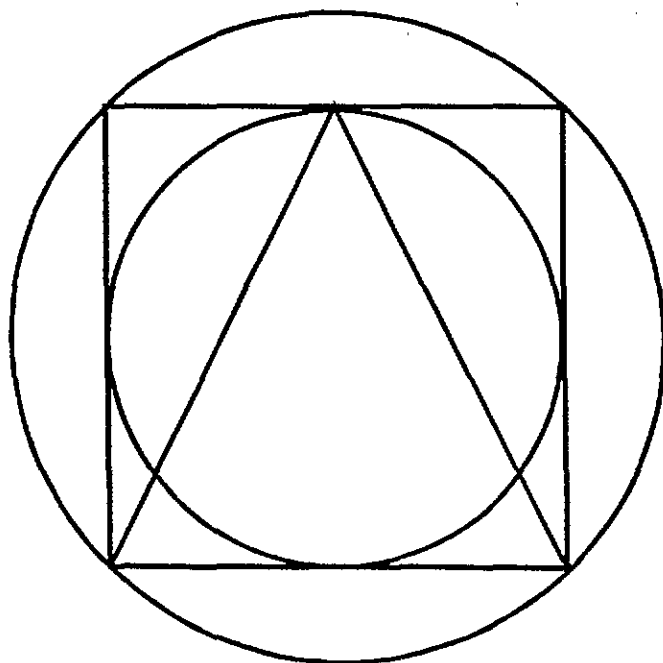


***THE
AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION
NEWSLETTER***



JULY 1993

ATAA

NEWSLETTER

JULY 1993

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This Issue

Co-Editor, Dawn Bolton-Smith
Production, James Slack-Smith

PRESIDENTS ADDRESS

Fellow Analysts,

As water flows so does the mind of man in determining the likely direction of markets.

Your Association strives to provide the means to facilitate the interaction of technical analysts and traders in providing a forum for the interchange of ideas and techniques. As an independent organisation we are able to enlighten those who have reason to seek, and in so doing transcend to a higher plane of understanding.

One of the many challenges traders face is the crystallization of a trading plan. Only through knowledge and action will one be able to develop a philosophical trading approach. Our 1993 Technical Analysis Course lays the foundation for developing the required technical skills for analysing market behaviour, and further advanced seminars are planned for the coming year.

Members intending to travel to New York in October for the annual International Federation of Technical Analysts (IFTA) conference, are urged to contact Charles Alexiou, our IFTA co-ordinator, who will put you in contact with other ATAA members attending the conference.

The Executive committee continuously receives requests for information regarding the sourcing of historical and current data for stocks and commodities. In one of the forthcoming newsletters we intend to publish a comprehensive list of data vendors and specifications regarding pricing and availability which will be useful for members to evaluate each vendors products. Data vendors are welcome to submit information regarding their services and products to the editorial committee.

The ATAA BBS computer network which was designed for the electronic communication and program data transfer between members both locally and through the International Technical Analysis Network (TA-Net) has been discontinued. We apologize for any inconvenience this may cause some members. The system will be reviewed at some later stage should demand dictate its renewed operation.

Wishing you all a prosperous new financial year and remember,

...the truth will set you free.

Best wishes,
Charles Balas
President

WELCOME

Welcome to the following new members :

Mr Donald Mole Of Thomson Financial, Sydney

Mr Ted Chen of Thomson Financial, Sydney

Mr Paul Kent of Thomson Financial, Sydney

Mr Greg Down of Wembley Downs, WA

Mr Mark Harding of Kings Cross, NSW

Mr Anand Pon of Merrill Lynch, Sydney

Mr Brian Conroy of Erindale, SA

Mr Bruce Stillard of Cobram, VIC

Mr Terry O'Neill of Darwin, NT

Mr William Vernon of Kensington, NSW

Mr Nigel Hobbs of Research Technology, Sydney
(Our first Res. Tech. member!!!)



VIDEOTAPES LIBRARY

The ATAA is building up a collection of videotapes that will be available for members to borrow.

Currently two tapes are available:

"What it Takes to be a Great Trader" This is an address given by Jack Schwager to the US Market Technicians Association. It is based on the observations he made when compiling his popular book "Market Wizards". The tape was reviewed in our January 1993 Newsletter on page 38.

"Technical Analysis in Just 52 Minutes" by Dr Alexander Elder, a professional trader, teacher of technical analysis and practising psychologist. The tape provides a broad introduction to technical analysis. It includes basic chart patterns, trendlines, support and resistance, computerised analysis, trend following indicators (focus on moving averages) and much more. This video was shown at the June ATAA meetings in Sydney and Melbourne and will be reviewed in more detail in our next Newsletter.

We hope to add to our collection of videotapes as the opportunity presents itself.

These videotapes are both in VHS format and are available for loan to ATAA members free of charge. You are only asked to pay the postage to return them promptly when you have finished watching them.

If you would like to borrow either videotape, contact Colin Nicholson at Sydney meetings or on (02) 436 1610.

THE DAWN REPORT

We have now passed the mid-point, the Winter Solstice for the southern hemisphere according to Gann Time. Our calendar year for the Association has certainly had its share of excellent guest speakers with David Fuller getting us off to a good start. For future months we can look forward to hearing from Les Hosking, Chief Executive of the Sydney Futures Exchange, Russell Lander well known as "Chartist for the Bulletin" as well as a long term investment advisor for July and August meetings. Our own Colin Nicholson could take the September spot with Campbell Gorrie who has just won the award for the best Technical Analyst in Australian Business Monthly speaking to us in October.

As co-editor of this issue of our new look Newsletter which is surely to meet with members approval, I have been ably assisted with production by James Slack-Smith. We really have more articles than space so there will be some carry over to the next issue. The recent Financial Review cartoon on David Fuller will no doubt meet with some chuckles.

Colin Nicholson has been doing a superb job of reporting our Guest Speaker Meetings. Not an easy task but one we feel is worthwhile for our members both local, country and interstate to benefit from these occasions. You cannot take a crash course in experience but hearing from veterans can speed up the learning curve.

Pages 27 and 28 have been devoted to the commencement of the 1993 gold bull run with appropriate illustrations from my hand posted charts and indicators which will surely be of interest particularly to some of our newer members.



Line honours must surely go to Phyllis Khan, Editor of Gann Angles who recommended buying December Gold and Silver call options 15/16th March 1993 and then opening futures positions once they started to move.

David Fuller of FULLERMONEY and Richard Russell of the DOW THEORY LETTERS had been warming to gold positions, coins, shares, bullion and futures for those temperamentally suited to them. Our own Merrill Armstrong of TRENDEX had indeed latched on to "baby bull" for gold before May's brilliant caption GOLD'S RUN HAS ONLY JUST BEGUN.

These worthy Newsletters should be regular reading for our members and high on subscription lists and in this regard some good news from my long term associate Richard Farrington of I.P.I. Pty. Ltd., 74 Campbell Street,

Surry Hills 2010 (Phone (02) 281 9400, Fax (02) 281 0376) He is prepared to offer A.T.A.A. Members a 10% discount on subscriptions and will send sample copies for you to view. A good way of determining whether a Newsletter suits your requirements.

We have a special paper on Financial Crises and The Number 56 and Business Cycles and The Number 56 sent to us by Mr. David McMinn of Nimbin but due to space and copy deadline will be published in our next issue. Mr. McMinn is prepared to give the paper at our monthly meeting yet to be advised. He has done some remarkable work on long term cycles. Indeed the 56 year cycle correctly predicted the crash of 1987. (The Economist reference enclosed). This cycle also predicts a crash for 1993 (Sequence 09) and the NY & London markets are looking very shaky - The Dow Jones and the FT 100 are still trading near record highs and P/E ratios for the NY market are at historic highs. All it will take according to Mr. McMinn will be a radical shift in mob psychology for the bubble to burst. Sequence 09 - lists the following:- 1769 French crisis (February 1770), 1825 Panic After Inflation (England - December) 1881 Union General Failure (France - January 1882) 1937 US crisis (September), 1993 ? Crisis.

Your co-editor has also observed that our P.E. Ratios and Dividend Yields are approximately the same level as they were at 30/9/87!

Dawn Bolton-Smith
Vice President



Please Have Some Ore

Those distrustful overseas investors seem to have long memories about Australian mining entrepreneurs.

David Fuller, the Britain-based American chart reader, has been recommending that everyone should be holding some gold shares.

"There are plenty of mines... just make sure they have some ore. You don't want to buy some moose pasture in Canada or kangaroo patch in Australia," he advised his clients.



SELECTING THE BEST MARKETS TO TRADE

WILL SLATYER ADDRESSED THE SYDNEY MEETING OF THE ATAA ON 19 APRIL 1993. HIS ADDRESS WAS AN EARLY DRAFT OF THE

PRESENTATION THAT HE IS PREPARING TO GIVE TO COMPUTRAC'S TAG XV CONFERENCE IN LAS VEGAS LATER THIS YEAR. WILL'S ADDRESS HAS BEEN TRANSCRIBED BY COLIN NICHOLSON.

Bearing in mind the reception when David Bowden told us last month about his bank manager, I do not want to dwell too much on my past. However, I need to tell you a little bit about me, so that you know where I am coming from when I am presenting the system to you. I have basically been a risk manager for thirty years. Some of you may have seen other presentations I have done. I have done them from a risk manager's point of view, because I am not a speculator. I really do not have the psychology for it.

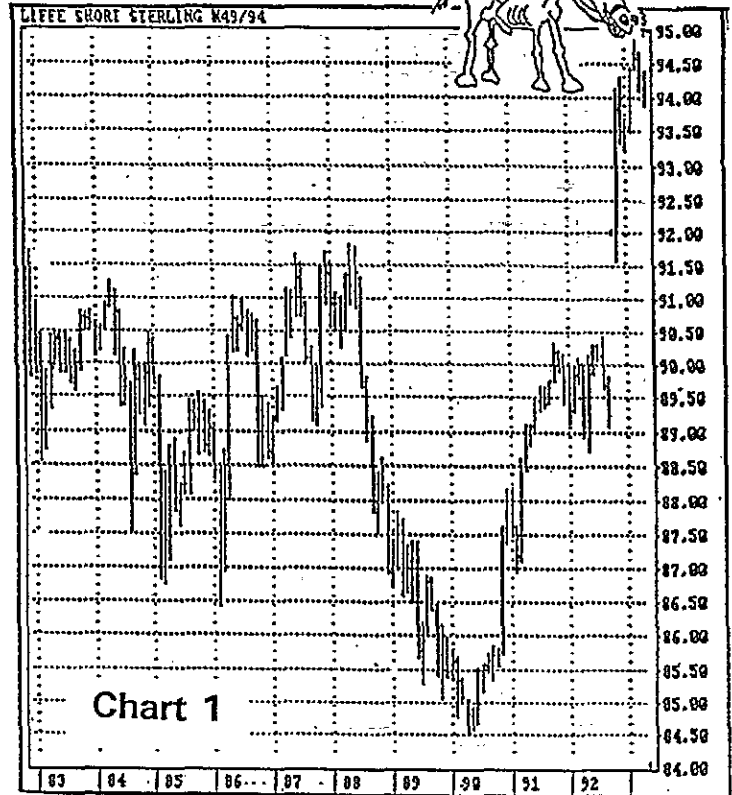
What I have learned over those thirty years is that to succeed, one must do what other people are unwilling to do. One must take risks, but with proper planning, risks can be minimised. I used to be a Navy diver. I was taught to plan your dive and dive your plan.

After I left the Navy, I joined a Japanese trading house, where I sold wool forward, knowing that if prices rose, I could cover my company's risk in the futures market. I had a plan to tell me when to cover that risk. That plan helped that trading company become the world's largest greasy wool trader. One part of the plan was a combination of two moving averages: a fast moving average crosses through a slower moving average to give an unequivocal buy or sell signal.

Later, I was a futures broker with Jackson Securities for close to ten years. As a broker, I discovered the difference between hedgers and speculators.

Hedgers like moving averages, because the unequivocal signals allow them to hedge when they are at risk, but reward them taking planned risks with profits when the market moved in their favour. Speculators, on the other hand, generally found moving averages boring. In particular, the dealers on my desk. They wanted to be in and out of the market quickly, using short term indicators and the latest rumours.

Most speculators lose money in futures markets because they crave excitement. They are often unwilling to accept the discipline that trading systems impose. However, disciplined trading can be exciting. Given a bull market, it is a ride on a young stallion. By the time the market has reached its peak, that ride tends to be that of a tired old



gelding. Chart 1 shows the short sterling, sterling three months.

The rise has been since 1990 and I can tell you that, within the next three months, there is going to be quite a rise in interest rates in Great Britain. That market is a tired old gelding at the moment.

Then the market turns into an exciting bear market. We definitely need a young stallion to ride the bear market, like the man from snowy river:

He sent the flint stones flying, but the pony kept his feet
It cleared the fallen timber in his stride.

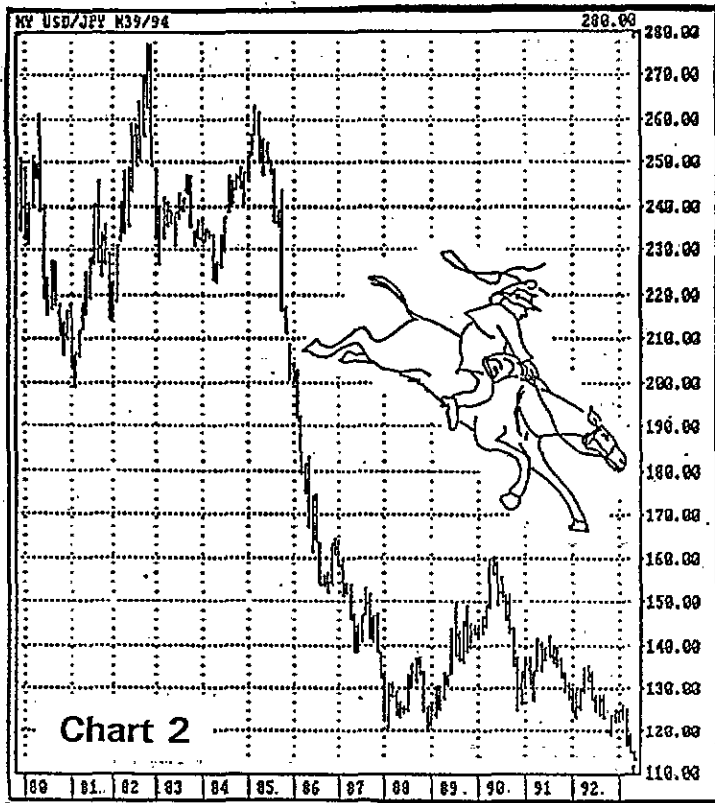
The man from snowy river never shifted in his seat,
It was grand to see that mountain horseman ride.

Through stringy barks and saplings, on rough and broke ground,

Down the hillside at a racing pace he went.

He never drew the bridle till he landed safe and sound
At the bottom of that terrible descent.

Refer now to Chart 2, which shows the US dollar against the Japanese yen.



Are we at the bottom of the terrible descent?
 One thing that I have learned is that bear markets can quite often be much more exciting than bull markets.

Later, in the foreign exchange bull and bear markets, I found that corporate treasurers were not all that interested in the technical analysis that was behind the recommendations. They did not want to know whether it was the fifth wave, the fourth wave or whatever. They wanted buy or sell signals on which they could rely.

So, I spent most of the 1980's, apart from earning some money, developing a black box computer system, based on moving averages, which gives unequivocal buy or sell signals. No analysis, just the signals. Some of you saw the system demonstrated last year.

When I tried to market this proven system, I found that speculators had taken over the treasury dealing rooms from the prudent corporate treasurers. The majority of young dealers, more interested in excitement and obsessed with the latest electronic wizardry, were not interested in the boring hedging systems which, no matter how successful, might only trade ten times a year.

During the development period of this hedging system, I was advising a number of corporate clients without large

treasuries. The chairman of one of these companies retained me personally for international investment advice. While developing an investment program for him, I realised that hedgers basically had no choice in markets. They are stuck in whatever market they are in. However, liquid investors can choose the most attractive markets and then manage the risk. The world is their oyster.

To follow my investment philosophy of being in the strongest market in the strongest currency, I needed a method to compare diverse markets, such as German bonds with Japanese stocks. The key to this method was a task on CompuTrac, which we called FIRM ROC. ROC stands for rate of change. This routine calculates the rate of change of today's price to the price fifty five days ago and expresses it roughly in an annualised form.

Example:

Ago 55	1534.8	
Today	1704.1	
Diff	169.3	
FIRM ROC =	Diff	36500
	-----	x -----
	Ago 55	91
		= 44.2%

So, when I did the calculation shown in the above example, the Australian All Ordinaries Index was 1704.1 points. Fifty five days ago, it was 1534.8 points. The difference in price was 169.3 points. That difference, over the price 55 days ago, multiplied by 36500 divided by 91, came to 44.2% That is my rate of change figure.

Now, it is not exactly an annualised figure. If I did it properly on an annualised basis, we would have to multiply by 26100 divided by 77:

$$ROC = \frac{Diff}{AGO\ 55} \times \frac{26100}{7} = 37.4\%$$

However, I kept it on a quarterly basis and, as a momentum indicator, it worked okay for me.

I believe that momentum is very important to a market. Imagine a train which has been travelling fast, then has the engine switched off. If you are far away, you don't know that it has the engine switched off. The train continues to move forward, but is slowing imperceptibly, second by second. If we are able to measure the speed, we will see that its rate of change, that is the distance covered from second to second, was slowing. We are able to forecast that the train will stop, unless the engine restarted. Of course, if it is going up a steep slope, it will fall back. In fact, the rate of change could even tell us when the engine was restarted, even though the price itself, when you are looking at it, may not even change at all.



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FIRM SYSTEM - LIQUID ASSETS INVESTMENT RECOMMENDATIONS (FLAIR)

Tuesday April 13, 1993

SUMMARY

COMMENT: We have a hair trigger stop on Japanese stocks and are looking to switch from the Kiwi to sterling.

PORTFOLIO US\$10 MILLION

CURRENCY JPY 46% (HEDGED) · NZD. 28%

INVESTMENT MEDIUMS

INSTRUMENT	% PORTFOLIO	AMOUNT	INVESTMENT DATE	ENTERED PRICE	CURRENT VALUE
MONEY MKT	NZD 28%	NZD 11,250,192	April 13, 1993	6.75%	USD 6,077,354
JAPAN STOCKS	JPY 46%	JPY638,835,825	February 5, 1993	17333.	USD 6,737,826

1992/93 REALISED ACCUMULATED INVESTMENT (GAINS/LOSSES) \$ 753,164
(DOES NOT INCLUDE BOND INTEREST, STOCK DIVIDENDS)

1992/93 REALISED ACCUMULATED HEDGES (GAINS/LOSSES) \$ 354,751

TOTAL PORTFOLIO VALUATION USD \$12,815,180

VALUATION PLUS (LESS) NON ALLOCATED HEDGE \$12,815,180

GAIN 1992/93 + 28.15%
(286 days) + 35.93% per annum

<u>TOP INDEX PERFORMERS</u>		<u>RARI</u>	<u>TREND</u>	<u>ROC</u>
1. JAPAN STOCKS	+122	LONG	86% U	+142.7% U
2. AUST STOCKS	+ 46	LONG	69% -	+ 66.6% U
3. UK BONDS	+ 31	LONG	76% -	+ 41.8% U
4. JAPAN CASH	+ 28	LONG	78% D	+ 36.2% D
5. NZ BONDS	+ 25	LONG	69% U	+ 36.3% U

Chart 3

TED SPREAD - LONG 56% - - 61.7% D
GOLD + 5 LONG 63% D + 7.7% D

BORROWING CURRENCIES

(USD BASED BORROWER)

1. USD - SHORT ?% - + 0.85% -
2. CHF + 1 LONG 75% D + 0.86% U

Chart 3 is an example of my investment program. There is a lot of information there that you do not need to worry about now. This shows where the portfolio is at the moment, basically in stocks and New Zealand dollar cash. Towards the bottom of the page, you will see the rate of change (ROC) under Top Index Performers. Because I am comparing every particular market with itself, I am getting a figure that I can then compare with another market. So, my ROC figure for Japanese stocks is basically way ahead at 142.7%. Australian stocks were the next best at 66.6%, followed by UK bonds at 41.8%. This is one of the key areas that I use to judge my investment markets.

Using a FIRM ROC in my market calculations, I can compare the momentum of markets to see which markets have strong engines running and which are slowing. One market with a moderately high FIRM ROC and rising, has more potential than one which has a negative FIRM ROC and falling.

Another way of looking at it and to compare a couple of markets is demonstrated on Chart 4.

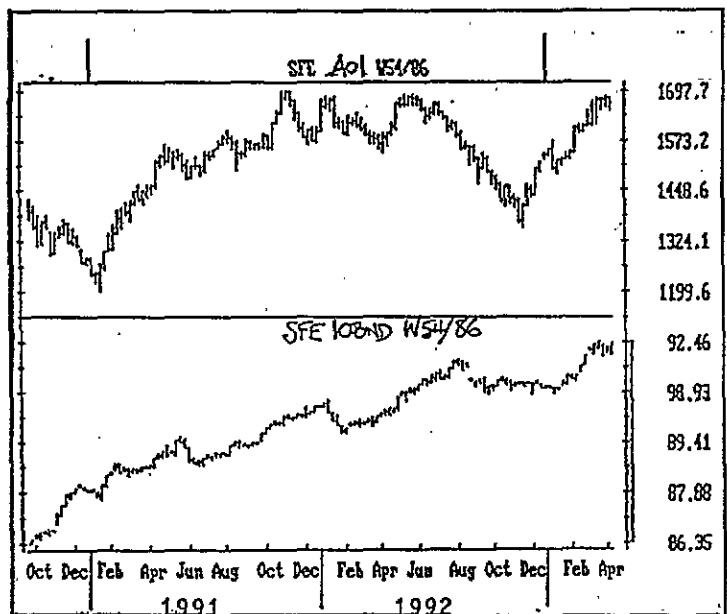
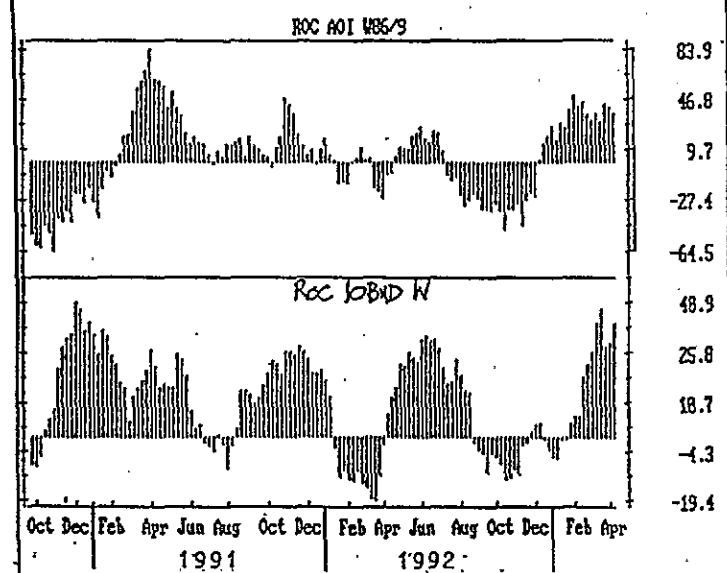


Chart 4



The top chart is a histogram, covering the same period of time, of the FIRM ROC for the All Ordinaries index and the 10 year bonds. At the start of the chart, the 10 year bonds were preferable to the All Ordinaries. Then the All Ordinaries took over. A little later, the 10 year bonds became preferable again, followed by a good bear run on the bonds. The lower chart shows the price movement for the two instruments.

The combination of the ROC and the moving average system has allowed me to give fairly good investment recommendations. The system has returned in excess of 20% per annum since 1986/87 on a non-accumulative basis. It is currently about 30% up.

However, I wanted a system that further reduced the number of choices. It was around about this time, that I discovered the difference between policy, strategy and tactics, as espoused by a 500BC Chinese general in his book The Art of War. His name was Sun Tzu.

Sun Tzu's philosophy was that policy was the overriding consideration, established by the rulers. Strategies had to be formulated by the generals, to conform with policy, according to the prevailing forces. Tactics were the implementation of strategies, based on the immediate fluctuation of factions. My interpretation of strategies made me place a lot more attention on the longer term cycles.

This is just an illustration It comes out of a book called Business Cycles published in the 1930's by Joseph Schumpeter, an economist that you may have studied at University. This is in actual fact a representation of the Kondratieff cycle, but it doesn't really matter. It is the concept of various cycles which I wish to demonstrate.

In Chart 5, curve 1 shows this sixty year Kondratieff cycle. Curve 2 shows the intermediate nine year cycle, which is in fact a representation of the Juglar cycle. Curve 3 shows a representation of the Kitchin cycle, which is about 40 months, otherwise known as the business cycle. Curve 4 is those three put together.

Now, I started to look at cycles, I suppose, when I came across Schumpeter in the early 1970's. I became quite an addict on Kondratieff, so that I think I picked the first depression somewhere about 1975. It didn't quite occur, but the main thing it pointed out to me was that I had to pay much more attention to weekly and monthly data, than what I had done before.

The lower curve on the above chart is another representation that we can draw of the overall movement and you can see that the overall trend is a curve that is influenced by the major cycle.

Asked from the audience where Will thought we were now on the long term cycle: I think we are getting somewhere fairly close to the bottom. Whether we have another run down, I am not quite sure. Obviously this representation is fairly stylised, but we are getting pretty close to the bottom. I think that we are going to move into a visible recovery in 1994, but we could have a few shocks before hand. When I heard that Harry S. Dent Jr was out here recently saying that we were in for the next boom, initially I thought here was another real estate or stock broker, but he is saying that the next boom is going to start around 1994/95, so on that, I probably tend to agree with him.

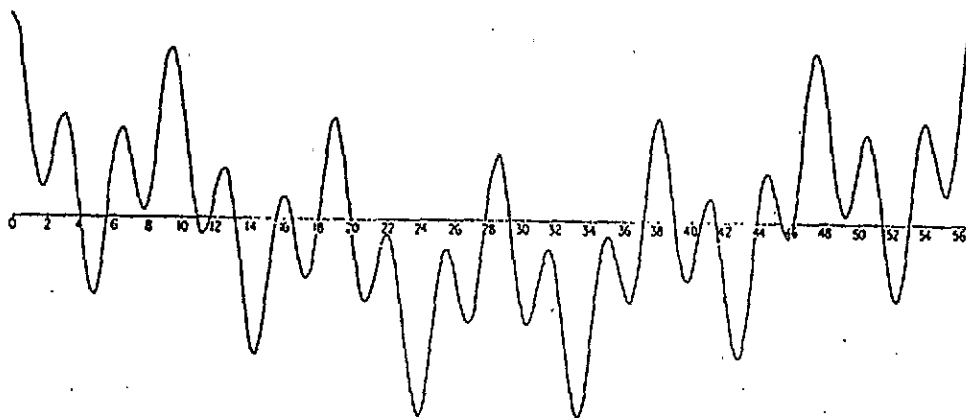
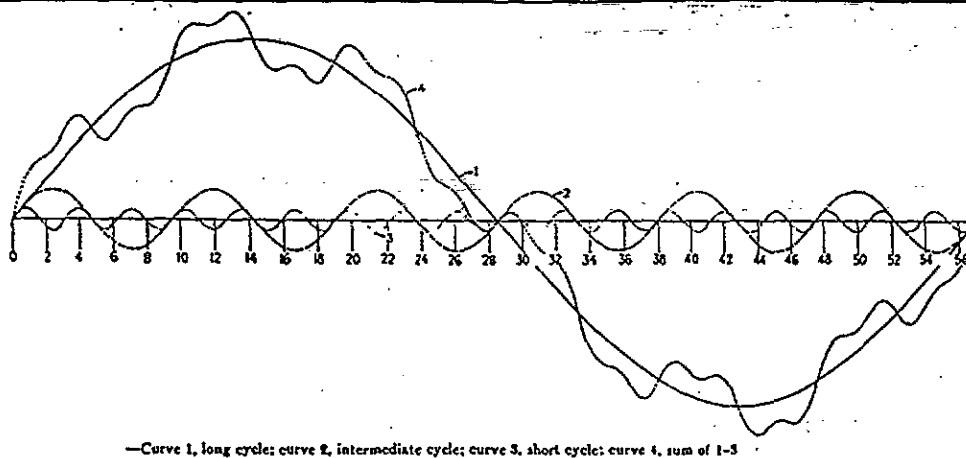


Chart 5

Will was then asked: "A boom in what?", to which he replied: The economic recovery will be visible and will start to get under way. I don't think we will see a boom actually until the 2000's, but it will be a good recovery that will start in the mid 1990's. Then we will probably have a hiccup, followed by the start of a boom in the 2000's.

Now, to interpret my ROC data, I have used the MACD. Chart 6 shows the Nikkei Dow index.

At the top is the daily price movement. Below that, is the MACD of the ROC data. You can see a buy signal, confirmed when the two signals cross. You can see that, although the ROC went up, we got a sideways movement, whereas later, when the signals crossed, we got a long upward movement.

I also plot the weekly ROC which you can see in the lower section of the chart. I have settled, as a standard basis of this particular system, that the ROC signal on a weekly basis is now my primary signal. That tells me whether the market is going up or down. Then I have got to get confirmation from my other indicators.

At A on the lower section of the chart above, was the signal the market was going to move up. When that crossed over, it said good, we are having a bull market in the Nikkei at that particular time.

Will was then asked several questions from the audience around the period he used for the ROC, to which he replied: I use a 55 day period all the time. To get the weekly, it is just sort of running to a weekly high low. It is using that same 55 days, but then compressed into weekly data. On my daily work, because I can only do one price per day, open, high, low and close is the same. But by compressing that data over a week, I have got a high and a low. I also do that for a month. Thus the weekly is still done on 55 days, but lets say that I had 50 today, 30 tomorrow, 20 the next day etc, for the week, I will have a high, low of say 50 and zero.

I use 55 days because it was a rule of thumb when I first thought it up. 55 days was as far out as I was prepared to go. I became a bit of a Fibonacci freak, I suppose, somewhere in the last fifteen years and so I tend to look for Fibonacci numbers. 55 days was as far back as I was prepared to go in looking at my data. I really was not interested in anything that happened past 55 days.

Now, I found that sometimes, when the ROC signals stopped, the prices continued to rise. So, I needed some confirmation. The moving average system is always a lagging indicator, so I needed something a bit faster. I chose the MACD on price. I initially looked at divergence, which I still examine in passing, but now basically as a mental flag.

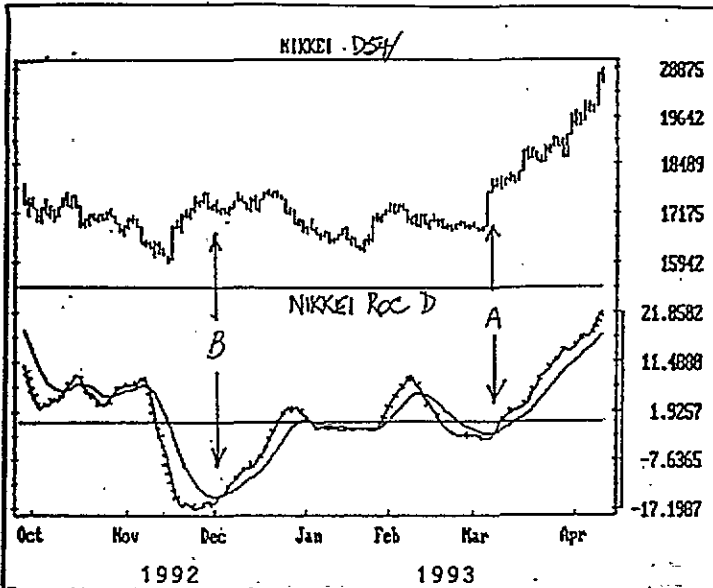


Chart 6

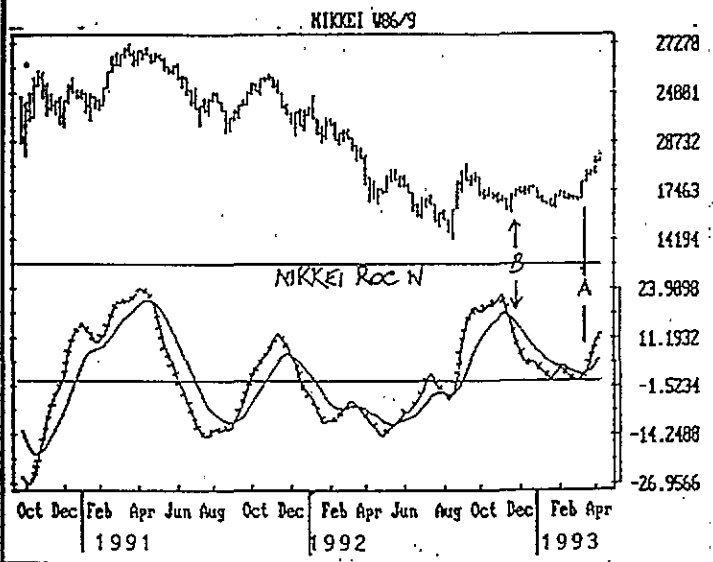


Chart 6

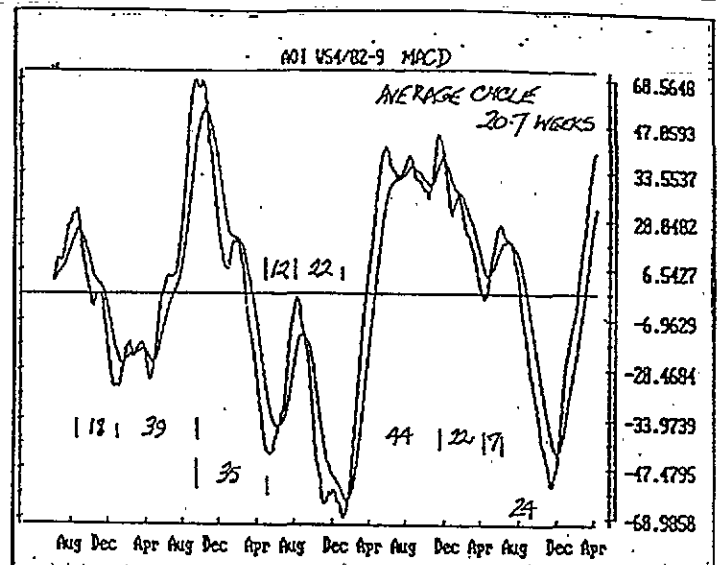


Chart 7

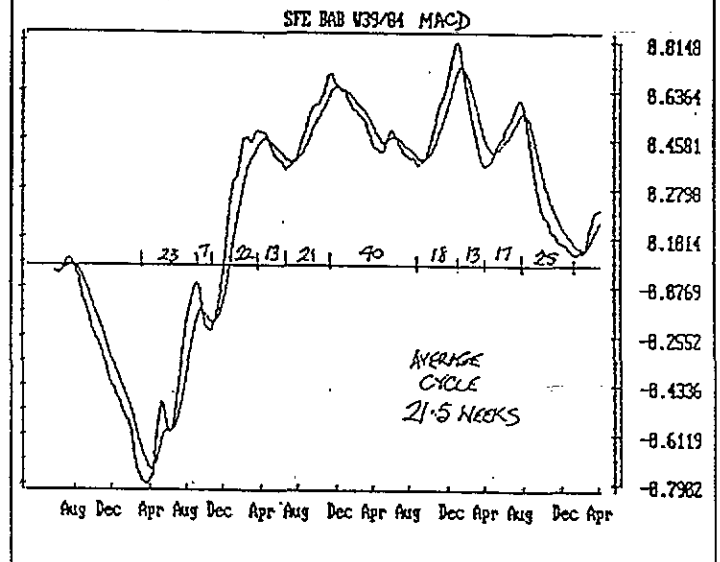


Chart 7

I found that MACD peaks and troughs were cyclical, particularly on weekly and monthly charts. The peaks and troughs were later confirmed by the signal crossover, but I basically tabulated when the markets peaked and troughed. I also estimated the average cycle length, using my own method, which would horrify Jake Bernstein and any statisticians or people who went to university and learned statistics.

I worked out, for instance, that the cycles I looked at on the MACD tend to form a pattern, but all of a sudden we get little blips when we shouldn't have a cycle. I theorised that we don't go in a full cycle all the time. We have half cycles and quarter cycles. Probably, if I wanted to go into the Fibonacci, I might even want to change that, but just as a rule of thumb, I take a cycle as either a full cycle, a half cycle, a quarter cycle or a double cycle. I use that to get my average.

Now refer to Chart 7. In the upper chart, we have the All Ordinaries index. We look where the cyclical tops have occurred, at different levels. Taking all those quarter cycles, half cycles into account, I came up with an average cycle length of 20.7 weeks.

In the lower chart, we see the bank bills, which is even more cyclical. It definitely follows a good cyclical pattern. Taking the full cycles, double cycles and quarter cycles, it gives me an average cycle length of 21.5 weeks.

Is there some similarity? Have we got interest rates with the same cycle as the stock market? Possibly. I leave that to the economists. I just tabulate the MACD cycles.

The last indicator that I use in market measurement is the moving average signal itself. I use my own system, which I have previously demonstrated here to some degree. It optimises daily and can basically change the moving average every day if it does not follow the same pattern.

It optimises according to a formula I have got in there and also according to volatility. The software is not being marketed yet (but is available if anyone puts their hand up to professionally market it). So, you will have to use another signal. As many of you are already experienced technicians, who have your own favourite methods of entry and exit. So, maybe you can adjust your indicator to put into this type of model.

I am going to continue the moving average scheme, bearing in mind that the averages that I will mention may not be optimum for all markets. Which ever way it goes, it does not matter what system anyone shows you, and in particular any system that I show you, you should test it out yourself. Don't believe me, I am not to be trusted! So, test out the system, put it together and then adapt the concepts that I have related to your own ideas.

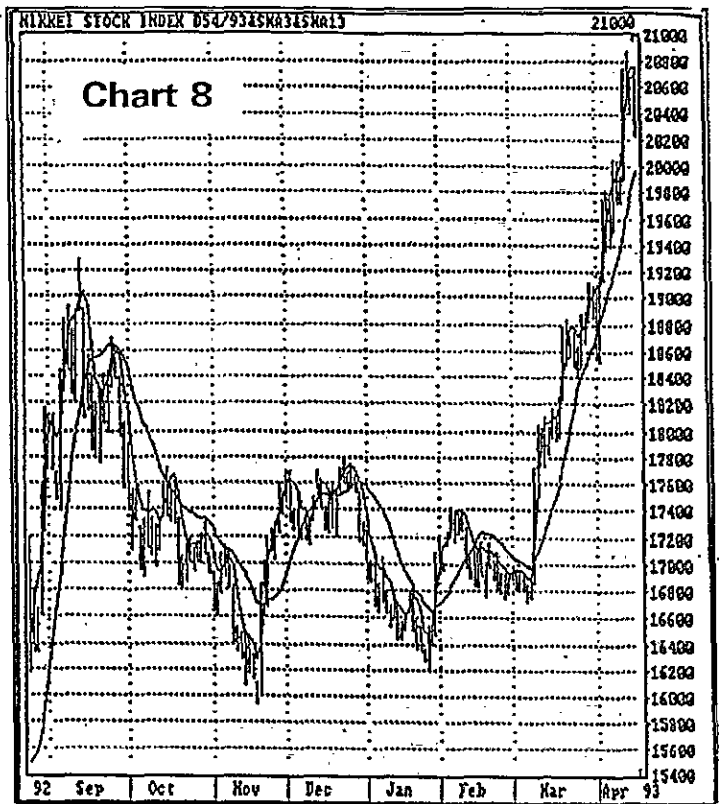
Moving average signals are the simplest action signals. However, like most simple ideas, moving averages have their drawbacks. Moving average signals are delayed. They do not convey the amount of risk involved.

The cross-over gives an unequivocal signal, but sometimes the signal to advance is like that famous order by General George Custer at the battle of Little Big Horn. If the moving average is of short duration, there will be a lot of whipsaw signals. If the average combination is of long duration, the averages will be more smooth, but the time lag at the cross over signal becomes unacceptable. Those drawbacks of moving averages have meant that trend followers have lost money 65 to 70% of the time, even though, in the long run, the money made in long trends 30 to 35% of the time made systems marginally profitable.

In the concept that I am demonstrating, the prime signal to choose the market direction will be the rate of change, the FIRM ROC, calculation that I gave you earlier. So, we will only buy when the FIRM ROC weekly signal indicates upward momentum. We will only sell when the rate of change is falling. This eliminates a number of the whipsaws, so that we can use a relatively short combination of moving averages.

In the 1970's, I thought that the five and twenty day combination would prove correct for cattle and interest rates. I thought that was a pretty good journeyman combination for most markets. Since then, as I have mentioned, I have become a Fibonacci freak and so it is now five and twenty one days. I suggest that the model that I am showing you will probably work if you go shorter, because of the synergistic approach. You could go to the three and thirteen combination.

Chart 8 shows a three and thirteen day combination on the Nikkei Dow index. I actually drew the chart to indicate the number of whipsaws that I thought would show, but in actual fact the whipsaws that it shows are very small. This would not have been a bad combination to trade the Nikkei all on its own, because we have really only had whipsaws on a couple of occasions. Generally, you would have made



very small losses and fairly good profits. However, it does not work like that on all markets.

In answer to a question from the audience, Will commented: Retracements are a different question. Another problem with moving averages is that once you have had a big long run, the market turns and your averages don't turn. you can see your profits dropping away day by day with you asking where to get out. I will show you a different way of doing that as well later. Generally, I suggest that if you use the three and thirteen day combination for the daily, weekly and monthly in this particular concept, you will find that you still come out okay.

Now, a quick recap so that I have not lost everyone. Firstly, we produce a rate of change signal daily, weekly and monthly as measured by the MACD. Secondly, we produce a peak or a trough signal from the MACD on price, again daily, weekly and monthly. Thirdly, we produce a moving average buy or sell signal according to our three and thirteen day combination, daily, weekly and monthly. Now I tabulate these signals as shown in Chart 9.

I weight their importance and that is probably the key. These weightings are rule of thumb. as you can see, they are definitely oriented to the weekly data. That is because I am a slow trader, bearing in mind that I am a risk manager and I have done most of my work looking at the hedging side. I have not really looked at the speculative side. When you have a look at it and you start playing around with it yourself, you might find different weightings work better for you.

The other thing is that the weightings all add up to 20, which makes the calculation fairly easy for you.

MARKET	FIRM SIGNALS			MACD SIGNALS			MOMENTUM			CYCLE		% 20 LONG 100%
	D	W	M	D	W	M	D	W	M	W	M	
WEIGHT	2	4	2	1	3	1	1	4	2			
SFE 3YR BND	B 7/4	B 23/2	B 26/2	T 6/4	T 15/1	T 61/93	B 28/1	B 24/2	B 13/4	13/15	2/14	

Chart 9

MARKET	FIRM SIGNALS			MACD SIGNALS			MOMENTUM			CYCLE		% 20 LONG 76%
	D	W	M	D	W	M	D	W	M	W	M	
WEIGHT	2	4	2	1	3	1	1	4	2	0.5		
SFE 3YR BND	B 7/4	B 23/2	B 26/2	T 6/4	T 15/1	T 61/93	B 28/1	B 24/2	B 13/4	13/15	2/14	

Deduction = $11 \times 0.5 \times 13/15 = -4.767$
 Unadjusted Weighting 20
 Adjusted Weighting $20 - 4.767 = 15.23$
 Percentage $15.23/20 = 76.2$

In Chart 9, we have the SFE 3 year bonds as at Friday April 16 1993. We can see that the daily, weekly and monthly moving average system is all bought. The daily, weekly and monthly on the MACD are all tops, so they are all moving upwards. And the momentum ROC daily, weekly and monthly are all bought. So, I have all bought signals, which would come to 100%. You calculate that by first looking at the weekly momentum figure, which is my key signal. That tells me whether the market is going up or down. In this case it is long, so we calculate the percentage by adding all the weightings that are looking for the bought or top side. In this case, they are all included, so they add to 20 out of 20, which is 100%. If one of these was a sold figure, I would be, say, 2 short ie 18 out of 20 which is 90%.

Time degrades trends. The longer a trend goes, the more it is going to run out of steam. You have no doubt learned the same and I have heard discussions here that this is what Gann bases his work on, time and price. I introduce this timing factor by using cycles. So, on the right hand end of the above example, we have our weekly cycle, which, for 3 year bonds, I have calculated at 15 weeks. Currently, we are 13 weeks into that 15 week cycle.

What I do is to add up all the weekly figures, which comes to 11 and multiply by a half, which is a rule of thumb figure and multiply that by the cyclical element to get -4.767. Now, the unadjusted weighting was 20. I adjust that by subtracting the 4.767, which now gives me a new weighting of 15.23. This gives me a new percentage of 76.2%. In other words, because the trend is already 13 weeks old, it does not justify a 100% rating. It only justifies a 76% rating. This has worked fairly importantly to get me out of my moving average movement.

So after making these calculations, the bottom section of the above example is where we are at the moment. Thus the system would be long in 3 year bonds with a 76% weighting. If was 100% long, I would be saying that it has tremendous momentum. I always say to keep an eye on the 76% and rising and on the 76% and falling. 76% and rising, I am fairly confident. I always keep an eye on the cyclical figure anyway. What we have here is 76% and falling and we are getting to the end of the cycle, which is basically telling me that it is too dangerous to get into at the moment, according to my psychology. So, I think we will see 3 year bond peak somewhere in the next month. From memory, it looks like it is forming a triple top.

The last step is to calculate the RARI, which stands for Risk Assessed Return Index. This is not one of my inventions, I think I pinched this off BT. Bankers Trust rate a lot of their investments. If someone puts a proposition up to make some money, they have to give it a risk adjusted return index to say that their risk adjusted return index was better than someone in, say, the bond market who wants to do something. So, this is just my idea of doing it. It is a very simple indicator:

$$\begin{aligned} \text{RARI} &= \text{FIRM ROC} \times \text{WEIGHT \%} \\ &= +12.7 \times +76 \% \\ &= +10 \end{aligned}$$

$$\text{POSITIVE} \times \text{NEGATIVE} = \text{NEUTRAL}$$

$$\begin{aligned} \text{RARI} &= +50.8 \times -28 \% \\ &= \text{NEUTRAL} \end{aligned}$$

WE take my ROC figure, which I calculate every day, and we multiply it by the weighting percentage. The example above is the 3 year bond indicator at the moment. My ROC is 12.7. I multiply it by 76%, which gives me 10.

The only other wrinkle comes in if the direction we are going does not agree with the ROC direction, then we do not have any RARI. The RARI is neutral ie a dash, a zero

or a neutral figure. For example, my work on the SPI (SFE Share Price Index futures contract) at the moment has a weekly momentum indicator that is short 28%. There is no way that I am going short in this market, but it is telling me that it lacks momentum, it is not going anywhere. However, the ROC is +50.8. So, I resolve that by saying that a positive figure and a negative figure is a neutral and therefore I am neutral on the SPI at the moment. I am sitting on the sidelines.

The philosophy behind the whole concept of saying which markets to be in, is that you have to be happy with being out of the market. I am probably happier out of the market than I am in it.

In answer to a question from the audience, Will went on as follows:

This is what I am getting to. For me to consider entering a market, I must have a weighted percentage above 65% and I want a RARI above 10. That is why the 3 year bonds is right on the borderline at present. It has a rating of 76% and a RARI of 10. The main reason that I am out of it at the moment is that it is close to the end of its cycle and should run out of steam.

Now let us see how it works on a real market. Refer now to Chart 10. I have chosen sugar, because I have had a good run in sugar.

system to tell me when to get in. My system gives me a daily price at which to buy and a daily price at which to sell. So, in this case, I am looking for the daily price at which to buy. Using my system, the entry point was on February 16, when sugar was bought at 9.30 cent per pound.

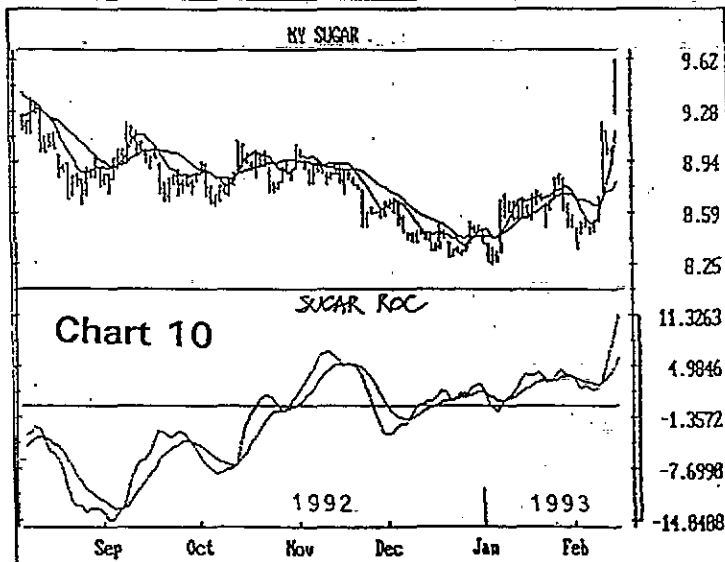
I checked to see what would happen if we had used 3 and 13 day simple moving averages. Those moving averages crossed on February 10, but only the most astute would have taken a position on that day, because it actually crossed at the end of the day. I don't know whether any of you realise it, but there is a fairly simple formula, if you are going to use simple moving average cross overs, to tell you at what level the markets are going to cross on that day, so that you can take action on that day, rather than waiting for it to open on the following morning. I do not have it with me, but if anyone wants it, they can write to me. (PO Box 412 Manly NSW 2095)

So not many people would have taken the signal. Apart from that, the moving average cross over was only very slight. Most people would have waited until the following day. The following day the market was down and you would have waited until the correction ran out of steam to come back into the market. I believe that, if you had been following the 3 and 13 day moving average system and using a bit of common sense, you would have taken a position hopefully on February 16, which in actual fact worked out the same time as I took my position.

FRIDAY FEBRUARY 12

MARKET	FIRM SIGNALS			MOOD SIGNALS			MOMENTUM			CYCLE		FLASH %
	D	N	M	D	N	M	D	N	M	W	M	
WHEAT	2	4	2	1	3	1	1	4	2	05		LONG 76% RARI +23
MAIZE	8	8	S*	T	T	P	B	B	B	7	5	
SUGAR	27/1	1/11	-	8/2	24/12	08/12	8/12	6/11	12/2	14	15	

ACTUAL ENTRY FIRM FEB 16 9.30/LB 5/13 AVERAGE PROBABLY SAME



This was the signal on February 12 1993. My weightings, without adding them all up now, said long 76% and I had a RARI of +23. Now I start to use my moving average

Refer now to Chart 11. I will not go through all the signals one by one, but I will mention to you Dawn Bolton-Smith's favourite, the cluster. Since Dawn explained these clusters, I have been taking a fair look at them and they are a tremendous signal, particularly for a short term trader. You can do a routine on CompuTrac and possibly some other programs to keep an eye out for these clusters. They give you good warning of an explosive movement and I would say that nine times out of ten they are correct. They are definitely correct for a couple of days, whether they are correct for the long term varies. Here sugar had everything going for it. We had a cluster just about at the breakout.

The other thing on Chart 11, at the bottom, is the weekly sugar price and the weekly ROC. The weekly ROC shows that we got a buy signal with the cross over well before we got in. The weekly ROC signal was saying that it was going to be bought sooner or later. So, it gives you plenty of time to get in. It is very much an early warning signal. I just like to have other signals confirm it before I get in. Note that on the above chart, we have got nine different indicators. If I showed you all of them, it would take too long. Just take my word for it that they did all cross. You can trust me on this one anyway!

At this point Ivan Krastins asked from the audience: "How do you adjust your weekly chart for the roll-over of these contracts?", to which Will replied: I use a perpetual contract. I collect data from CSI in Florida USA

The second routine that I follow is a check on the MACD. On the top of the screen, is the daily MACD. This is just the study that is produced automatically by CompuTrac as far as the MACD is concerned. You can see the peak and the daily cross over. At the bottom is the weekly MACD, which is just turning down.

Then I have another routine which gives me a check on the rate of change. You can see that it does not look a whole lot different to the MACD on price on this particular chart. However, if we were to check the date, we would find the peak on the rate of change occurred a few days earlier than the peak on the MACD on price. The rate of change does tend to be a leading indicator.

David Hunt queried from the audience whether this could not be done on the SNAP spreadsheet (Tradeplan) rather than on classic CompuTrac. Will advised that he had not had time to learn that yet. I guess that it could be done that way, I don't know. I have been a CompuTrac member since 1983, so I have tended to adjust my routines for CompuTrac, except that I use Wave Trader for when I am trying to forecast. (I believe that everything Will is doing in CompuTrac can be done on a SNAP Tradeplan and would probably run much faster. I have set up Dawn's favourite on a Tradeplan and even set it up in Dawn's favourite colour scheme! It looks great. Colin Nicholson.)

In answer to another question from the audience, Will responded: I do this every morning for every commodity. I have already got my tabulations. So, I already know whether I am looking to buy or sell. If I am not in the market, I am probably really only looking for clusters, or some indications that things are about to change. If I am in the market, I am looking for indicators saying that the market is very much overbought or oversold. So, rather than wait for my normal moving average indicator, I should be getting a little bit closer. That is what happened with sugar. All these showed that we had a very high movement and all these started to top out.

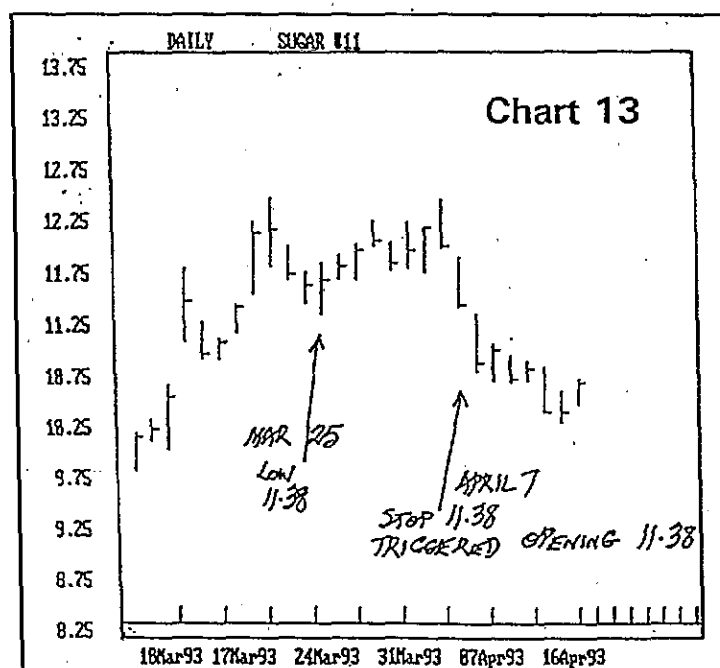
The last indicator is, to me, the key. I don't know whether it is available in Pro Trader or whatever, I suppose it is. I use a different RSI indicator. Most people use the standard RSI (Welles Wilder), which is an exponential RSI. This was something that was put into CompuTrac maybe only a year ago. It is what is known as a Cutler RSI and it is a simple calculation. It tends to drop out very sharp movements very quickly, whereas the standard RSI tends to continue a sharp movement for a long period of time. The Cutler RSI drops out these sharp movements, which means that you can have some very sharp movements up and down in this particular RSI. If you have CompuTrac, it is well worth having a look at. There is not much in the manual about it, but I am only interested in the movements that take place in the upper third and the lower third. This is a combination, in my routine, of a 5 day and a 13 day calculation. I am interested in it when both the 5 and the 13 day are up above the 75% level. That tells me the market is overbought. If they are lower than the 25% level, it tells me that the market is oversold.

So, as far as sugar was concerned, it told me that the market was very much overbought, which was also fairly apparent from the price chart, and it tells me that I should be thinking about getting out. As a confirmation, below that, I have the ADX. I think we have seen a couple of presentations on ADX and ADXR. I know Dawn mentions it just about every time she steps up. I watch the ADX line. As a rule of thumb, if the ADX is going up, the market is trending in whatever direction we are going in. It does not necessarily have to be up, it can be sold and the ADX will still go up. When it starts to flatten out, that tells you that the market is starting to run out of steam. So, it flashes a warning signal.

So, at this particular level here, for sugar, the ADX flattened out and it was starting to move out of an overbought position. That tells me not to wait for my moving average signal. Otherwise, I might watch my profits go drip, drip out the window. So, it tells me that I should have a look at getting it to a different indicator.

In response to a question from the audience, Will indicated that he uses 13 for the period in the ADX calculation, based on Fibonacci considerations and compared to the CompuTrac default period of 14. Will continued: Bear in mind that these are fine tuning signals. They are not meant for taking action for the long term.

So, in the case of sugar, the flattening of the ADX and the imminent breakdown of the Cutler RSI, led me to look for a chart stop.



A chart stop is fairly simple. I am basically looking for the market to break down. In Chart 13, you can see that we were retesting the previous top, and it started to break down. If that is basically a double top, I am looking for the price to break through the neckline. So, I put a chart stop in at 11.38 cents per pound. This would have been triggered at 11.38 on the opening of April 7 and you would

have been able to get out on that particular basis. As it turned out, my system kicked in, good little system that it is, and gave me a stop at 11.58, which was entered on April 5 and executed on April 6. So, I did a little better than the profit and loss that I am about to show you:

Feb 16 Bought 9.30
 Apr 7 Sold 10.81
 Profit 1.51 cents per pound
 Deposit 750.00 per contract
 Profit 1,691.20
 Retail Broker 80.00

Net Profit \$1,611.20
 No margin drawdown
 Profit/Drawdown = 214.8%
 Period 50 Days

This is just as an indicator. This is the worst case scenario that I reckon you would have got into, if you had followed that model. Profit was 1.51 cents per pound, which works out to a net profit on the extortionate commission of \$1,611.20. When you are making that sort of money, you do not worry about commission.

There was no margin drawdown, because at no time were we ever in a loss position. So, the profit to drawdown works out at 214.8% and you were in the position for 50 days. So, it was a pretty good trade.

Now, just to show that it was not a fluke, I will show you another one that was not quite so successful.

Chart 14 shows the British pound. This is again where the Cutler RSI comes into it fairly much. We got a signal to sell on February 12. It is a bit difficult to see it on this chart, but the key point is the RSI on the lower chart. It was very much in the oversold area. So, the signals that I calculated, the nine different indicators, and my moving average told me to sell on February 12. However, the RSI was far too oversold at that particular level, so I have got to wait patiently. So, I waited patiently and we waited until the rally had failed. That is fairly simple using different chart signals. We ended up shorting it on February 24 at 144.76.

Probably, in practice, if I had been watching it properly, I should not have shorted March anyway, I should have shorted June. However, I shorted March and the market did basically nothing. It bumped along the bottom until we finally quit the day before the market was due to phase out at 143.30. So, it was a trade that I consider a failure, but we still came out of it with a reasonable profit.

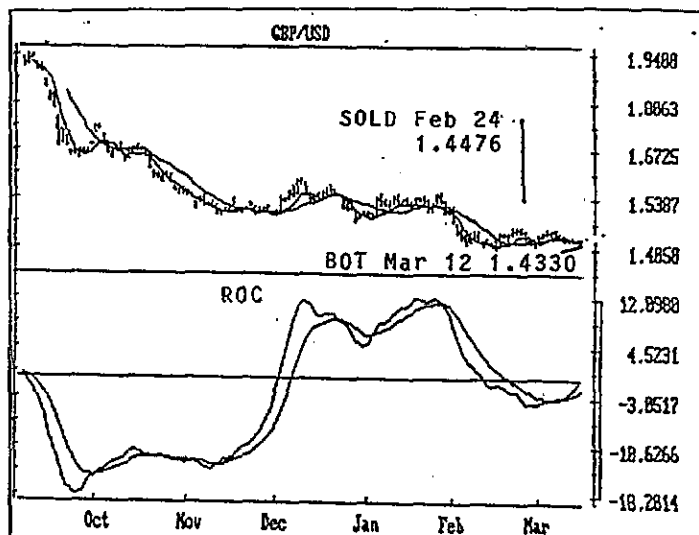
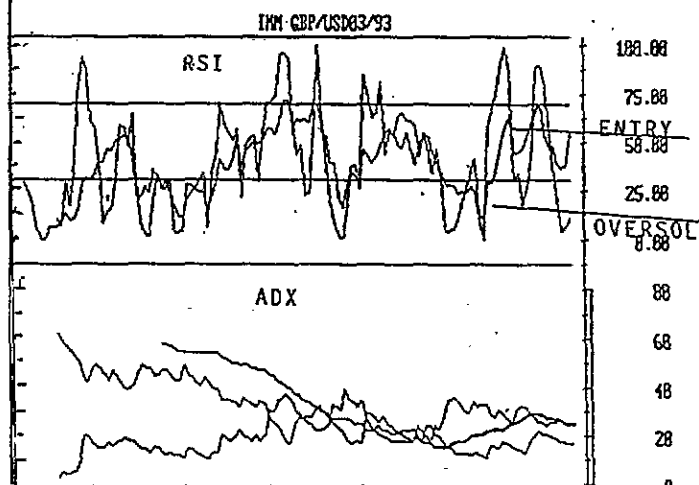


Chart 14



INM GBP/USD	S	S	S	T	P	P	S	S	S*	(S)(C)	SHORT 78%
MAR	1/2	28/12	2/2	12/2	22/1	08/92	1/2	11/2	-	4 5	RARI -33
	14698	14867	14816	14118	15224	19875	14530	14152		15 21	

Another good result just recently is the Nikkei Dow index, which is shown in Chart 15.

I have already shown you a few charts on the Nikkei. Here is an example of getting in too late. I don't mind getting in too late. I never really want to pick tops or bottoms. In this particular case and as I showed you earlier in my investment model, I jumped the gun and I put half the portfolio into Japanese stocks on February 5, when the Nikkei was 17,333. I did that basically on fundamentals. My technical analysis was a bit wobbly and it could have gone either way, but on fundamentals, as far as I am concerned, the Japanese government was going to ramp the stockmarket up and the yen was going to go higher, because they had to have the bank balance sheets at least level with last year on March 31. That was my reason for buying, so I actually jumped the gun.

But on the speculative system, the entry actually occurred on March 26 at 18,877, which as you can see is about half way up the move. I do not mind that it is half way up the move as long as all my indicators are in there, because

what that is saying to me is that I am not getting in too late, I am getting in at the middle of the move and I am quite happy to do that. As a matter of fact, if you are Elliott Wave traders, you will note that you will get your best profits trading in the third wave as a general rule of thumb. I am quite happy to trade the third wave.

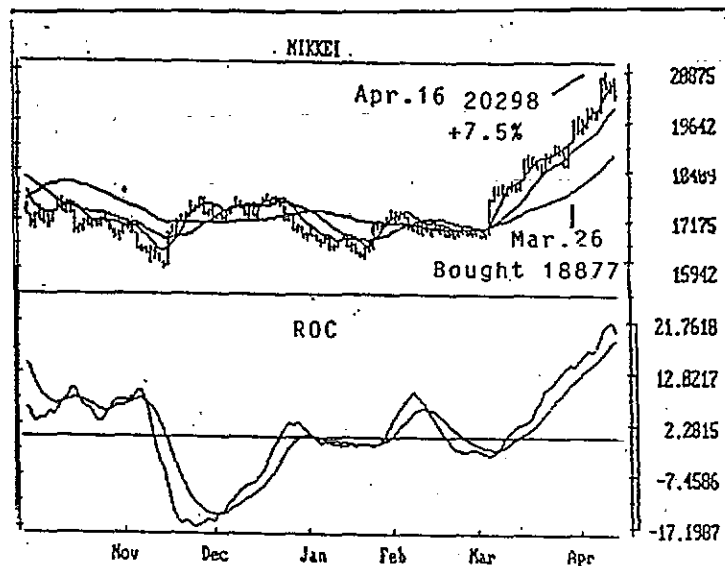
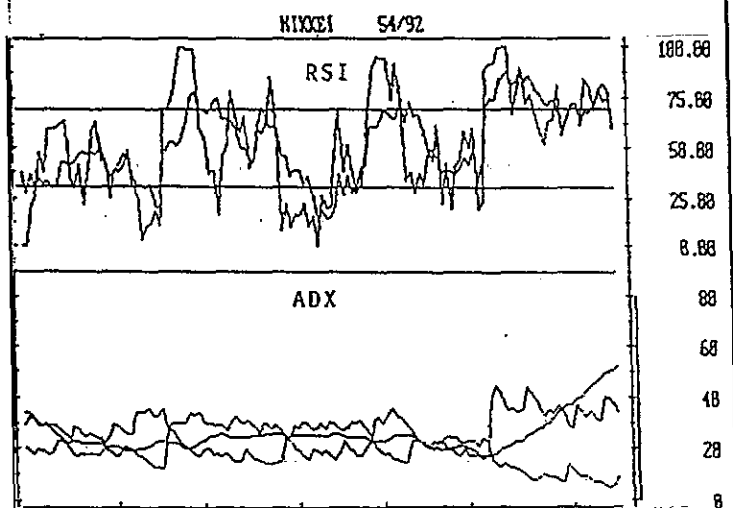


Chart 15



JAPAN 18789	B 8/3 17697	B 2/2 17183	S -	T 8/3 17686	T 22/1 16337	T 07/92 15910	B 8/3 17686	B 25/3 18765	B 18/12 17681	(1) 9 21	(C) 7 13	LONG 83XU	RARI -63
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In this particular case, we are still long, but I put a chart stop on it which probably went off today at 19,900. I do not know whether it went off today, but it would have gone pretty close. I would have been stopped out at reasonable profit.

Note that my Nikkei examples are based on the spot index itself, mainly because I do not actually trade. If you do want to trade the Nikkei, it is best traded on SIMEX. I have looked at it and SIMEX futures generally give a signal about one to two days earlier than my system running on the spot index. As a matter of fact, as a rule of thumb, you will find

that futures generally give you a one to two days lead on the physical index on most stockmarkets.

In answer to a question from David Hunt in the audience, Will responded: SIMEX is better for costs. The commission in Osaka is astronomical. The Japanese government, in their wisdom, figured out that stockmarkets go down because futures markets go down. So, the way is to stop people from trading futures markets and that will stop stockmarkets from going down. The way to do that is to put the commission rates up so high that no one can afford it. Fortunately there is a market in Singapore, which is now the world's biggest market on the Nikkei and there is now also a market in Chicago. So, it has not worked at all. It is about time they put the commission down.

Asked from the audience how far he thought the Nikkei was likely to go, Will replied: I think it has had it. It has made my target. I believe there is another target there when I see it start to go up again. I believe that this was the last major correction and I believe that we have got one further major wave down and then we will star the major bull run, which I am looking for in 1994.

You have got to trade the market as it is. I use forecasting, but I only forecast once a month and these days I hardly forecast at all. The reason that I do that is that you read too much into your own forecasting, particularly if you are looking at it every day. But that is just my opinion. I am speaking to a lot of guys who look at their forecasts every day. If you look at the markets and assess them every day, I believe there is a tendency to fall in love with your own forecasts and you stop looking at the signals for reversals. So, you fall into a bit of a trap. I mean, I haven't got any discipline and that is why I have gone for the trading system. If I had discipline, maybe I would get more into the forecasting side of it, but I only use forecasts for the longer term. I believe that the forecasts and the fundamentals do come good in the longer term, but we are speaking in monthly time frames rather than daily time frames. You can't trade monthly time frames, you have got to trade daily time frames, if you are going to make money.

Ivan Krastins asked from the audience: "On what do you base that, Will?", to which Will replied: Unless you have

great faith and a long pocket, I believe that you have got to marshall your forces well. I am talking about trading a number of markets. Unless you are an insurance company and are prepared to sit out any major run, I think you will lose money because you are going to have to quit at some stage. I look at my weekly charts all the time, but you should not be taking your action on weekly charts. You have got to take your action on a daily signal. That is my point of view. I focus much of my attention on weekly charts, that is my weighting.

Every week, I put out a form something like Chart 16 on the following page.



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SFE AND INTEREST RATES FUTURES
FIRM SYSTEM - LIQUID ASSETS SPECULATIVE HINTS (FLASH)
 Tuesday April 13, 1993

MARKET	FIRM SIGNALS			MACD SIGNALS			MOMENTUM			CYCLE			RECOMMEND 20
	D	W	M	D	W	M	D	W	M	W	M	K	
IMM EURO	-2	-4	-2	-1	-3	-1	-1	-4	-2	0.5			SHORT 37% RARI -
JUN 96.76	B	B	S*	T	T	P	S	S	S	(3)			
	12/4	18/3	-	7/4	2/4	09/92	24/2	1/4	1/4	14	6		
	96.76	96.68		96.70	96.57	96.83	96.64	96.68	96.68	18	13		
IMM TED SPREAD	B	S*	S*	P	P	T	B	B	B	(5)	(1)		LONG 56% RARI -
SEPT 0.33	15/3	-	-	6/4	2/4	04/92	1/4	6/4	2/4	13	11		
	0.41			0.33	0.33	0.37	0.39	0.38	0.36	21	15		
LIFFE 3MO STG	S	S	B	T	P	T	S	S	B	(5)			SHORT 54% RARI -
JUN 94.25	-	22/3	-	26/3	5/2	08/92	16/3	17/3	-	20	5		
		94.17		94.16	94.73	89.23	94.35	94.37		26	14		
SFE BAB	B	B*	B	P	T	P	S	B	S*	(2D)			LONG 68% RARI +41
JUN 94.75	10/4	25/2	1/3	17/3	12/2	7/92	2/4	26/2	-	8	8		
	93.61	94.26	94.76	94.87	93.99	94.80	94.63	94.66		19	16		
SFE 10YR	B	B	B	T	T	T	S	B	B	(2C)	(1)		LONG 65% RARI +14
JUN 92.47	7/4	13/4	-	6/4	15/1	01/93	26/3	9/12	1/3	12	2		
	92.17	92.01		92.12	91.06	91.40	91.95	91.18	92.23	13	16		
SFE 3YR	B	B	B	T	T	T	B	B	B	(2C)			LONG 78% RARI +12
JUN 93.53	7/4	23/2	26/2	6/4	15/1	01/93	28/1	24/2	13/4	12	2		
	93.41	92.69	93.24	93.28	92.28	92.51	92.31	92.94	93.53	15	14		
SFE SPI	B	B	B	P	T	T	S*	S	S	(4C)	(2)		SHORT 33% RARI -
JUN 1713.5	23/2	9/2	26/2	19/3	13/11	01/93	3/3	9/3	12/3	21	2		
	1631	1577	1629	1687	1352	1528	1641	1648	1682	34	16		

BASE COMPARISON USD	TICK	DEPOSIT	SPEC ROC	RARI	GEAR	VALUE INDEX	DOUBT RULE1	DOUBT RULE2	DOUBT RULE3
1. SFE BAB	\$12.0	AUD500	+ 60.6	+ 41	X1.72	+ 71			
2. SFE 10YR	\$74.0	2800	+ 37.0	+ 24	X1.90	+ 45		X	50%
3. SFE 3YR	\$28.0	1200	+ 15.5	+ 12	X1.68	+ 20	SOB	X	
4. TED SPREAD	\$25.0	USD350	- 61.7	-	X7.14	-		X	50%
5. SFE SPI	\$10.0	6000	+ 49.4	-	X0.12	-	X	X	
6. LIFFE 3MO	L12.50	GBP450	+ 34.1	-	X4.14	-		X	50%
7. IMM EURO	\$25.0	USD850	+ 26.6	-	X2.94	-		X	50%

Chart 16

There is too much data for you to worry about now, but that is all interest rate markets at that point in time. If you examine it, the only one that I would actually be interested in is the bank bills and even that is a bit wobbly. It is over bought, so I have not taken any action on it. I do that for all the markets on a weekly basis and then I correct it on a daily basis according to my routines and just pencil them in using red ink and I do any changes in the calculations accordingly.

The lower section is just a couple of fiddly bits that I come up with and I am still playing with, but it gives me an index. I am actually rating each market according to the tick move. I am trying to always be in the market. If I have got six markets to play with and I do not have enough money to play in six markets, I am going to be in the market that

gives the most potential. I am trying to seek out on there this value index or gearing that I have put down there. It is gearing according to the deposit, the tick value and, if necessary, the exchange rate. They show value in US dollars.

So, for instance, the LIFFE 3 Months' gearing is 4.14. The TED Spread is probably the best of the whole bunch. It is probably too much to go into right now. I might do a whole talk on the TED Spread one of these months. However, for the moment, if we look at the LIFFE 3MO, that is the best. Its tick value is 12.50 pounds, but the deposit is only 450.00 pounds. The way I have calculated, it is over twice the value of a bank bill contract. However, I am still playing around with it and I have not really brought it into the calculations I have mentioned in this demonstration.

Question from the audience: "That would be marketed to clients then?" Will responded: No, I don't market to anyone. Up until March 31, I used to send a daily fax out to tell my hedge clients what to do. I now have only one client who could not get his act together by March 31 and I have him for another month. So, at the moment I don't have any clients at all. I speculate occasionally, when I have the time and I am doing a fair amount of work at the moment for the Sydney Futures Exchange trying to get commodity contracts going.

Comment made by Will in answer to questions from the audience: I am very much in favour of computers. I was a computer illiterate, I suppose, about ten years ago and now I could not operate without one.

CONCLUSION

This system takes me about two hours a day to follow thirty markets closely and as well, I follow some not all that closely. It may not suit everyone, but it suits my personality.

Maybe some of you surf. At least all of you have watched the board riders from the beach. The youngsters, called grommets in surf speak, chase around looking for short rides, using up energy and generally having a good time. The more experienced riders, called wrinklies if they are my age, tend to catch fewer waves, but enjoy longer waves by using their knowledge of sea conditions. I believe in leaving day trading to the market grommets, because I do not have the personality or the financial energy to be so active. I have developed this method of trading, which allows me to pick good long waves.

I have shown you the bare bones of my system. I think there is enough there for you to use as a model straight away. Certainly, if you have got CompuTrac, you could use it tomorrow. There are enough variables, that those of you who want to spend the time and effort will develop a system probably far superior to the one I have shown you.

As I said at the beginning, successful people do what other people are unwilling to do. There is a fair amount of work in that, but if you do spend the time and effort that a lot of other people are not willing to do, I will guarantee that you will be successful and you might even say save the lemmings. Super Lemming! (Will showed a cartoon here, which is not available for publication)

WILL HAS SUPPLIED THE FOLLOWING POSTSCRIPT TO HIS PRESENTATION. THE POSTSCRIPT IS DATED MAY 25 1993.

When I gave the presentation, the system was:

Long Jun IMM JPY/USD	86.00	100%
Short Jul15 LME Copper	L1419.0	100%
Short Jun26 LME Aluminium	L1163.9	100%

As well, I was looking to:

Buy	July Silver (on stop 3.989)	50%
Sell	July Wheat (on stop 301-7)	100%

The results (per contract) were:

JPY/USD	Net profit \$US 4,395	206.82% deposit
Copper	Net profit L 6,607.50	440.5% deposit
Aluminium	Net profit L 105.75	10.86% deposit
Silver	Net profit \$US 1,270	108.19% deposit
Wheat	Net profit \$US 381.25	22.74% deposit

Overall there have been 15 completed trades since February 1993 for 10 wins and 5 losses. The average net win per contract was \$US 2,438 and the average net loss was \$US 709. I hope that my presentation will allow ATAA members to formulate their own systems with similar success. I mentioned to the Melbourne branch that I would be prepared to run a one day workshop at around \$500 per head for a minimum of ten starters. I would be prepared to run a similar workshop in Sydney if there is sufficient interest. I will not have time until December/January, but I would be interested to discover the degree of interest.

WILL SLATYER IS MANAGING DIRECTOR OF FOREX INTEREST RISK MANAGEMENT PTY LIMITED PO BOX 412 MANLY NSW 2095. TELEPHONE (02) 949 3744 FAX (02) 949 3640.

MONTHLY MEETINGS

In Sydney

Time: 5.30 for 6.00 pm
 Day: Third Monday of each month Feb. to Nov.
 Place: Jean Garling Room,
 Level 1, State Library of NSW
 Macquarie Street
 Info: Charles Balas (02) 522 5220

In Melbourne

Time: 6.00 for 6.30 pm
 Day: Third Wednesday of each month
 Place: Level 27,
 367 Collins Street
 Info: Paul Simmons (03) 593 1434

DAVID BOWDEN

'David Bowden addressed the March 1993 Sydney meeting of the ATAA. The following report of his presentation and its charts have been prepared by DW Hunt.'

David Bowden presented what he called a simple presentation with a broad range focusing on making long term forecasts and using short term charts to enter the market.

David sees himself as a Trader rather than a Technical Analyst. He does not relate his success in Teaching & Trading to TA, but rather his success comes from the broad spectrum that is 'Trading'.

David feels that he can help people move from being a short term trader to a long term trader. While he accepts that being a TA has its pressures eg not being able to publish negative reports on companies, he understands more the pressure of trading from doing it and so is better placed to help traders. He has moved from 'looking for the smaller little licks' of the market to 'going for the long runs' - what he feels is 'Professional Trading'.

The theme of David's talk was to show how he uses long term charts to keep him in the market, and keep him profitable. He then uses short term charts to get him on or off of a trade.

Trading Tune Up

David outlined the skills - a lot of them psychological- that he believes you need to have to do well out of trading.

- 1)
 - a. Ability to Formulate Goals & Objectives
 - b. Ability to Create Short Term Strategies
 - c. Ability to Create Long Term Strategies
 - d. Ability to follow through on goals & objectives
 - e. Ability to bring things into being - CREATIVITY
- 2)
 - a. Decision making -> pulling the trigger
 - b. Acting decisively after making a decision
 - c. Ability to act in paper trading
 - d. Ability to act in a pressure cooker
 - e. Ability to think out of a box
- 3)
 - a. Patience
 - b. Persistence
 - c. Ability to control greed.

If you don't have this ability you'll always be looking for that extra eighth of a point and that could cost you a lot of money.

 - d. Ability to concentrate

e. Ability to apply discipline

f. Ability to work in isolation - his personal preference. He had to move from the Gold Coast to get away from the crowd of traders coming to his house asking for tips. He found that the greater the number of visitors the worse his profits. David accepts that situation as his creation & found he increased profitability when he moved away to Buderim. David needs to be able to work in isolation.

- 4)
 - a. Ability to ask questions
 - b. Ability to take advice
 - c. Ability to accept constructive criticism
 - d. Ability to learn by the mistakes of others
 - e. Ability to learn by your own mistakes
- 5)
 - a. Ability to follow a trading plan
 - b. Ability to stay with a winning position
 - c. Ability to exit a losing position
 - d. Ability to place stops

David stressed that we are not born with and do not start off with these skills. They are acquired skills, "much like a taste for avocados and oysters", you need to develop the skills and work to maintain them.

e. Ability to complete a 'relevant forecast'

A relevant forecast is one that is of value in the market over time. 'You do have to be a forecasting genius to make money out of the market. A good forecaster should make some money some of the time. A good trader will make a little bit of money all of the time.'

f. Ability to reverse positions in the market.

Because your forecasts may be wrong from time to time you need to automatically reverse the position or automatically be out of the market the market. The exit should be automatic because your ego may be so bruised that you may not be in a fit state to jump out yourself.

- 6) Ability to manage money
- 7) Ability to turn off from the market after trading hours.

This lets you go for the big hits as you can see the forest for the trees. Don't over do the markets you trade or analyse. Working as a TA has its drawbacks if you are being forced to analyse too many markets 24 Hours a day - 'you are in a ton of trouble'. Before David takes a trade he has to work everything out just right or he's as lost as anyone else.

David said Ed Seykota has just lost his third marriage. He thinks that this is too high a price to pay.

David feels that with his lifestyle and his trading (and where he lives) that he's died and gone to heaven. He loves it!

8) Ability to prioritise

David asked us to list 5, of what we saw as, the most important qualities. We then rated them in order of importance. We were then asked to rate ourselves from 1 to 10 as to where we were now with regard to the most important quality. We then rated the next most important quality.

He then asked the following questions of us:

1. What skills are you short on?
2. What are you going to do about them?

You can only work on 3 of these at any time. Its no good thinking that you'll do a little bit here & a little bit there. You should work on the one that you rate the highest and are most lacking for a month. Then re-rate yourself at the end of the month. If you rank yourself a 2 now you want to get yourself to a 7. Work on the next one for a month and then the last one for a month. You can set your own schedule but make up a timetable to do this.

David feels you make your own decisions and have to face your own challenges and you must help yourself. David doesn't hold peoples' hands.

Indicators - 'Servants'

David's happy with Gann. If Elliott works for you, that's fine. DO NOT IGNORE FUNDAMENTALS - They'll come back and hit you in the back of the neck - it's all part of the relevant forecast. David doesn't mind Indicators. Review your Indicators and see if they work over a period of time. Work out how many trades you've done over the past few years and see how often that Indicator has helped. "A 'decent' indicator will have an affect on 70% of your winning trades. If an Indicator doesn't work for you throw it out, or learn more about the Indicator."

Basics

Study ("and model" DW Hunt) the top traders of the past and today.

Create a trading plan that is so good that it would be accepted by a funds manager or a future employer or even a bank manager that you would borrow money from.

You have to seek out and test innovative ideas and concepts. Then you have to out implement - out work - people that use those ideas and concepts. David had to do this by out working the experts in Gann. You should create a trading plan that is so good that it would be accepted by a funds manager or a future employer or even a bank manager that you would borrow money from. 80% of traders lose money.

David feels that people wanting to trade to get away from working for a boss are tackling trading the wrong way. People trading for a boss are usually ordered to have stops and have a trading plan. 'But the minute they go off trading they take their head off and they put a pumpkin on.' Stops, trading plan etc go out the window.'

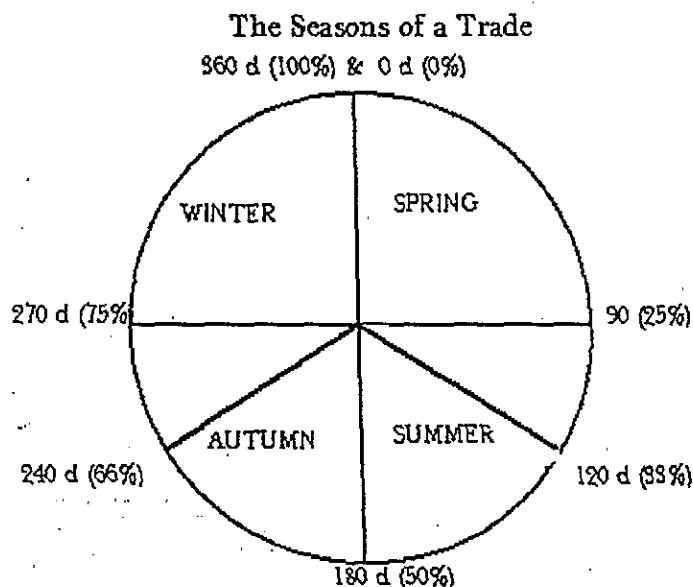
David borrowed a little bit of seed capital and started trading and did well, not losing more than he had made. But was very close to calling it quits as he was going close to bankruptcy for tax reasons, from his real estate business, and was running an overdraft with his broker. Then he took 6 months out of the market and developed his plan - 'got my act together'. He later borrowed \$30,000 from a friend and he took off from there and never looked back. He believes his track record and trading plan are so good now that 90% of the bank's in Australia would lend him money to trade. How he knows he could get the money from the bank, is because he doesn't need it, his courses and videos etc can support him.

David feels that to succeed you must have a precise, written trading plan - don't just think you have a trading plan. The trading plan has to be you because that's the way you'll have to trade. If you have a good plan you've got a better chance than tossing a coin or throwing a dart.

He believes you must focus on a purpose and stick to it.

THE TECHNICALS

a. The Seasons of a Trade



The plan you are developing has to give you consistently about 60% of the major runs over 5 years. You'll hear the story that history repeats, history repeats. WD Gann went on and on in his books about prices and old ranges to show you that history repeats. Look back through the price history of the market to see whether your trading plan gets

you in on the Spring time of the trade ie the first 25% of the range up of bull markets and first 25% of the range of bear markets. You look at the old ranges and see whether your indicators, swing charts, whatever, are getting you in the spring of the Trade. If you are going to get on a Bull get on a young Bull. If you are not getting in early enough sharpen up your entry mechanism.

Look at the whole thing as the seasons of the trend. Look at the 180 degrees or one half of the last trend - Gann's old 50% rule - its most likely to turn the market around at the end of summer. You must look at time and some type of cycle, relate to the seasons of the year or 360 degrees. The plan you have has to have you in for at least 50% of that cycle.

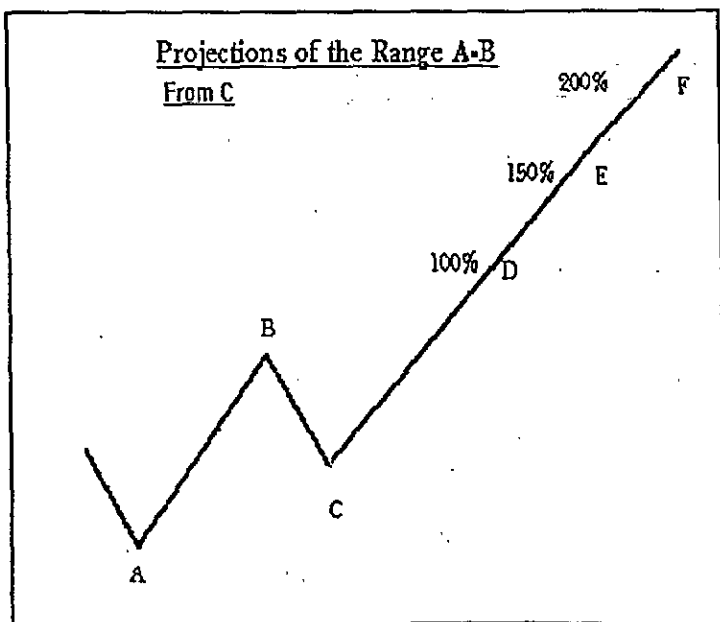
Tonight David used the Nikkei Dow to demonstrate Price and Eurodollar futures to demonstrate time. We were the guinea pigs for a talk he was to give at SIMEX in Singapore the following Wednesday.

From the audience he was asked which markets he follows. He replied that he follows a soft commodity eg May Soybeans, December Wheat or Cotton, the All Ords or S & P 500, and a currency usually the Swiss Franc on the IMM. He only looks for 8 trades in a year from each market - 4 up 4 down.

He looks at the yearly ranges. He feels that there is no need to trade the 'screaming tops and bottoms'. If you are not going well David recommends not even thinking about trying to pick tops and bottoms. In fact if you are doing well he feels you are not trying to catch them. His longest cycle is one year.

b. How Bowden Looks at a Bull or Bear Market

David looks for 8 trades a year on the contracts he trades - 4 up and 4 down. His average time in a trade is 3 to 4 weeks.



In his trading system he takes the old range from Low (A) to High (B) and then works out the 50% level of that range and looks to set up a trade at a point like C on the retracement. He then projects the range A-B from point C. The projections he uses are 100%, 150% & 200%.

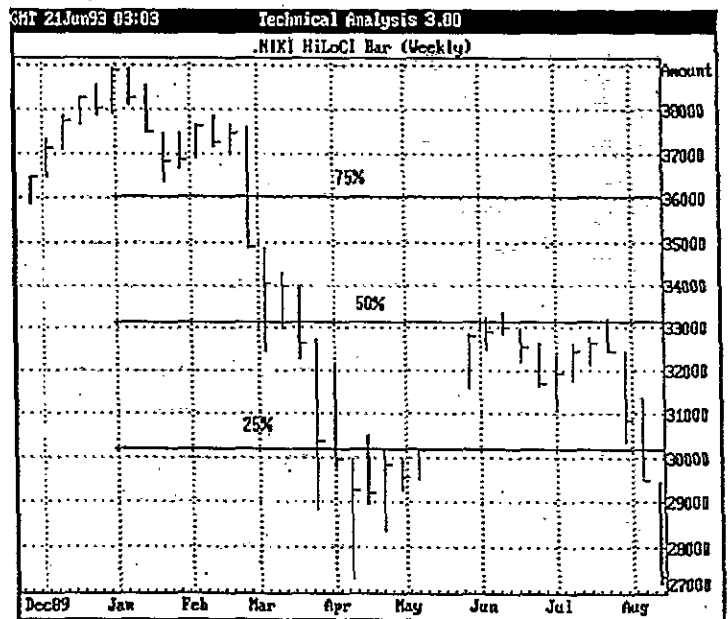
When the market reaches these levels he thinks about taking profits. the system is basically a trend following system where if you are going long the high needs to be above the swing top. If you are new to trading David recommends following trends as the best way to go.

THE NIKKEI DOW - PRICE

If you are sole trader and your calculations aren't simple you not going to be able to make them, according to David. You have to know how often they work by testing over 5 years.

David admits to being on addicted or hooked on trading stock indexes. He can only trade either the SPI or the S&P at any one time, because of their similarities. In 1992 he was hooked on all markets going up, but the SPI did not, so he was turned around a bit in 1992. The following is some of what he learnt from researching markets that were out of sync previously.

The major top of the Nikkei Dow was in late 1989 close to 40,000 up from the low at 15,800 in 1986. He has found that when one countries stock index market runs out of cycle with other countries stock index markets it has more violence. Most countries stock indexes will generally move in the same direction. The 1987 low was no big low on the Nikkei. Therefore, it was out of sync with the rest of the world and could be expected to be more violent.



If he was doing a long term forecast, he would keep it simple enough to mark up 25% sections ie 25%, 50%, 75% of the ranges marked on a weekly chart. David may write 4 or 5 other percentages on a card. On the Nikkei the

mid point, or 50% retracement of the range, from the 1986 low at 15,800 and the 1987 top at 40,000 was at 28,075. Basically, the market fell to this level and stopped and turned around and did another 50% retracement back up, and then moved down (see weekly graph on previous page). He pointed out that markets overshoot the mid point sometimes, but the mid point retracements do occur very often.

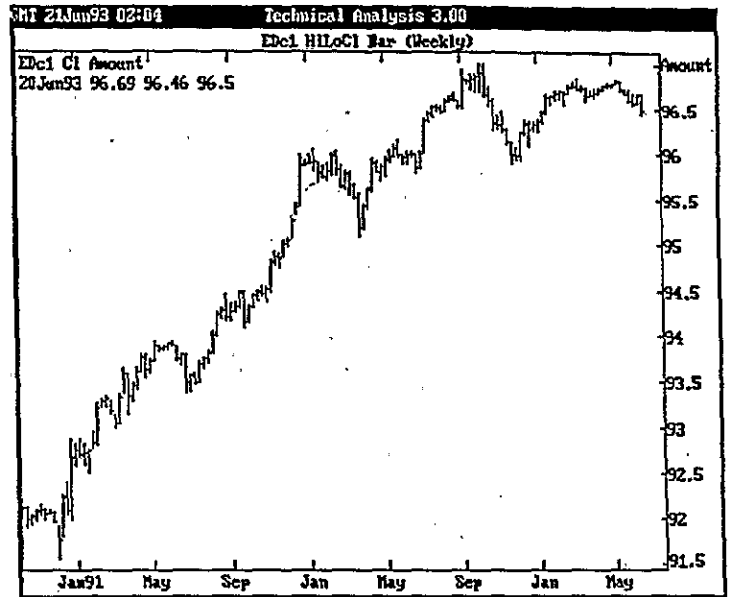
These percentages are linked to the SEASONS OF THE TRADE, they just fit together. A left brain right brain tip he gave us was to keep the retracements in a range of the same colours, he used yellow for the 50% level.

David admits to not being as good at cash indexes as at the futures. He uses volume to determine when he switches contracts. He does his calculations on a weekly chart marking out the 25% LEVELS AND LOOKING AT OLD TOPS AND BOTTOMS. He looks at simple trendlines. If a market breaks through a weekly trendline, moves away, then comes back & retested it he sees that as a sign of strength (or weakness) because the trendline is over a reasonably long period of time. The Nikkei had clearly done that on the chart he showed us.

David stresses that you can't enter or exit the market on a weekly chart - weeklies are good for keeping you with the trend - you need to get down to the short term level.

EURODOLLARS - TIME

David put up a daily chart and a weekly chart.

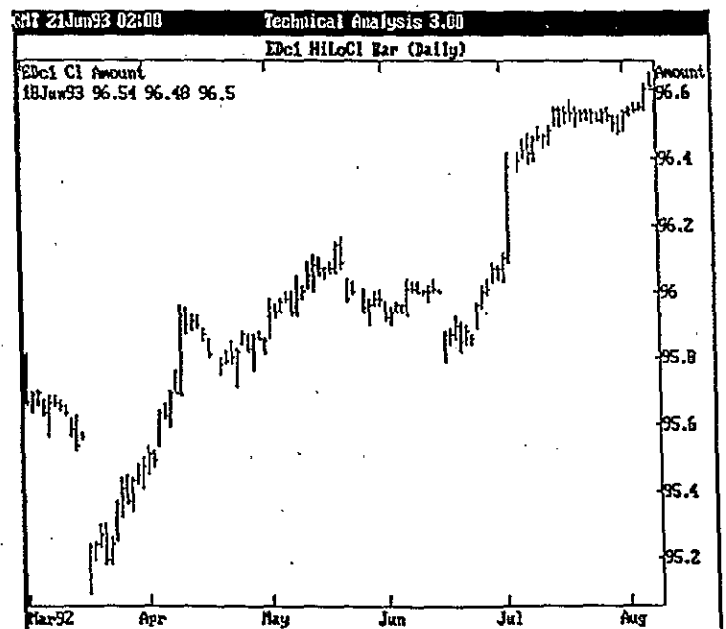


The concept of time is much the same as the Seasons in a Trade idea. It is also how he comes up with the pressure dates he became famous for in 1989 and 1991. One of his requirements for forecasting in the Research Technology Newsletter is that the dates must line up in terms of 12ths of a year. He uses increments of 30 degrees of the earth's travel around the sun in a year (Solar degrees). The February 1989 Research Technology Newsletter called for a top on 3.Oct.89 and it came on 4.Oct.89. He had that date 12 months in advance. He thinks it was no big deal, the real trick is actually trading it.

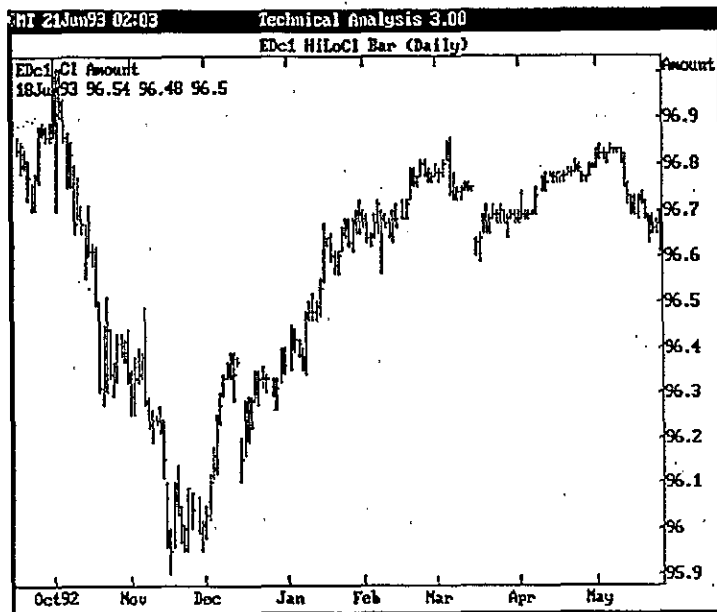
The method is to look for a major low (or high) and then look through the ephemeris and note when the 30 degree increments fall due. Note it is not always 30 days and it is not always consistent, it can 2 or 3 days out.



He believes that all of the stock markets are in for a very hard time over the next 12 to 18 months. The Nikkei has made a major low and is off cycle with Dow and FTSE it is possible that it will move differently after a period of consolidation. It would need to cleanly break the top at around 19,000 to confirm a bull market, before he'd try to hook into a long trade. However, he feels it needs to do a period of consolidation to let it wind up for the big moves he feels it is capable of.



A major low on the Eurodollars came in on 17.Mar.92 at 95.09 (DWH addition THE MAJOR LOW WAS AT 88.76 in the WEEK of 26.MAR.89). The next high was at 97.01 on 2.Oct.92. 180 degrees from this will be 30.Mar.93. The next low was at 95.90 on 17.11.92. David sees this as a major time period as the All Ords made its low on 16.Nov.92. 180 degrees forward from this will be 14.May.93.



In working a forecast he runs out 30 degrees at a time and sees which dates worked and which didn't. They will form a pattern & you forecast on that pattern.

If when the next future increment of 30 degrees fell due and

1. He was short term trading ie in the contract,
2. The market had run up (or down) well, &
3. Had shown a lot of violence.

He would get out of his profitable contracts.

He finds an ephemeris is the way to get his timing right. His goal in life is to teach an ape to pick yearly tops and bottoms. The only problem, David finds, is 'that its bloody hard to trade'.

The above is the sum total of David's use of astrology.

'YOU DO NOT MAKE A LOT OF MONEY FORECASTING TOPS AND BOTTOMS YOU MAKE A LOT BY TRADING THEM. YOU CAN SET A FORECAST A YEAR IN ADVANCE AS LONG AS YOU ARE PREPARED TO ADMIT YOU COULD BE WRONG'....

David advises that 'You've got to work to work the trends that come true to your forecast, because a lot of trends won't follow through. You work them with pyramiding'.

Even the best traders, David included, get a bit emotional trading in big trends because they tend to fall in love with trades. This is to be avoided and is why automatic exit is best.

David's biggest hindrance to making profits was changing his mind all the time, he was trading too short term. Since he took the 'six months' break he now makes a forecast and then he sticks to it. He wouldn't worry about making a forecast 100 years out. So he can't certainly forecast a market a year in advance. But you must know when you are wrong and be able to admit it. The SPI is still working to the 1987 top because its never been broken.

SHORT TERM TRADING

Even the long term trader needs to look at the short term sometimes, when he puts a trade on. the need to get in and get out leads you to short term trading. David likes to be in trade for 3 to 4 weeks and likes to see \$6,000 to \$8,000 profit per contract. If he gets a bit slack with his exit (read short term trading) he can drop \$4,000 to \$6,000 of his profits on the day of his exit.

David looks to the physical index for confirmation of tops or bottoms on his turing point days. He has found that usually the S&P Futures contract makes top (low) before the cash does usually 1/4 to 1/2 hour later. The Futures can be wrong - so if the physical has not turned in (say) half an hour - it is a false breakout. The Futures can not keep going without the physical following.

Why It Works

Money can get into futures contracts faster than in to the range of physical stocks for the obvious reasons of liquidity, cost etc.

David has to be able to define a trend when he trades. if a market opens, trades down, he has to see it take out the open before he has an intraday trade. Thus one of his definitions of a trend is that it has taken out the open.

To successfully day trade David believes that you have got to have a trend following pyramiding plan. A higher high, then higher low - buy 1 contract when it takes out the higher high. As soon as it makes a higher low, buy another contract and move stop up to the last low - and so on each time a higher low comes in.

You also must watch volume throughout the day. In bull market you must have higher volume. Although in a bear market you can get away without higher volume confirming the trend.

On a short term chart you should have a line across for the close of the previous day. This may well be the low for the day in a strongly trending bull market. If it breaks you are in trouble. Put a stop below market close if it is taken out, market may be weak.

David feels you should always be working in the range for each up/down movement. As well as that always track the ranges since the last top or bottom. David keeps an eye on On Balance Volume (an Indicator).

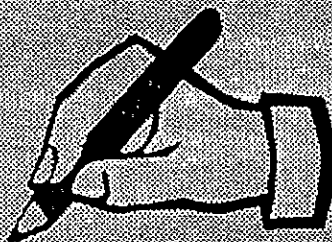
David recommends doing all of your work before the market opens and 10 minutes before it closes. This is because the sweetest profits are made overnight.

David divulged a few statistics on the SPI.

If SPI closes 20% above its day's midpoint then it has a 90% chance of making a new high the next day. If it also has made a higher low and higher high than the previous day, the chance goes up to 95%. David wants an 85% chance before he'll take a trade. The above percentages apply to the downside for the same patterns. He only uses the short term work to get in on a pressure day or when he looks to get out.

CONCLUSION

Part of the reason David "trades is for the BUZZ". He likes living close to the edge like a cat on a hot tin roof or where the snow doesn't stick. He prefers long term trading to short term trading. Short term trading makes him change his mind too much, but short term trading also helps retain his profits through better entry and exit on his long term trades. He uses the idea of the Seasons of the Trade to know how mature a market trend is.



HOW TO CONTRIBUTE

Contributing to the ATAA newsletter is easy and can sharpen your thinking/logic on the analysis you are using.

Newsletters are published in March, May, July, September and November (Odd months). Copy deadlines for the next Newsletter are the 20th day of February, April, June, August, October (even months). Copy can be given by hand at the meetings or mailed to PO Box 2774 Sydney NSW 2001.

Our preference is for submissions to be on floppy disk (either IBM or Apple). Both text & graphics should be on the disk. We will return your disks. Any popular word processing or spreadsheet package can be used. ASCII dumps (printing to a file eg .pm) can be used for the more esoteric word processing packages. Graphics such as PCX, TIFF, HPL, PIC, Paintbrush etc are acceptable.

Packages acceptable are Word (both Windows and DOS), Word Perfect, Wordstar, Lotus and MS Excel are also acceptable.

If you cannot put it onto a disk, please type on paper and include good quality originals of graphs or charts.

If you would like to help, talk to Colin Nicholson on (02) 436 1610.



THE 1993 ATAA TECHNICAL ANALYSIS COURSE

Eight Weekly

HANDS-ON Workshops
August 3 to September 28

5.30 - 7.30 pm

Benefits:

- UNDERSTAND Basic principles of Technical Analysis
- LEARN HOW TO construct & interpret charts (all markets)
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Presenters:

John Gajewski -
Commonwealth Bank of Australia

Colin Nicholson -
Private Trader & ATAA Editor

Peter Pontikis -
Westpac Banking Corporation

Information:

Securities Institute, Phone: (02) 232 5144

BONDS UPDATE

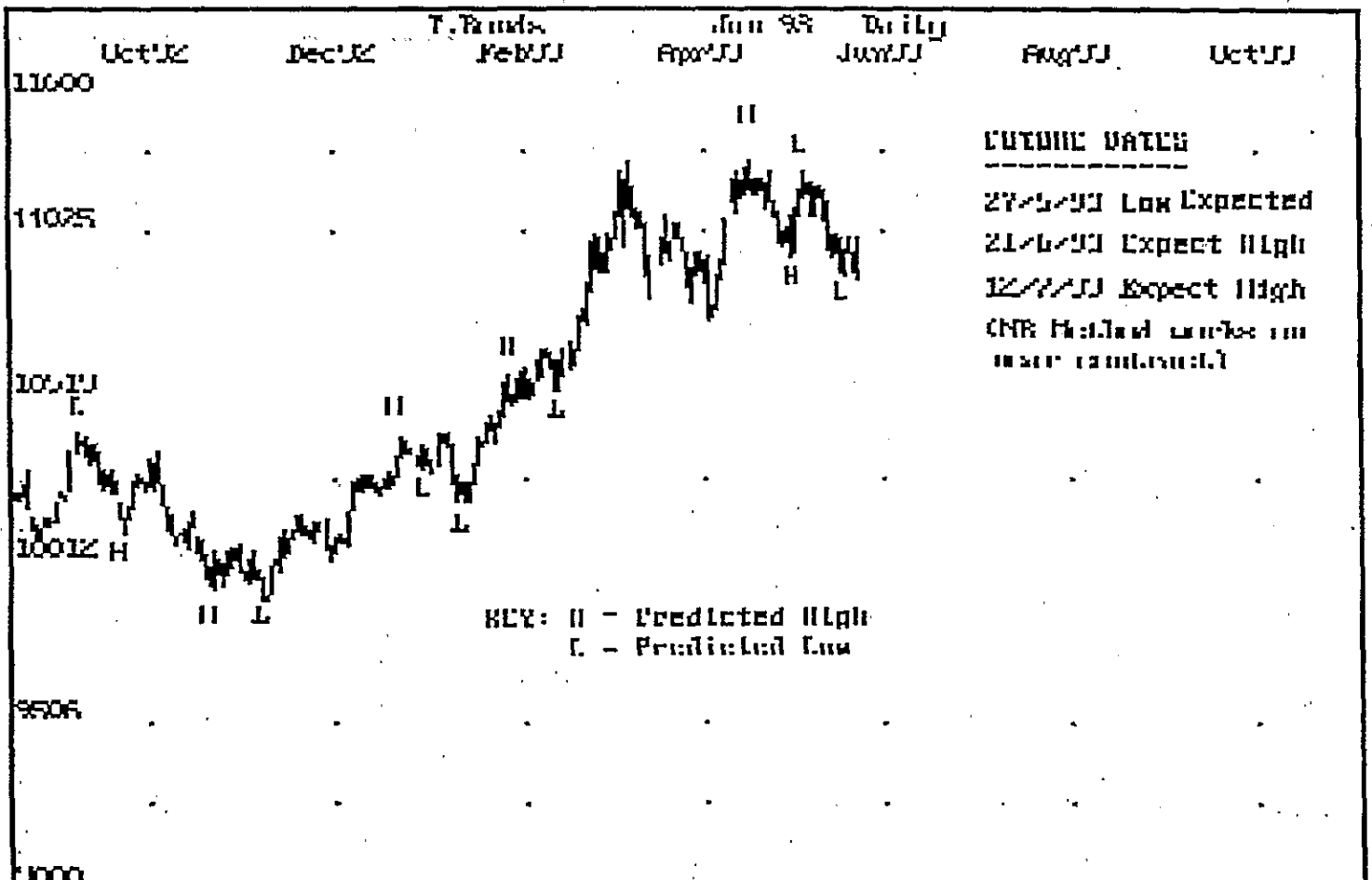
As promised last newsletter set I am enclosing some turning point dates from Nick Flamborous of Gann Research Educators in Chicago. He has a method of determining good probability turning point times (what he terms Mass Pressure Days) and whether they will be a high or low.

Nick, and his partner (a floor trader) trade, the 30 Year Treasury Bonds and Soy Beans Futures of the Chicago Board of Trade [CBOT]. A chart of the June '93 T-Bond contract is set out below with his past turning points as well as a few future ones. Nick was involved in the Astro-Cyclical Exchange with Phyllis Kahn, worked with Norman Winski and has taught Gann techniques to people like Tony Krebbels, Bill Eng and other successful traders. Gann Research Educators are recommended by Marisch in WD Gann: A Simplified Technique.

Many new traders want to see a forecast turning point that gives an absolute high or low for the next century (I'm exaggerating a bit here - but its fairly true). Many experienced traders know that all you need is a turning point that you can trade successfully for a low risk but high return trade ie where is your stop and what is your target. I find the most profitable trades for me last longer than 6 weeks, but much of the money is made in spurts of 3 to 5 days. The dates Nick has are for his trading style which is always in the market and looking for turning points.

For the T-Bonds there have been 13 forecast turns to date, only 3 have inverted. Inversion means when a high is forecast and the market actually has a low and vice versa. The majority of turns are exact with some being plus or minus 1 or 2 days. Set out below is a complete table with Nick Flamborous's future dates for the T-Bonds:

F'Cst Date	F'Cst Turn	Actual Date	Actual Turn	Trad dys Differ.	Turn Result
10.09.92	Low	08.09.92	High	- 2	Invert
22.09.92	High	23.09.92	Low	+1	Invert
23.10.92	High	22.10.92	Low	-1	Invert
22.12.92	High	22.12.92	High	+2	Exact
31.12.92	Low	31.12.92	Low	0	Exact
08.01.93	Low	08.01.93	Low	0	Exact
20.01.93	High	20.01.93	High	0	Exact
11.02.93	Low	11.02.93	Low	0	Exact
16.04.93	High	16.04.93	High	0	Exact
30.04.93	High	30.04.93	Low	0	Invert
05.05.93	Low	05.05.93	High	0	Invert
17.05.93	Low	17.05.93	Low	+2	Exact



Future Dates (T-Bonds)

27.05.93 Likely Low 28.05.93 Low +1 Exact
 21.06.93 Likely High
 12.07.93 Likely High

Today is June 21 so we now have the result for the 27.05.93 turn. The real low came on 28.05.93 (just one day later). The market has rallied sharply and is looking like topping tonight.

Set out below is a complete table with Nick Flamborous's future dates for the May Soybean Futures:

F'Cst Date	F'Cst Turn	Actual Date	Actual Turn	Trad Dys Differ.	Turn Result
07.08.92	Low	07.08.92	Low	0	Exact
01.09.92	Low	31.08.93	Low	-1	Exact
21.09.92	High	15.09.92	High	-3	Exact
29.09.92	High	29.09.92	High	0	Exact
27.12.92	Low	27.12.92	High	0	Invert
16.01.93	High	19.01.93	High	+2	Exact
31.01.93	Low	31.01.93	Low	0	Exact
20.05.93	High	19.05.93	High	-1	Exact

There are two results from Nick's forecast for the November Beans available now. 30.05.93 was a Sunday, and the market fell to pieces on 01.06.93 from a high of 607.0 to a low at 588.5, the real low on my data was 02.06.93 at 588.0, not bad. The turns are on time on average.

As you can see inversions can and do occur, but they can still provide you with a low risk trade. I'd rather enter a trade on a confirmed reversal day whether the market had inverted or not.

These dates can tip you off to when the market will go silly. Often if there is a cluster of dates you will find the market goes into a range and you can trade that range. A paucity of dates suggests a trend.

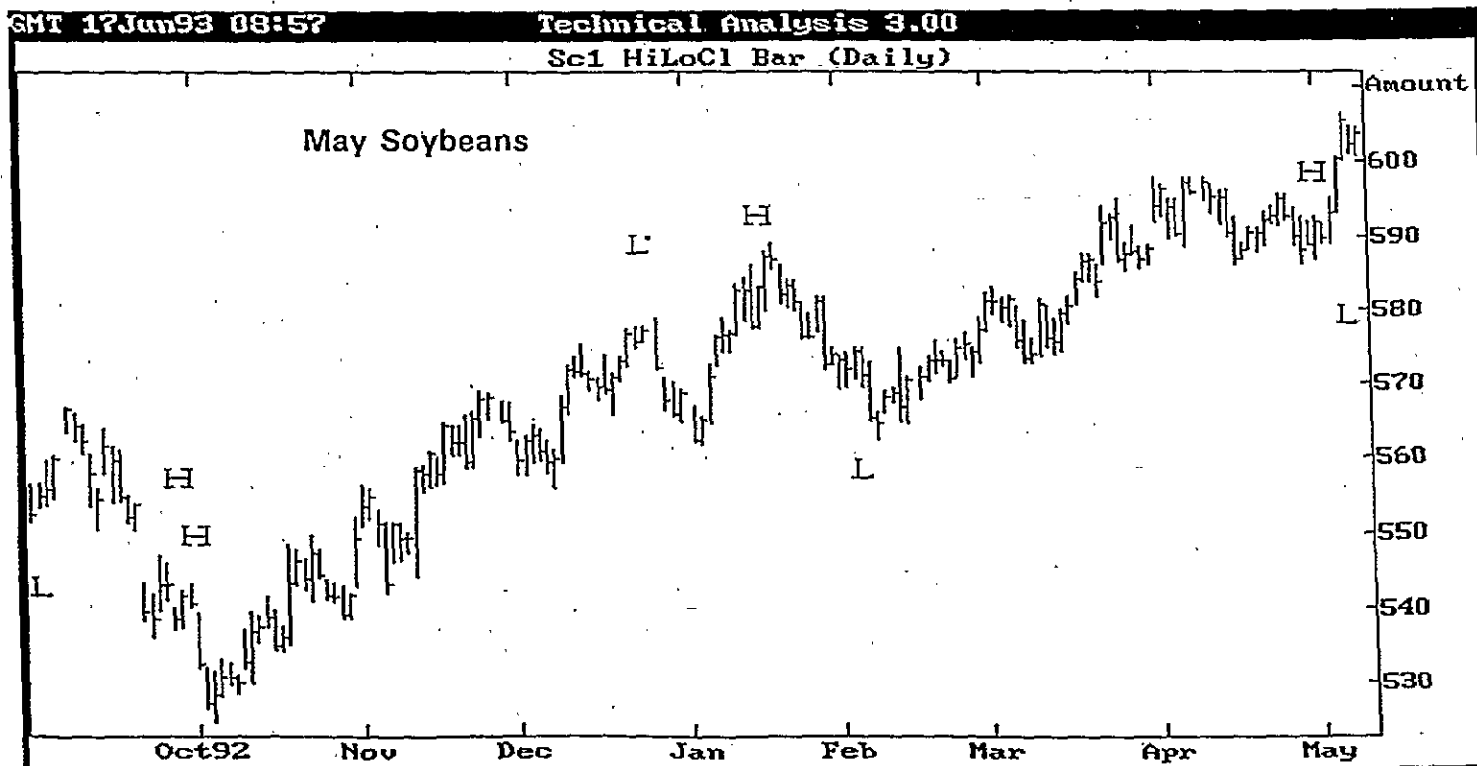
CAUTION

Forecasts of tops or bottoms can help you take profit on existing longs or shorts. Never enter a new trade before the turning point is confirmed as a top or bottom, it may invert!. Use other technical analysis tools (that suit your trading style) eg Candlesticks, Reversal Days, divergence etc, to confirm that a top or bottom is in place in accordance with the forecast, before entering a trade. Always trade with sensible stops that are placed at a point where you are proven wrong and where you will not be financially ruined (its a fine line!!). The decision to enter the market must be accepted as your responsibility alone as must the decision to exit the market.

DW Hunt
 Secretary.

Future Dates (May Soybeans)

30.05.93 Likely Low 3.06.93 Low +3 Exact
 14.06.93 Likely High 15.06.93 Low +1 Invert
 29.06.93 Likely Low



WHAT DO YOU NEED TO TRADE?

I often am asked to help people set themselves up for trading. Most come starry eyed and enthusiastic keen to earn the dollars in the market and they are all looking for the Holy Grail and yet they already have it at their disposal and do not know it. In the next few Newsletters I'll go into more depth and add some more to this (see my report on David Bowden's talk in this issue, especially the 'Trading Tune Up'). TA helps you with a few things in markets but is a small part.

The first thing is to test them on their perseverance. I give a few tasks to do ie reading and self analysis. Most think I am a bit weird - 'What about the Holy Grail?' they cry.

I tell them first what they have to give up.

A) What You Have to Give Up

i) The Need to be Right All of the Time

This is hard for TA's and is why most are not good traders. They always want to be right and won't admit to being wrong. Forecasts for other people are to blame I think. Some of the best traders are right only 30% to 40% of the time, but are stopped out the rest of the time for small losses. They have learnt how to ride a winner for big profits.

ii) Stay Separate From the Market

That is, to not get tripped up by the small jiggles in the market. To not take profit too early for no systematic reason. To not be sucked in to the glamour and not fall in love with the trade.

iii) Time & Energy

You need to work hard and long to test your rules for entry, exit, stops, an lethargic markets.

B) What You Need to Trade

i) Method to Determine Direction of the Market

This is where TA will help.

ii) Method for Limiting Losses If you are Wrong

Along with TA this is an area for money management

iii) Resources

1. Do I need Specialised Software?

NO you don't. You can use Lotus, Excel or paper and a calculator to calculate Indicators, targets, retracements, analyse chart patterns etc. I did mine on Lotus for years and was managing a U\$ 300 million exposure for AUSSAT.

2. Must I buy Data?

No you don't. You can get data from your friendly broker or the paper depending on the market. Instead of getting the

morning run down (read gossip) from your broker ask for the open, high, low and volume etc from him (See Broker).

3. I Haven't Got Live Data HOW DO I COMPETE?

You don't need live (real time) data. to make money. In fact it can cost you dearly through screen addiction and making you extrapolate the short term jiggles into the long term path.

iv) Broker

Depending on the market you definitely need a broker and an account (read Deposit - see capital). Select the Broker carefully you need to be able to respect him and he needs to be able to respect your wishes. the broker should work for you and with you not work you for business. Price should not be the major determinate in a broker-client arrangement.

v) Trading Capital

The amount of trading capital depends on whether you are trading for a hobby, or for a part-time business or your livelihood and most importantly the market you are trading and the success of the methods you use to trade. Mr Gann recommended never risking more than 10% of your capital on any one trade, as the amount of capital fell so would the amount you risk. Currently most CTAs will only risk 2% at most on one trade, and have only 4 or 5 trades on at any time. There is no point in trading a S&P contract with an account of \$5,000 the contract is so volatile an hour's swing will wipe you straight out. The Mid-America contracts and even real contracts such as Corn and SoyBeans on the CBOT are real alternatives if you have a small capital.

vi) Belief In Yourself Plus Humility

Say no more, but you must be able to back your judgement but admit that you may be wrong and admit it fast if you are.

vii) Time Out of The Market and an Excitement Outlet

The markets are so interesting - they are always moving - especially if you are in a trade, that you can become glued to the screen. TAKE REGULAR BREAKS. Many people coming in to the markets get what they want - EXCITEMENT or ACTION - unconsciously by losing lots of money. Play roulette or sky dive for excitement; DON'T RISK YOUR MONEY FOR EXCITEMENT. TRADING IS A BUSINESS.

I'm just getting warmed up here and will continue in later Newsletters.

Good Trading

DW Hunt

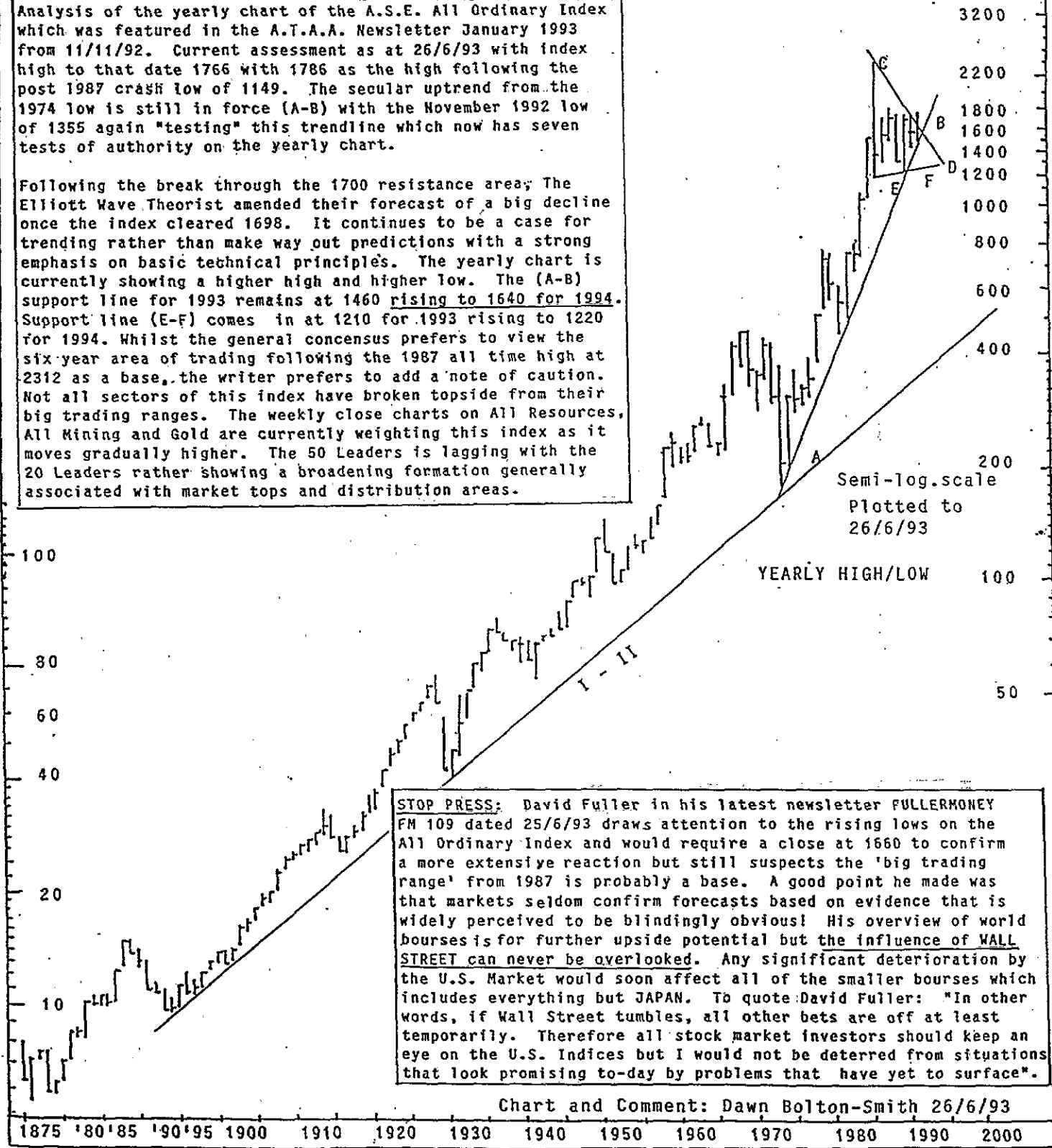
Secretary.

ASE ALL ORDINARY INDEX - THE BIG PICTURE

A.S.E. ALL ORDINARY INDEX

Analysis of the yearly chart of the A.S.E. All Ordinary Index which was featured in the A.T.A.A. Newsletter January 1993 from 11/11/92. Current assessment as at 26/6/93 with index high to that date 1766 with 1786 as the high following the post 1987 crash low of 1149. The secular uptrend from the 1974 low is still in force (A-B) with the November 1992 low of 1355 again "testing" this trendline which now has seven tests of authority on the yearly chart.

Following the break through the 1700 resistance area; The Elliott Wave Theorist amended their forecast of a big decline once the index cleared 1698. It continues to be a case for trending rather than make way out predictions with a strong emphasis on basic technical principles. The yearly chart is currently showing a higher high and higher low. The (A-B) support line for 1993 remains at 1460 rising to 1640 for 1994. Support line (E-F) comes in at 1210 for 1993 rising to 1220 for 1994. Whilst the general consensus prefers to view the six-year area of trading following the 1987 all time high at 2312 as a base, the writer prefers to add a note of caution. Not all sectors of this index have broken topside from their big trading ranges. The weekly close charts on All Resources, All Mining and Gold are currently weighting this index as it moves gradually higher. The 50 Leaders is lagging with the 20 Leaders rather showing a broadening formation generally associated with market tops and distribution areas.



STOP PRESS: David Fuller in his latest newsletter FULLERMONEY FM 109 dated 25/6/93 draws attention to the rising lows on the All Ordinary Index and would require a close at 1660 to confirm a more extensive reaction but still suspects the 'big trading range' from 1987 is probably a base. A good point he made was that markets seldom confirm forecasts based on evidence that is widely perceived to be blindingly obvious! His overview of world bourses is for further upside potential but the influence of **WALL STREET** can never be overlooked. Any significant deterioration by the U.S. Market would soon affect all of the smaller bourses which includes everything but JAPAN. To quote David Fuller: "In other words, if Wall Street tumbles, all other bets are off at least temporarily. Therefore all stock market investors should keep an eye on the U.S. Indices but I would not be deterred from situations that look promising to-day by problems that have yet to surface".

Chart and Comment: Dawn Bolton-Smith 26/6/93

THE GREAT GOLD RUSH - 1993 STYLE

It has been said that there is no fever like "gold fever". Indeed for those technicians who persevered with their gold charts since the 1980 highs when it could be said that many of the predictions were either too optimistic or too soon, have now been rewarded for their efforts.

Gold has been the perfect technical trade from the March 1993 low of \$326 using the technical indicators favoured by the writer. These have been proved many times and in all markets and have been frequently highlighted during Technical Workshops and regularly at our monthly meetings.

the end of the boom, a step ladder was required to plot the daily charts which literally moved up to the ceiling. The memories of those halcyon days and forecasts of \$1000, \$2500 for gold still have to be fulfilled.

The \$850 area seemed a sensible level to take futures profits in Sydney - the 10 point three box reversal point and figure chart on London 1500 Fix Gold clearly achieved a "measured move" but that day was accompanied by forecasts of \$1000. Alas, the opening level on the S.F.E. the following day was \$220 DOWN. A good trading

opportunity for a \$100 rally which was to follow later but a devastating margin call for overnight long positions. The net result was mass liquidation. On a brighter note there was one client who was SHORT overnight five contracts but had to admit he hadn't slept too well.

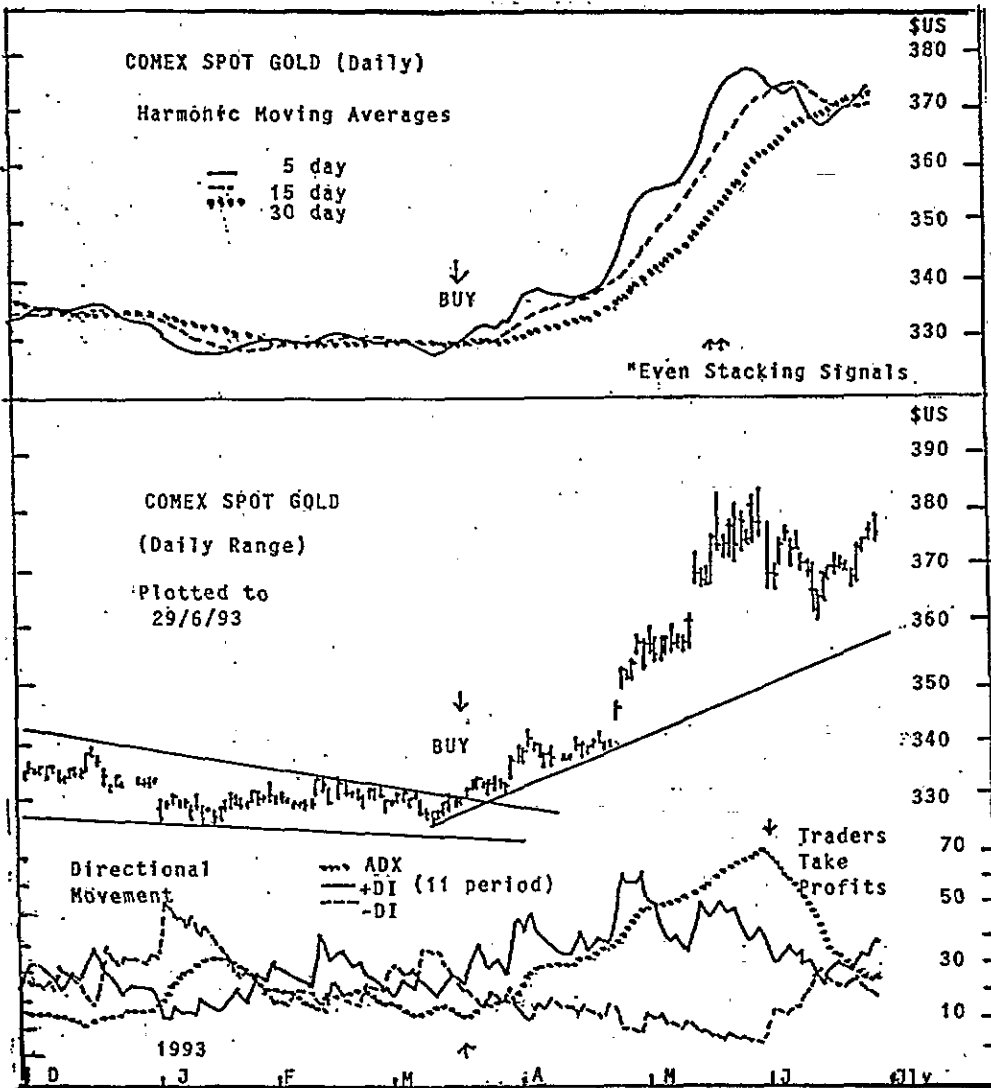
It is as well to recall these events as undoubtedly a similar position will present itself somewhere in the future and it has been said recently that whoever puts you in at the bottom of a major bull market will not be there to get you out at the "top".

It is far preferable to use the trend following technical tools which will maximise the profits and keep you on the right side of the market and trading with the trend. Indeed it is sometimes one of the simplest tools which will prove most effective. During that great commodity run, there were so many traders who continued to short the rising trends in gold, silver, cattle and wool which were heavily traded on the S.F.E. and by the time the bull markets were over and it was time to tackle them from the short side, they had virtually "wiped themselves out".

A memorable trip to the World Money Analyst Seminar in Hong Kong in

March 1980 - most of the experts giving their various long term outlook for gold were only looking at the bull side. The technical monitoring of the price trend and "listening to the market" provided the safest course with the bear market low of \$281 coming in on Spot Comex in February 1985.

The note of caution I choose to emphasise is not to listen to too many opinions which can result in confusion. Select the newsletters with the best track record and who have been in tune with the market.

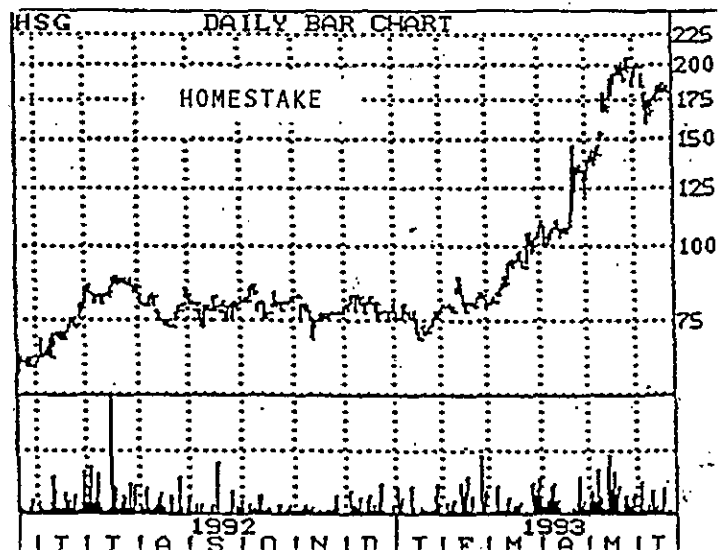
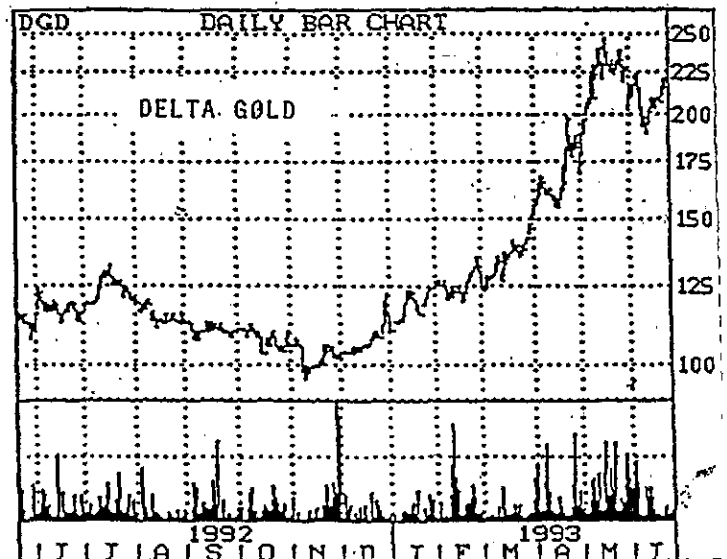
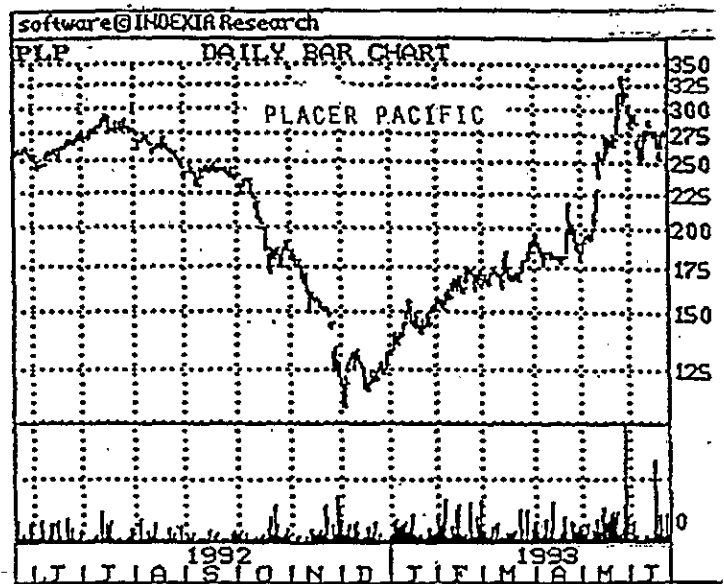
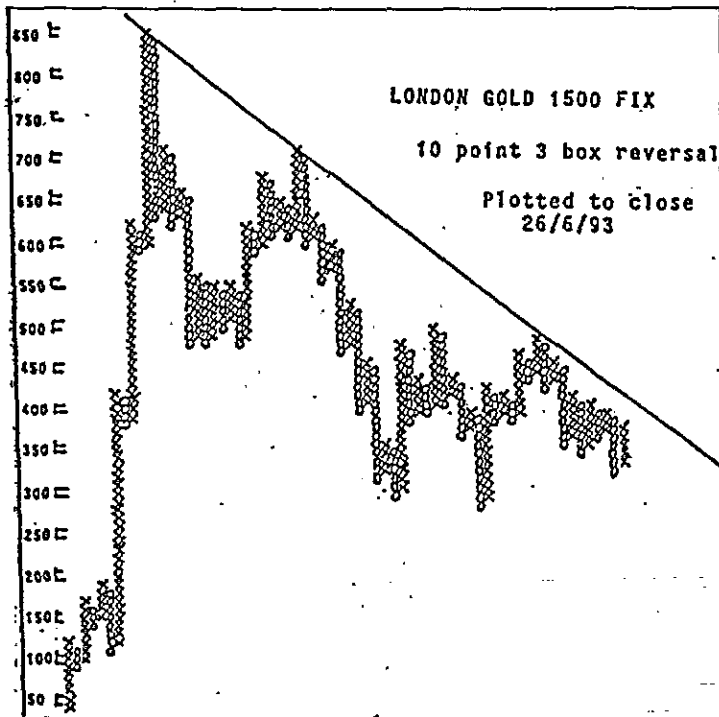


The charts on Comex Spot Gold from December 1992 along with the relevant indicator signals, clearly serve to well illustrate their value. If we are in the early days of a big bull market for gold (and silver), the best is yet to come. In bull markets secondary corrections tend to shake out the nervous holders but should be used as buying opportunities.

The writer was fortunate to be a technical analyst for a leading Commodity Broker from May 1979 when gold was \$245 per ounce. The rest is history culminating in the all time highs for gold around \$850 and silver \$50. It was hard to keep the paper up to the charts and indeed towards

My advice is to stay with the Directional Movement System devised by J. Welles Wilder. I recall his words of wisdom at the 1980 Technical Trading Seminar at the Sydney Opera House which I was fortunate to attend - IF YOU ABIDE BY THE RULES OF THE DIRECTIONAL MOVEMENT SYSTEM - YOU WILL NEVER BE WIPED OUT IN A MARKET. Indeed, you would have been out of long positions in plenty of time before the 1987 crash and indeed would have held a short position for the big decline. The signal from the ADX to cover came one day after the bottom at 1149.1.

New members not acquainted with the value of DIRECTIONAL MOVEMENT and the ADX should follow it up. Most technicians have some knowledge of the Relative Strength Index which Mr. Wilder developed in 1978 but are unaware of the value of DM. Ivan Krastins has covered it extremely well in his splendid book LISTEN TO THE MARKET whilst John Murphy in his TECHNICAL ANALYSIS OF THE FUTURES MARKET virtually passed it over for lack of space.

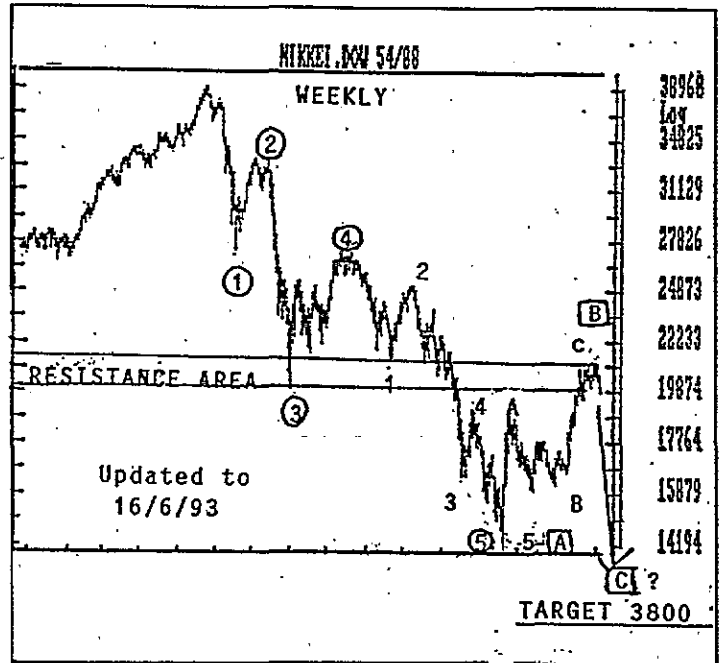
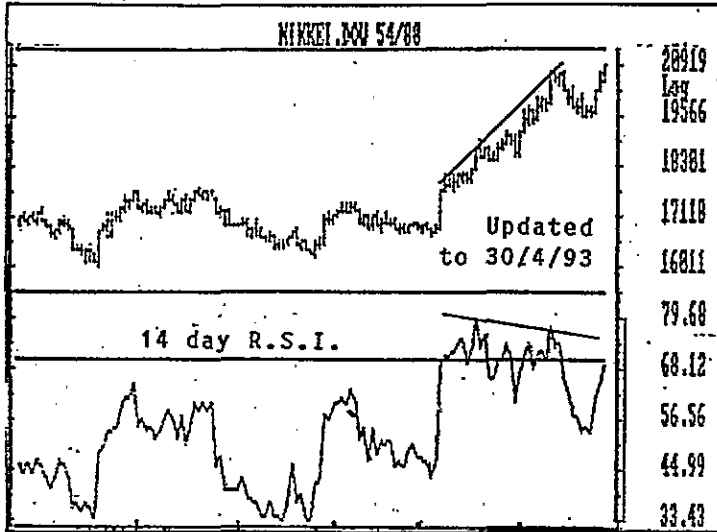


It is not the object of this article to make way out "predictions" except to express the writer's view based on a technical assessment from gold and gold stocks that it is likely that the 1980 highs will be "tested" and exceeded. A good perspective from the right charts which would include point and figure charts. Indeed, gold is an area where Gann techniques could be well applied. Three major gold stocks from Indexia Software reflect the overall performance of the strong up trend in the gold index which commenced late 1992 - early 1993. Good trading!

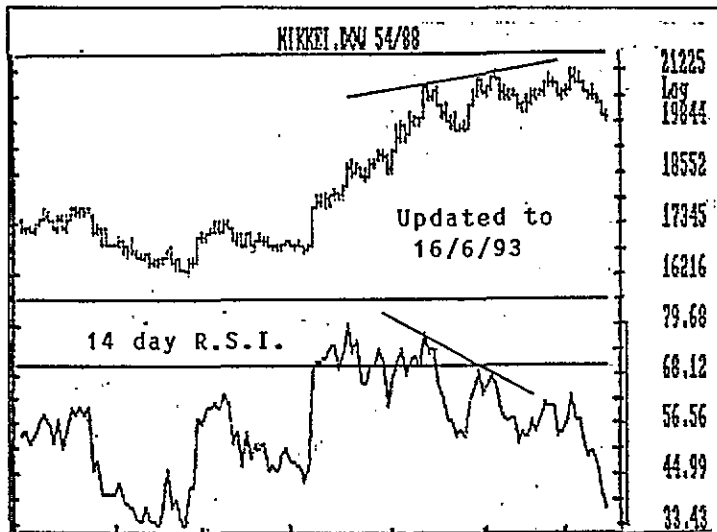
Dawn Bolton-Smith
Vice President

POSTSCRIPT ON THE NIKKEI BY CHRISTOPHER CARR

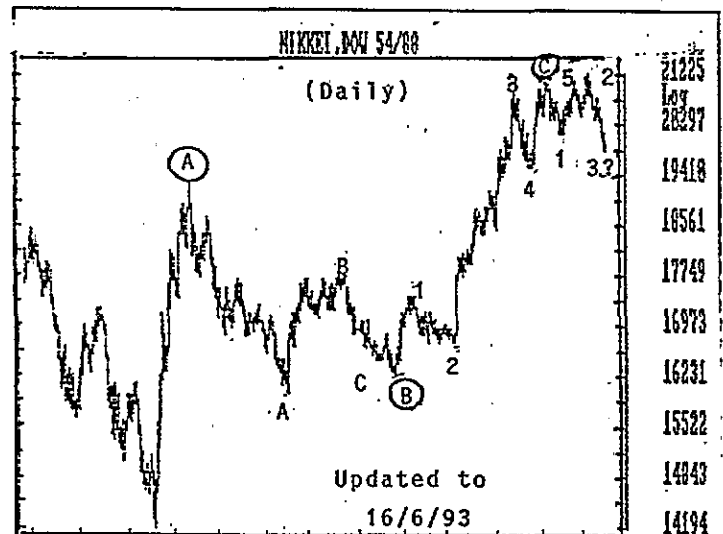
The astute reader of my article "Where to Next" in the May Newsletter, will have observed that my 14 day RSI indicator on the Nikkei was heavily disguised due to a production error. The missing chart is reproduced here:



Subsequent price action to date (17.6.93) appears to amply confirm the warning of potential weakness at the end of April.



Finally, let me focus on the recent ABC correction within that large corrective Wave B. I have included an internal wave count which may raise some argument with other Elliott Wave followers. It appears that Ministry of Finance manipulation produced an extended Wave 3 within Wave C. The top of Wave 5 of Wave C was at 21,225. The top of Wave 2 of a new downtrend was at 21,222. And now it appears that we are in Wave 3 down. Probably we are talking about internal waves in a much larger sequence if the ultimate targets are accurate.



Let me reiterate the 'big picture'. I believe that the Nikkei has completed, or is completing, an ABC correction from the bottom of Wave 5 of the large Wave A, and is commencing the large Wave C which has a target of 3,800. This represents a 90% retracement from the bull market top at the end of 1989. As pointed out in the May newsletter, this percentage has a number of historical precedents. Many stockbrokers and fund managers will dismiss this projection with scorn and derision but I maintain that this deflation is the inevitable consequence of the preceding inflation and the structural imbalances it created.

Christopher Carr, Sydney 17.6.93



BIG PICTURE UPDATE ON THE AUSSIE!



\$A vs \$US MONTHLY HEDGE FIX CLOSE

AUSSIE \$ - NEW JUNE LOWS!

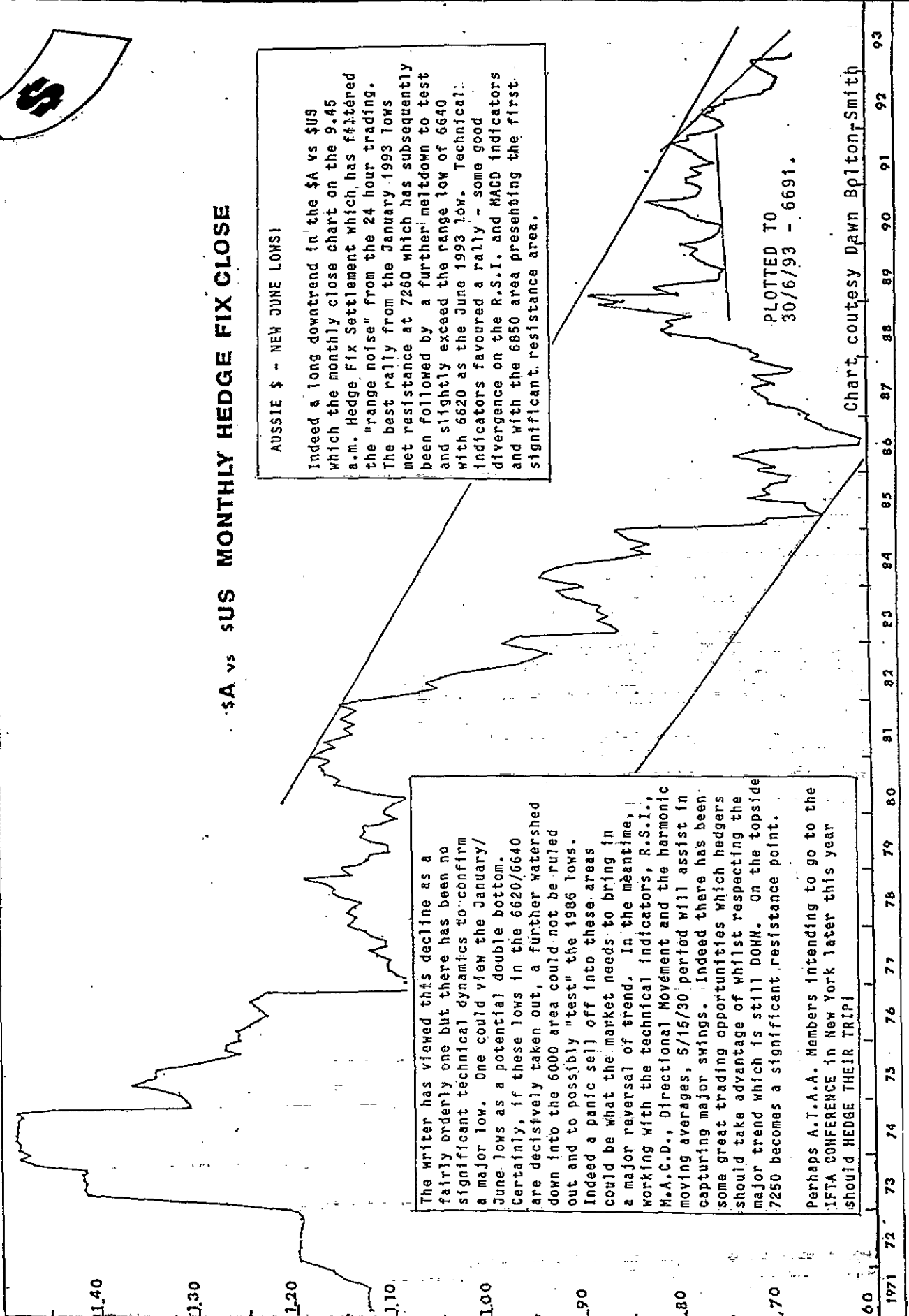
Indeed a long downtrend in the \$A vs \$US which the monthly close chart on the 9.45 a.m. Hedge Fix Settlement which has featured the "range noise" from the 24 hour trading. The best rally from the January 1993 lows met resistance at 7260 which has subsequently been followed by a further meltdown to test and slightly exceed the range low of 6640 with 6620 as the June 1993 low. Technical indicators favoured a rally - some good divergence on the R.S.I. and MACD indicators and with the 6850 area presenting the first significant resistance area.

The writer has viewed this decline as a fairly orderly one but there has been no significant technical dynamics to confirm a major low. One could view the January/June lows as a potential double bottom. Certainly, if these lows in the 6620/6640 are decisively taken out, a further watershed down into the 6000 area could not be ruled out and to possibly "test" the 1986 lows. Indeed a panic sell off into these areas could be what the market needs to bring in a major reversal of trend. In the meantime, working with the technical indicators, R.S.I., M.A.C.D., Directional Movement and the harmonic moving averages, 5/15/30 period will assist in capturing major swings. Indeed there has been some great trading opportunities which hedgers should take advantage of whilst respecting the major trend which is still DOWN. On the upside 7250 becomes a significant resistance point.

Perhaps A.T.A.A. Members intending to go to the IFTA CONFERENCE in New York later this year should HEDGE THEIR TRIP!

PLOTTED TO
30/6/93 - 6691.

Chart, courtesy Dawn Bolton-Smith



IMPORTANT CYCLES ON THE HORIZON

The latest newsletter from Phyllis Khan, editor of Gann Angles (July 1993), makes for interesting reading if the US market is to have a marked effect on the Australian Stock Market.

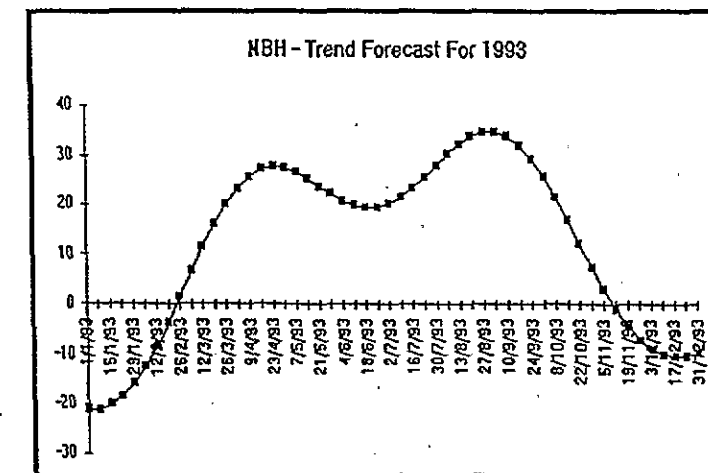
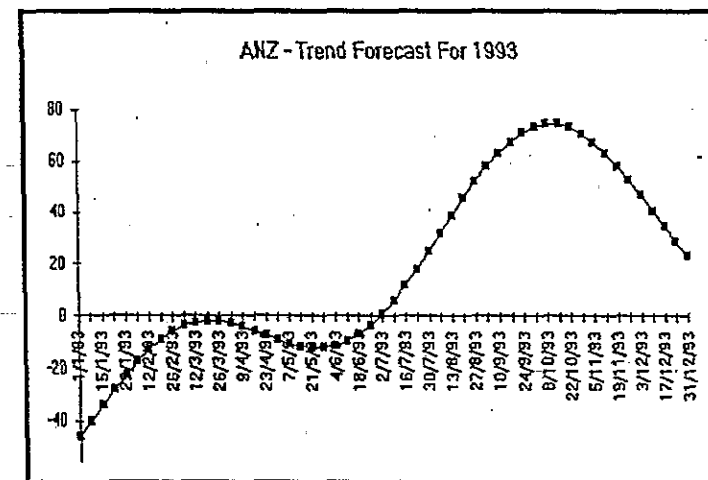
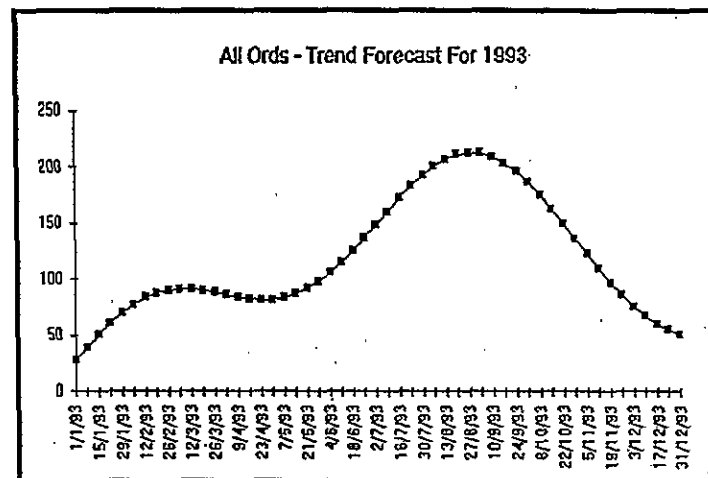
"July power cycles due this month holds some extremely strong cycles that will not be denied. If prices are rising into this power cluster, and it does appear so, IT WILL BE THE TOP. Here are the major WEEKLY cycles converging in the week ending July 16th. 180 weeks from January 1990 major low. 144 weeks from October major low. These two cycles converging have better than 90% accuracy in all markets for bringing in a MAJOR, yearly, trend change. That week is also the three year, 36 month, anniversary of the January 1990 high."

The forecasts are based on a cycle theory. Periodic cycles account for approximately one quarter of all price motion in stocks (this varies from stock to stock). Fundamental factors cause approximately three quarters of stock price motion, however, the effects are usually long term and smooth in nature. Unforeseeable changes in fundamentals can render these forecasts useless.

I procure forecasts similar to the following at the beginning of the calendar and financial year. The following forecasts span from the beginning of January 1993 to the end of December 1993.

James Slack-Smith

Phyllis Khan has stated that we can have a MAJOR decline that, on a trend basis, may persist into October-December 1994 for a 20 year cycle low. She also states that you may hear predictions about a 10% decline, but don't believe it. The possibility of another meltdown ala 1987 is still with us. In fact, a financial panic in July-August-September is an historic event on the horizon. Her trading strategy, for possibly the last rally, would be to buy puts into strength, but buy time. Buy nothing closer than December 1993 puts.

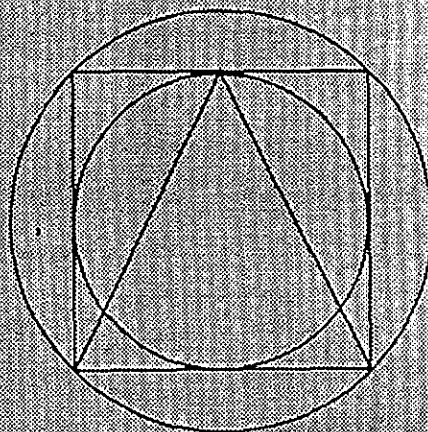


YEARLY STOCK MARKET FORECASTS

Yearly forecasts of price trends, such as the forecasts presented in this article, constitute 5 - 10% of my trading strategy. I believe it is far more important to follow the developing trends and recognise changes as they occur than to rely 100% on forecasts. Although, it is incredible what can be achieved.

The aim in constructing these forecasts is to obtain a general idea of what to expect, in terms of price trends, for the coming year. Although the forecasts are made using weekly data the correlation between forecast changes in trend and actual changes in trend can be months out. As mentioned, forecasts such as these form a small fraction of my analytical work.

THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION



The Australian Technical Analysts Association (ATAA) is a member body of the International Federation of Technical Analysts (IFTA). The ATAA was established in 1990 with the goals of:-

- promoting the knowledge and use of Technical Analysis in Australia,
- providing a forum for new ideas and concepts,
- facilitating communication between users of Technical Analysis.

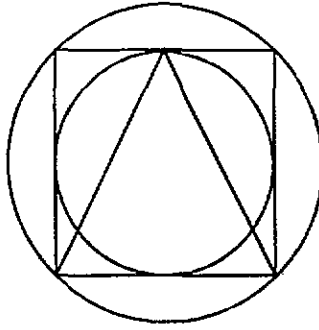
The ATAA has over 100 members in NSW, Victoria, Queensland, SA, Tasmania & WA. Members include professional Technical Analysts as well as dentists, doctors, Corporate Treasurers, company directors, newsletter writers, professional traders and investors. The common bond between members is the use of Technical Analysis to determine the likely direction of markets.

Membership of the ATAA entitles you to:

- Bi-monthly Newsletters,
- Free attendance at monthly meetings in Sydney, with speakers like Bryce Gilmore creator of the Wave Trader and David Bowden,
- Membership of The International Federation of Technical Analysts (IFTA),
- Discounts on the cost of The ATAA's TA Course and discounts on books, other products and services.
- Free attendance at special lectures eg David Fuller.

Sydney meetings are held at the State Library of NSW at 6 pm on the 3rd Monday of every month excluding December and January. Melbourne meetings are held on the 3rd Wednesday of each Month.

ATAA MEMBERSHIP APPLICATION FORM



Name: _____

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Membership Applied for: (please tick) Full Associate

Please describe your use or interest in Technical Analysis:

There are 2 classes of membership: Full & Associate.

- Full Membership is for those who use Technical Analysis for trading decisions or recommendations.
- Associate Membership is for those with an interest in Technical Analysis.

Membership is \$100.00. For membership purposes our year runs from 1 July to June 30.

There are special concessions for new members joining part way through a year. If they join between July 1 and December 31, they receive copies of all newsletters published to date in the year. If they join after December 31, the initial \$100 fee will in effect, relate to the NEXT year.

*For more information call
Charles Balas - President on (02) 522 5220
David Hunt - Secretary on (02) 545 2605 or
Paul Simmons (03) 593 1434 (bh)*

Please Mail Application Form with cheque to

**The Secretary
ATAA
GPO Box 2774
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