Chapter 3:

Price Measuring Techniques:

Measuring the proportional relationships between market trends (market highs to lows / and or / lows to highs) is the best way to begin with PRICE ANALYSIS using geometric pattern identification.

Price relationships will form in several different ways: -

1. Direct Wave relationships.

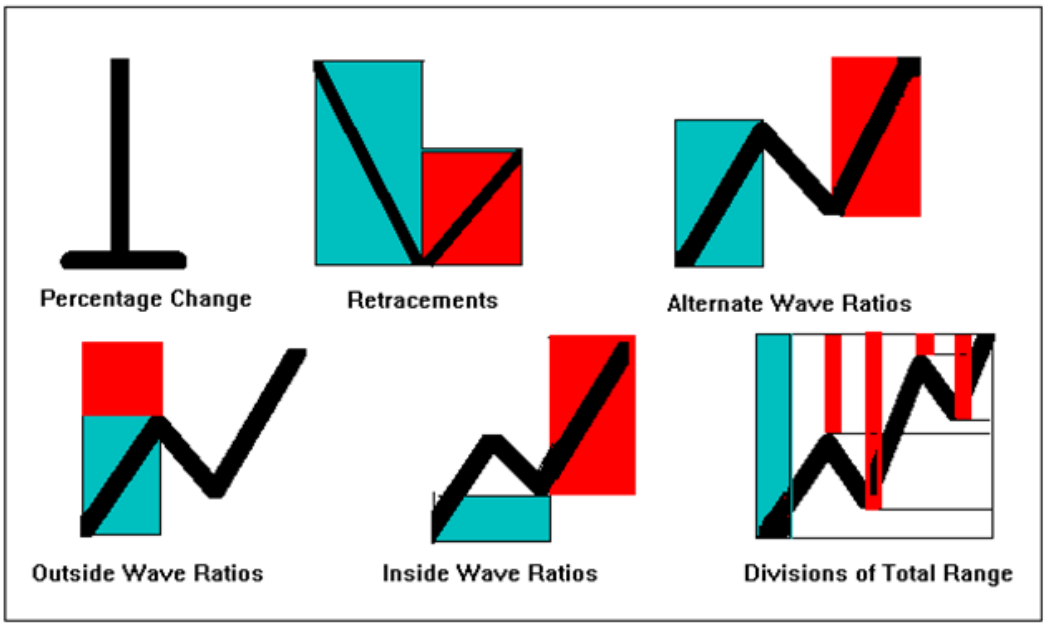
2. Diagonal Wave relationships.

3. Alternate Wave relationships.

4. Percentage Change relationships.

In each case we are comparing the price change in advances and declines as a ratio to each other using the sacred canon. (Sacred Geometry)

The following diagrams illustrate the ways in which waves of similar degree can relate to ratios of the Sacred Canon.



Waves in RED will relate to BLUE in Ratio

DYNAMIC PRICE RELATIONSHIPS

Each future market move is working out a price relationship to the past.

Sometimes the relationship will relate in price units, other times the relationship will relate in percentage change. When neither of these associations appears there will be a relationship between VIBRATIONS. We will discuss vibration in a later chapter.

R.N ELLIOTT states in his theory, "All waves of similar degree will relate in TIME & PRICE amplitude."

When dealing strictly with price it means they can relate in: -

PRICE UNITS or a PERCENTAGE CHANGE ratio.

In any completed trend it should be clear that PRICE has related on ratios of the sacred canon. If not then the trend is incomplete in that degree.

DIRECT PRICE RELATIONSHIPS

These are commonly known as price RETRACEMENTS. This is the first place to start with, mainly because this is the first introduction any chart reader gets to price analysis.

Ever since I can remember, any technical analyst I ever met, knew about price retracements. Mostly their knowledge was limited to simple relationships such as 38.2%, 50% & 61.8%.

For instance if a market rose in a bull trend 100 points, then reversed trend and found support 50 points below the high it would have made a 50% retracement.

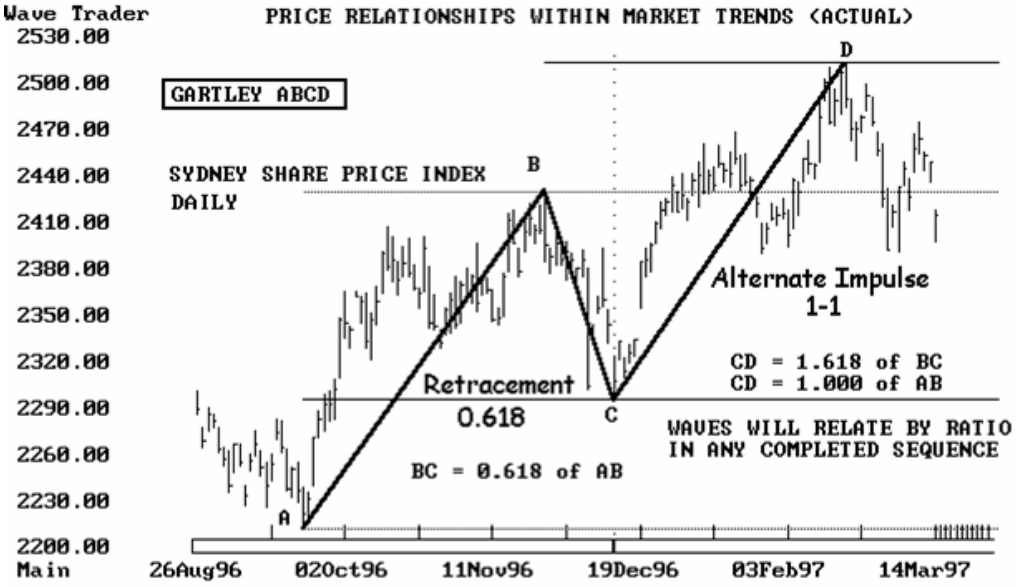
Unfortunately for most traders and analysts who have a limited knowledge of price retracements, the sign for a reversal of trend depends on numerous factors other than just a singular random ratio.

These factors are: - the unfolding geometry of price & time. Analysts who trade 50% retracements for a reversal without any other knowledge will lose money in the market 4 or 5 times out of 10.

If you have been taught, to expect a reversal of trend at a retracement of 50% of the prior move, you will already be aware that trades taken at these levels have less than a 50% probability of success. Sometimes they work for a few days but then the market moves on and breaks the 50% support.

Typically the same probability applies to the 61.8% and the 38.2% levels.

This is not to say that they won't work at all it is just that the evolving geometry rotates around the sacred canon of ratios and there will be plenty of occasions where retracements terminate on ratios of 33.3%, **44.7%, 57.7%,** 66.7%, **70.7%** and 78.6%.



DIAGONAL PRICE RELATIONSHIPS

These types of price relationships are 3rd dimensional in the context of the market movement.

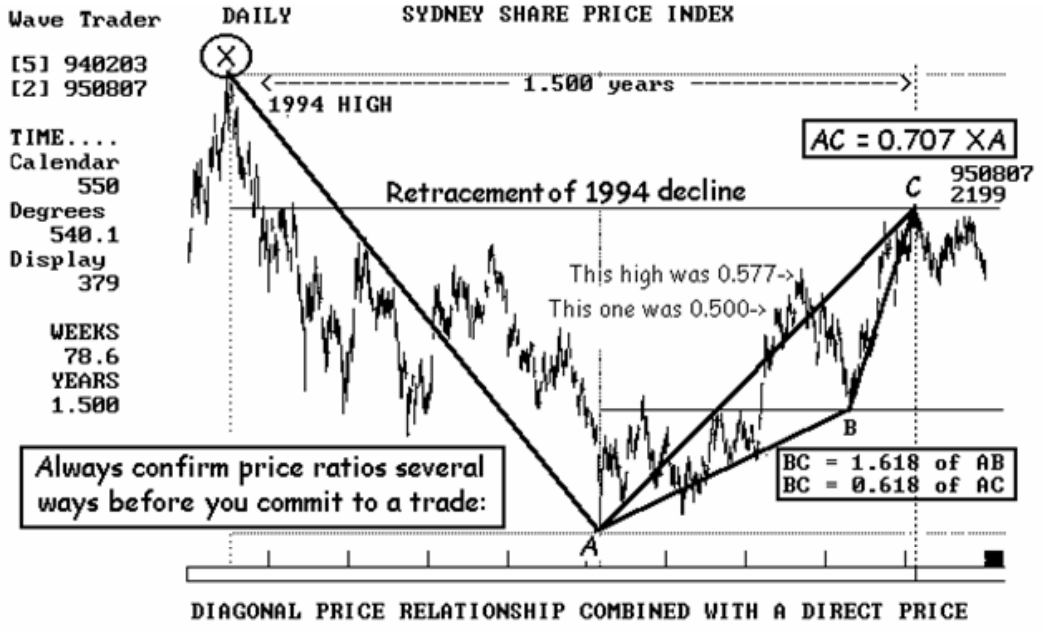
It would be great if the only ratios were 0.382, 0.500 and 0.618, 1.000, 1.618, 2.000 but this is not the case in the real world!

Nevertheless the above ratios do signal changes in trend 33.3% to 40% of the time.

The market is a continuous spiral of activity. Price relationships between significant highs and lows oscillate from one series of ratios to another.

The best way to confirm a PRICE is with two or more confirmations. At the same time confirming a combination of TIME CYCLES.

When the Sydney Futures Exchange contract for the Share Price Index - Futures contract for hedging the All Ordinaries Index - made high on 7th August 1995 at 2199 the PRICE relationships were working internally as well as externally.



A signal like this confirms the 0.707 retracement level of the 1994 Bear market as important. A tradable move came after it. Looking back a bit the previous major correction was signalled on the 0.577 level. 0.707 is the inverse of 1.4142 and 0.577 is the inverse of 1.732. A trained eye can appreciate the connection. The diagonals were running on the geometric series 1.618 and 0.618 so it was obvious that this 2199 high didn't occur on random numbers.

When you have the confidence the numbers are all present you can trade the reversal in trends easily. You don't need many a year to get a good wage. All you have to do is keep a record of how the waves are relating from the past to stay on top of what is most likely to happen next.

In the 1st edition of this book I probably thought that so many of my students knew all this – I have since become convinced that very few people grasp what I am on about so it is now time to set them straight.

The way markets unfold with clock like precision has always fascinated me – they just keep doing it time after time. The other thing to remember is that when something geometric like happened at the 2199 high occurred is this. If by chance the 2199 high was exceeded almost immediately within a day or so, it would also tell you the market was going higher. A fine living can be made from this knowledge also. I am always telling my students to think about the options and go with the flow, some do others don't.

ALTERNATE PRICE RELATIONSHIPS

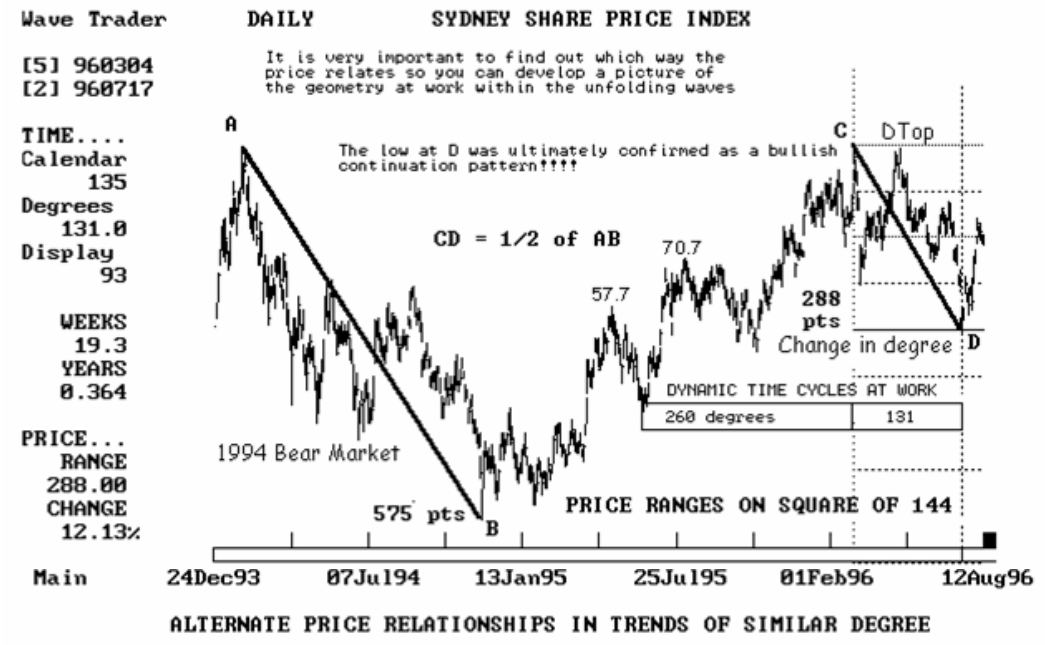
These types of price relationships are really a direct result of what went before in the context of the market momentum. Whether the alternate wave was a correction or it was an impulse should determine the possibilities. Corrections should decrease in magnitude if the trend is strong and impulses should increase in magnitude if the trend is strong. We can learn much about a market just knowing this much alone.

The rules are this: -

1. When corrections exceed the 1-1 of the prior correction the degree of trend has changed.
2. When impulse moves exceed the 1-1 of the prior impulse the trend is strong and the next target is possibly the 1.618, maybe even 2.000.
3. Always expect a reaction whenever the market reaches a 1-1 with an alternate wave of similar degree, if it does not come just keep going with the flow to the 1.272 and then the 1.618 and the 2.000.

When TIME is up PRICE should confirm it.

July 17th, 1996 the Sydney Share Price Index made low at 2086 on very strong TIME.



The points decline from the previous highest high in the bull market from 1994 was 50% (288) of the total points decline in the 1994 bear market (575).

Incidentally both values are on the Gann progression of 144.
144, 288, 432, 576, 720, 864, 1008, 1152, 1296, 1440

This is impressive behaviour for a market that is considered "random" by most people I encounter outside of the technical world. It should be becoming clear to readers by now why I loved to trade this market for years.

I have now given it up for the S&P due to volume considerations. But it was very good to me over the years. The S&P is just as good ratio wise as are all markets for that matter. All you need to do is follow what I am teaching you and get inside each markets head to stay in control.

Sometimes the numbers in price ranges hold a special significance to certain markets. As far as this market is concerned the "square" of 144 appears and reappears time after time.

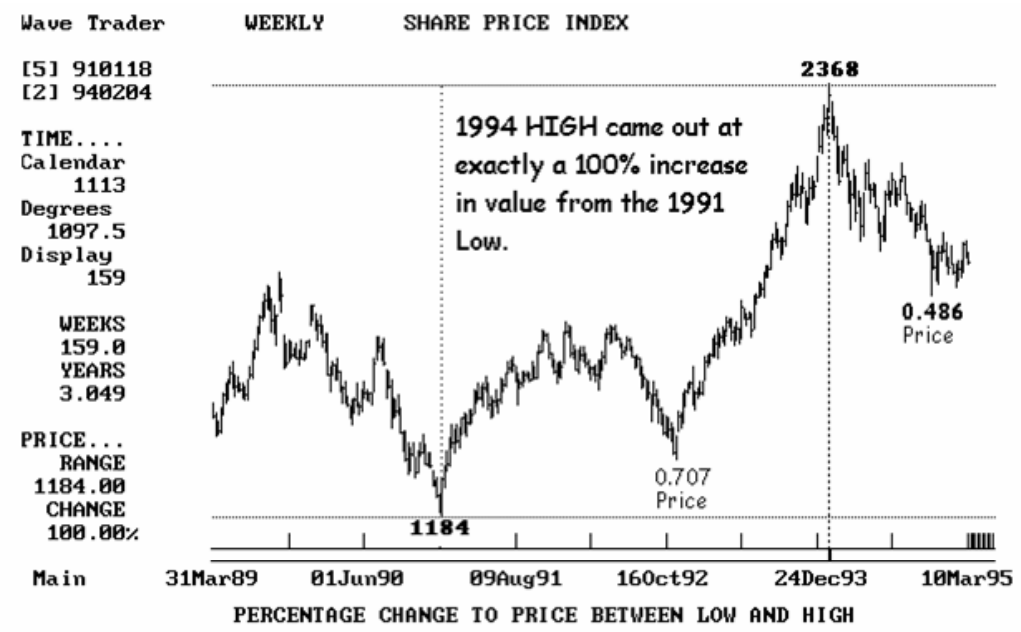
Other often repeated numbers are 72, 90, 180, 216, 224, 256, 512.

PERCENTAGE CHANGE TO PRICE

Percentage change to price between market tops and bottoms can often be a useful technical indication there is an order within the unfolding patterns.

GANN states in his teachings that price support and resistance occurs naturally at levels associated with the important ratios we are using for the dynamic time and price calculations.

For instance a 100% increase in value in a long-term trend would be a strong resistance level. Conversely a 50% decline of value would create a strong level for support.



The gains made in the SFE-Sydney Share Price Index between the 1991 low of 1184 and the 1994 high 2368 was an exact increase in value of 100%.

10%	25%	33.3%	38.2%	41.4%	44.7%
50%	57.7%	61.8%	66.7%	70.7%	100%

Common expansions in value can be found in most markets. Currency markets tend to work to percentage gain or loss in major trends.

DYNAMIC PERCENTAGE CHANGE RELATIONSHIPS

Percentage change can be used to examine dynamic price relationships in trends of similar degree, in the same manner as price units.

Often when a relationship in price units cannot be found, the answer lies within the percentage change relationships.

Percentage change is a second dimension factor of price.

Whichever way the price of a commodity, stock, index or currency is quoted will often affect the way the geometry unfolds.

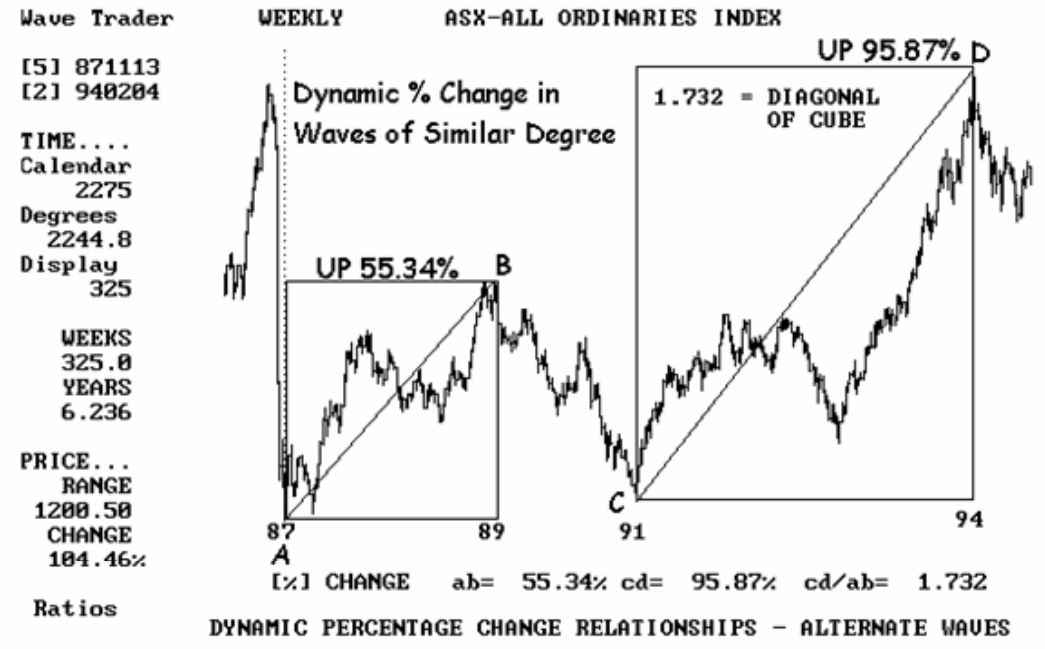
For instance, an old example from my second book Geometry of Markets II comes to mind when the IMM Deutsche Mark 1st Month Continuous contract made perfect geometric percentage gains and falls in three major degree waves.

The final leg squared time and price on a 61.8 and 38.2 conjunction.

I remember it well because I predicted the reversal in advance, you can verify that one with Larry Pesavento, it was right on the March Equinox as well. The funny thing the day the low came in was the live quote print was the exact level of the 61.8 and then after the market closed they adjusted the low up 1 tick as a bad print.

Didn't matter to us as we had bought it anyway on a limit order aimed at catching the offer price 3 ticks above the 61.8 with a 6 tick stop loss in case it ran threw.

Here is another example of Dynamic % Change in alternate market campaigns at the 1994 high in the Australian All Ordinaries Index.



I didn't have any influence on the high price but when you analyse the price activity it becomes difficult to dismiss it as random behaviour.

Geometry of Price

Use all of the tools all of the time. CycleTrader makes the interrogation of price relationships swift and simple. It is not often I would miss a major turn in the markets I track.

Whichever way the price relationships unfold can be difficult for us to predict in advance until we are nearly at them - time cycles will be the deciding factor to confirm there validity.