36 years now, I feel I can make some observations about the index that can be helpful to other traders.

Initially I had succumbed to the "oscillator mentality," thinking it was a near perfect stand-alone tool. That notion was quickly dispelled when I saw it giving overbought indications and the markets rallied, and just as many oversold buy indications when price dropped further.

Even then, I could see this was---***at best, a tool***---and needed something to put it into perspective, as it did an amazing job of nailing many tops and bottoms…just not all the time was it correct. I needed something to weed out the bad signals.

What could that be? The notion I came up with was the underlying trend of the market.

I reasoned, and saw on my charts, the most accurate buys came when price was in an up trend, the best %R sells when price was in a down trend. I know, I know…that sounds pretty basic, but that was in 1966-67, and doing this by hand on charts kept by hand did not exactly give us a large base for study.

TWO PROBLEMS

We have two problems here; first we need to determine the best time period to use for the %R measurement…the number of days in the range…and some form of trend measurement.

Early in my career as a trader, I had made this simple observation:

The trend is the basis of all profits

Nice thought, but how do we apply this? My first concept was to only take %R signals in conjunction with the trend of the 50-day moving average. If the average was in an up trend, use the %R buys signals to go long and the sell signals to exit, but not to sell short. When the 50-day moving average was in a down trend, i.e., today's value was less than yesterday's, use the sell zone for shorting and taking profits, or tightening stops when %R entered the buy zone, but not to buy long.

The answer to the second question, what time period to use for %R was decided years ago by a process of elimination...I chose 10 days as the math was easier to do. It was 10 days then and 10 days now still works quite well. If you want more signals, you can use a 4-day time frame for the index.... want fewer signals, use a 14-day frame of reference to construct the index.

IN SUMMATION---The trading strategy is to FIRST identify the trend of the market, and then wait for %R to be opposite the underlying trend. If the longer-term trend is up, we want %R to be low...if the trend is down, we want %R to be high.

SPECIFIC ENTRY---*Now that we have our set up for the trade, we still need a specific entry point. The easiest one, for a buy, is to simply wait for the market to rally above the prior day's true high. This tells us a short term (ringed) low has been made, and a rally of some sort is underway.*

In short, I use a trailing stop above each day's prior true high, and do not count inside days. It's just the reverse for selling short.

On the sell side, this means we want a down trending market, %R to enter the sell zone, and then we can place our stop at the true low of the day %R entered the sell zone, and trail our stop up each day under the true lows.

The R 'n R System

Copyright 2003, Larry Williams

Ronald Reagan meets Roy Rogers...%R meets RSI and a Rock and Roll trading system emerges for short term overnight traders.

AS SIMPLE AS IT GETS---

TREND IDENTIFICATION---*We will use a 21-day Rsi (Wilder/Northcot) as our measure of trend. When it is greater than 50, we only take buys. When less than 50, we only take sells.*

BUY SELL ZONES---*Here we use a 4-day %R (Williams) as our measure of anti-trend, or to show a pullback within the primary trend as identified by Rsi.*

ENTRY RULES—*We have only three entry rules;*

1. *ORIGINAL OOPS!*
2. *DELAYED OOPS!*
3. *SHORT TERM "RINGED" (H.W. Chase) FORMATION*

EXIT RULES

$ STOP LOSS

%R GOING TO OVERBOUGHT/SOLD

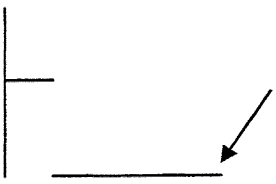
TRAIL A STOP AND PRIOR DAYS HIGH/LOW

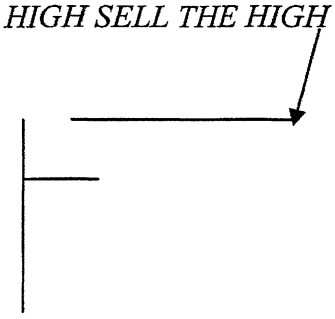
AN OPPOSITE OOPS! SIGNAL

An Explanation of the Entries...

1) **ORIGINAL OOPS!**----*For a buy, we must open below the prior day's low and then buy on a stop at that low. For a sell, we need to open above the prior day's high, and then decline to that high where our sell stop is elected;*

OPEN ABOVE THE HIGH SELL THE HIGH

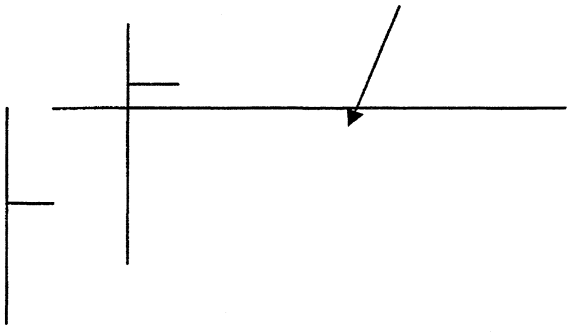


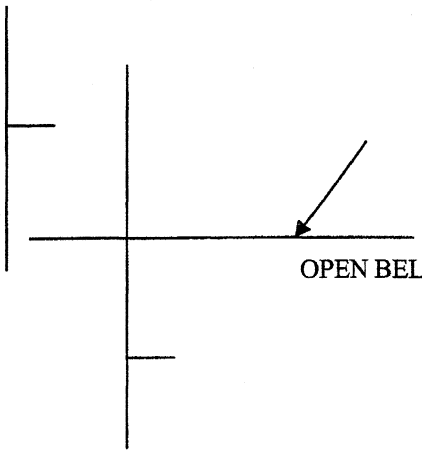


OPEN BELOW THE LOW BUY AT THE LOW

2) ***HIDDEN OOPS!***---For a buy we need to open below the 2 days ago, buy on a stop at that price. For a sell, open greater than the sell 2 days ago, then sell on a stop at that high.

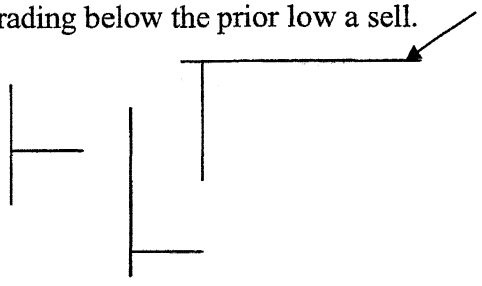
OPEN ABOVE THE HIGH 2 AGO SELL THERE

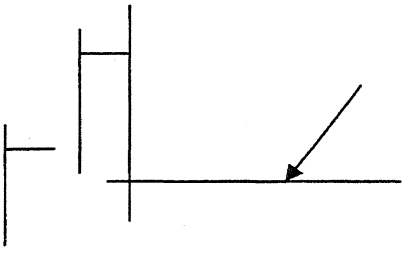




OPEN BELOW THE LOW 2 AGO BUY THERE

3) ***FORMATION OF A RINGED HIGH/LOW***---Trading above the prior days high a buy, trading below the prior low a sell.





SHORT TERM SET UPS

Proving again, that fundamentals matter

Bonds have a huge impact on stocks, even in the very short term, as you will soon see. Let's begin, though, with looking at the technical patterns of closing and opening relationships in just the S&P500.

If today closes higher in the SP and we buy on the next bar opening, exiting on the first profitable opening or a $4,500 stop (this is the exit for all trades discussed here) we would have "made" $44,735 on 1,049 trades since 1982 for an average profit per trade of $42.65. Our accuracy was 77.5%. If we bought following down closes in the SP the results are similar; 1,080 trades, profits of $48,023 and 77% accuracy with an average profit per trade of $44.

So, the direction of the close of the SP does not help up much.

Let's next look at just the direction of the next days opening to see what insight that might give a day trader. If we buy only on days that opened higher than the prior day we lose -$9,585 on 1,016 trades with 77% accuracy. Hmm...looks like higher openings are not all that bullish.

If we limit our buying to just days the SP opens lower the tables are turned upside down with 1,073 trades, the same 77% accuracy but we now have net profits of $112,165! Wow, the direction of the closes does not matter...the direction of the openings does.

BRING ON THE BONDS

Want to know when to buy? Consider this; if the next bar open in bonds is less than the prior days close and we buy the SP's on the open we lose -$62,108...buy if Bonds have opened higher we make $87,265. Easy to make up a rule here as well...the opening direction of bonds matter.

Hold on to your hats, this gets really interesting as we add the Bonds openings to the SP openings. If you buy when both markets open lower than the prior day you lose -$6,868 o 754 trades, a push.

However if you buy when bonds have opened lower and the Sp higher you now fumble away -$105,695 on 591 trades. Pretty easy to make up a rule here...the best days to look to sell short and higher SP opens coupled with lower Bond openings.

Two more relationships to look at; if the SP opens higher and bonds do likewise there were 724 trades showing a $37,743 profit. Good, but we can do better, buy buying when the SP have opened down and Bonds have opened higher. How much better? A great deal, as this test shows 617 trades and $150,610 of profits...telling us this is the best set up to be a buyer.

We can improve this using the same open relationships but demand the prior close was up for the day. This produces $114,103 profits on 393 trades while a prior down close shows 332 trades buy only $27,510 of profits.

The moral seems to be to forget all those technical mumbo jumbo incantations in preference to the bond market.

LARRY WILLIAMS PROTÉGÉ SP PATTERNS

Rule: two ups

IF Close > Close.1 And Close.1 > Close.2 And High - Close > High.1 - Close.1 And Close > Close.7 And Bonds < Bonds.3 And Tuesday Or Thursday
THEN SELL at Market

Rule: RS %R hidden oops!

IF RSI (21) > 35 And PercentR (4) < 25 And Next Bar Open > Low And Next Bar Open < Low.1 And Bonds > Bonds.3 Or Bonds > Bonds.20 Or Close > Close.17 And Outside Bar.5 = False And Close.1 > High.2 = False And Close > Low.6 Or Close > Low.7 And High.1 >= Close.2 And (Close < Low.1 And Close.1 < Low.2 And Close.2 < Low.3) = False
THEN BUY at Low.1 Stop

Rule: x days ago sell

IF Next Bar Open >= High.4 And Thursday = False And Bonds < Bonds.14 And Bonds < Bonds.2 And Outside Bar = False And (Open > High.1 And Close < Open) = False And Low > High.1 = False And Next Bar Open > High.1 Or Next Bar Open > High.6 Or Next Bar Open > High.8 Or Next Bar Open > High.4
THEN SELL at High.4 - Range * 0.05 Stop

Rule: MDC Day Trader Sell O>H

IF Next Bar Open > High And ADX (9) > 0 And ADX (9) < 44 And Not Monday And Not Wednesday And Bonds < Bonds.15 And CRB > CRB.8 And CRB > Close.6
THEN SELL at Next Bar Open - (Next Bar Open - Low) * 14% Stop

Rule: goofy gapper-1

IF Next Bar Open < Close And (Close - Next Bar Open) > Avg True Range (1) * 0.55 And MovingAvg (Close , 18) > MovingAvg (Close , 18).1 Or MovingAvg (Bonds , 50) > MovingAvg (Bonds , 50).1 And Next Bar Open < Close.1 And Abs (Close - Close.1) > Range.1 * 0.1
THEN BUY at Next Bar Open Stop

Rule: MDC SP500 21-IB2

IF (Monday Or Thursday Or Friday) And Not Outside Bar And (High < True High.1 And Low > True Low.1) = False And Bonds > Bonds.2 And Next Bar Open < True Low And Close > Low.7 Or Close > Low.3 And (Close < Open And Close > Close.1) = False And High - Close < High.1 - Close.1 Or Range < Range.1 Or Close > Low.4
THEN BUY at Low Stop

Trading Software for Sale & Exchange E-Mails: andreybbrv@gmail.com, anboan@ya.ru, ICQ: 70966433

Summary by Year

Jan 2, 2003 08:30:08

System Name: protege program
System Type: F
Data Type: Daily
Source: System Navigator
Developer: Larry Williams

Report Filters: Trade types: All trades, From date: 06/16/1982, To date: 12/09/2002, Ignore trades <= -99999, Ignore trades >= 99999, Profit is >=: 0, Ignore Big Wins 0, Ignore Big Losses: 0

By Year	Trades	Win Pct	Win Avg	P/L Ratio	Return%	AvgTrade	Net Profit	Drawdown
1982	6	100.0%	$261	261.25	54.6%	$261	$1,568	$2,870
1983	14	92.9%	$265	13.23	256.7%	$244	$3,420	$1,333
1984	9	100.0%	$183	182.78	350.0%	$183	$1,645	$470
1985	9	100.0%	$366	366.11	218.6%	$366	$3,295	$1,508
1986	10	100.0%	$634	633.75	169.8%	$634	$6,338	$3,733
1987	25	100.0%	$524	524.00	500.0%	$524	$13,100	$2,620
1988	15	86.7%	$307	0.36	63.5%	$153	$2,300	$3,620
1989	16	87.5%	$887	2.18	301.6%	$725	$11,605	$3,848
1990	17	88.2%	$647	0.26	87.4%	$278	$4,723	$5,403
1991	14	100.0%	$1,121	1121.07	416.3%	$1,121	$15,695	$3,770
1992	18	100.0%	$417	416.81	406.6%	$417	$7,503	$1,845
1993	15	73.3%	$453	1.27	104.6%	$237	$3,550	$3,395
1994	19	94.7%	$499	1.77	395.3%	$458	$8,708	$2,203
1995	13	100.0%	$581	580.96	258.6%	$581	$7,553	$2,920
1996	21	100.0%	$1,323	1322.86	1197.4%	$1,323	$27,780	$2,320
1997	25	88.0%	$3,041	1.06	730.1%	$2,331	$58,263	$7,980
1998	22	86.4%	$2,605	0.48	252.5%	$1,508	$33,185	$13,140
1999	19	89.5%	$3,480	0.81	474.4%	$2,662	$50,570	$10,660
2000	13	100.0%	$6,495	6495.38	1341.4%	$6,495	$84,440	$6,295
2001	26	100.0%	$3,693	3692.50	1839.2%	$3,693	$96,005	$5,220
2002	25	84.0%	$3,237	0.75	543.9%	$2,032	$50,800	$9,340

Trading Software for Sale & Exchange E-Mails: andreybbrv@gmail.com, anboan@ya.ru, ICQ: 70966433

System Navigator

Genesis Financial Data Services - (800) 808-DATA - www.gfds.com

Performance Summary

Jan 2, 2003 08:30:12

System Name: protege program
System Type: F
Data Type: Daily
Source: System Navigator
Developer: Larry Williams

Report Filters: Trade types: All trades, From date: 06/16/1982, To date: 12/09/2002, Ignore trades <= -99999, Ignore trades >= 99999, Ignore Big Wins: 0, Ignore Big Losses 0, Profit is >=: 0

OVERALL

Total Net Profit:	$492,043	Profit factor ($wins/$losses):	**9.21**
Total Trades:	351	Winning Percentage:	**93.2%**
Average trade:	$1,401.83	Payout ratio (avg win/loss):	**0.68**
Avg # of bars in trade:	2.11	Kelly ratio:	0.8305
Avg # of trades per year:	17.6	Percent in the market:	14.2%

WINNING TRADES

Total Winners:	327
Gross Profit:	$551,973
Average Win:	$1,687.99
Largest Win:	$15,455.00
Largest Drawdown in Win:	-$7,295.00
Avg Drawdown in Win:	-$850.01
Most Consec Wins:	72
Avg # of Consec Wins:	17.21
Avg # of bars in wins:	1.96

LOSING TRADES

Total Losers:	24
Gross Loss:	-$59,930
Average Loss:	-$2,497.08
Largest Loss:	-$6,845.00
Largest Peak in Loss:	$1,955.00
Avg Peak in Loss:	$601.88
Most Consec Losses:	2
Avg # of Consec Losses:	1.26
Avg # of bars in losses:	4.13

MONEY MANAGEMENT

Max. closed-out drawdown:	-$8,590.00	Max. intraday drawdown:	-$13,610.00
Account size required:	$13,610	Return Pct:	**3615.3%**
Z-Score:	-3.1	Optimal f:	83.0%
Begin Balance:	N/A	Equity Peak:	N/A
Ending Balance:	N/A	Peak to Valley dip Pct:	N/A