Can You Trade It? That is the Question

By T.H. Murrey

The "technical world" of Gann Traders is replete with unique "trading systems" engendered from the minds of some very smart "traders," who claim to have discovered the "true secret," that was never really revealed (in its simplest terms) by W.D. Gann.

In the last issue of this trading magazine (Winter 1996 issue No. 21) I purported to have also discovered Gann's Secret. (Trading set to Music).

I even told you on which page (# 71.) that I saw what he was doing (using pre-set lines 1/8ths in an Octave).

The book I read 50 times was How to Make Profits Trading in Commodities, by W. D. Gann, 1942.

I'm not allowed the space (at this time) to reiterate what I purported to be the "gospel" according to T. Henning Murrey, so one would might call Larry Jacobs at Trader's World and order the last issue (or you might want to read my article on the Internet web site address http://www.tradersworld.com if you want more back ground on what I said as to why I think that much of what Gann said was a facade to "enshroud the simple truth" in a complex set of mathematical formulas to protect his "trading edge" (against his fellow traders in the "pits").

Any normal, rational, individual of no more than average intelligence, is capable of devising any simple "trading system" that is better than "buy and hold."

Every year the "technical trading world" finds another astute Gann trader, who proclaims that they have found the "Holy Grail" from Gann's writings.

What I am here to say and prove is that W.D. Gann was whistling the same "tune" that

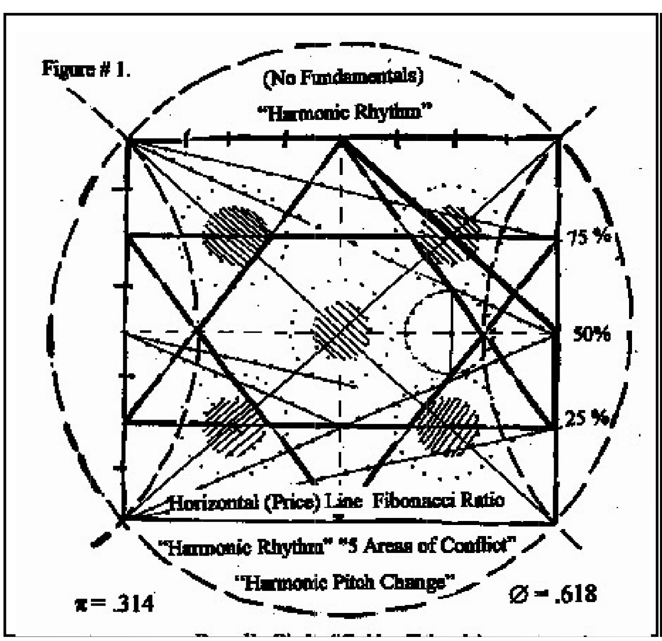

Figure 1

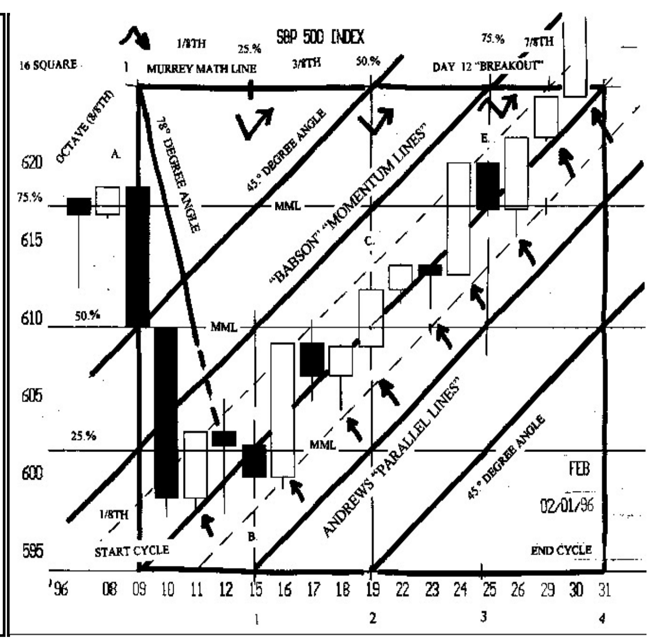

Chart 1

Fibonacci (Italy 1124 b.c.), Leonardo Da Vinci (14th Century), Marcus Vitruvius Pollio (1st Century), and the builders of the Pyramids (Egypt), Mayan Culture (Mexico), Socrates (432 b.c.) and Confucius (350 b.c.), Foxi (China) that is “The Harmonic Rhythm.”

Please find Figure # 1. This is our “frame” which we shall refer to as the “Square in Time.” It is actually a rectangle (Golden Rectangle) (same as a piece of typing paper) that we shall “set” each fall just after the 1st frost (then we just keep repeating this “Square” to the right until the year has ended). Just as the Mayan Culture “adjusted” for the changing “frost” each year, we reset our “Square in Time” every fall after the first frost.

Can you trade it ? That is the question !

Any intelligent “trader” may devise any kind of system that makes money 95.% of the time by just “buying low” and “selling often” with a small “profit.” (You must always place a “stop loss” down below your entry price to protect against big losses).

I know what I am doing and how I want to trade, but that is not the issue: can I teach you to “tune” your “trading philosophy” to the “Masters” of Music?

I have something of “real value” if I can take just one set of rules and apply them (same rules) to all stocks, commodities, Indexes, or Currencies off the same “frame” off the same starting day each fall.

Can you trade it ? That is the question ! You must learn the rules to be a successful “trader.”

Everyone wants to know how to trade in just one rule: when do I buy and when do I sell ? (lazy or scared).

Now let’s “see” if the “Square in Time” has any real value and if the markets are “tuned” to a rhythm!

Our “test” shall be the S & P 500 Cash Market.

This market Index is comprised of the 500 largest corporations in the U.S. These stocks have their own “individual” “rhythm” so it would logically be assumed that they (as a group) couldn’t have any set “Harmonic Rhythm” other than the “general market conditions prevailing.”

Remember that I said that we always set our time frame in the fall (at the time of the 1st frost) ? Well, let’s skip all the frames in the fall and move forward and start on the winter frames (this

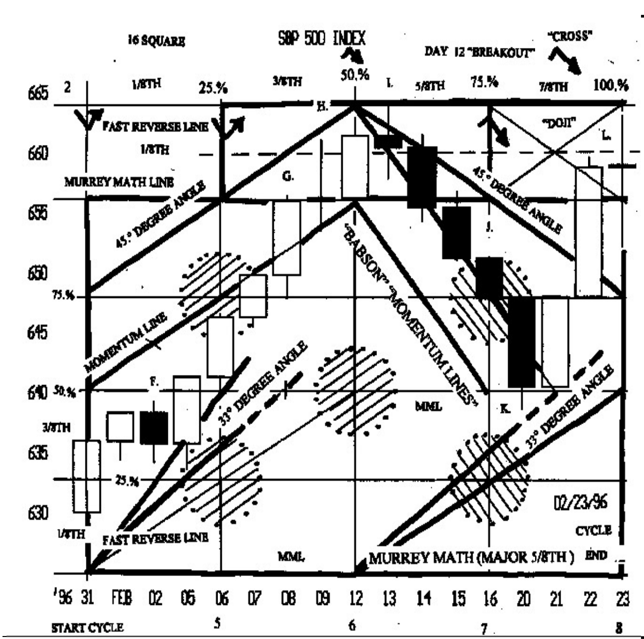

Figure 3

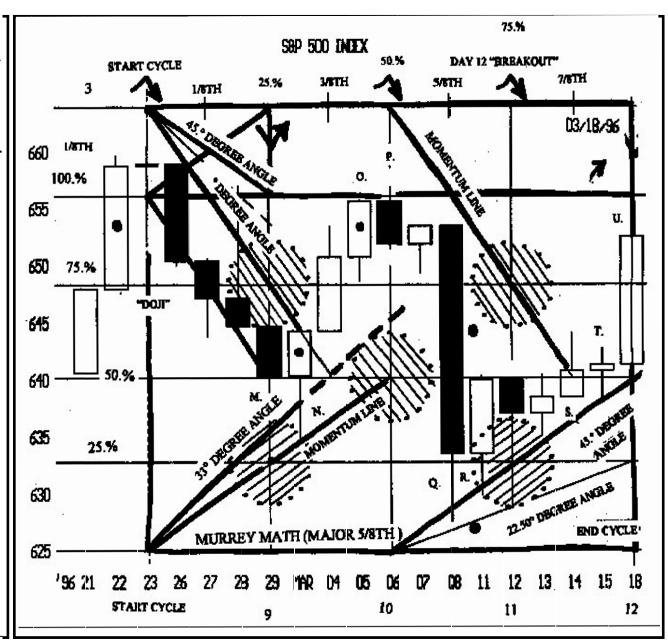

Figure 4

way if my trading system is predictable, it should hold up longer than the first few "frames" in the fall and "predict future reversals" in the winter, spring, and summer frames).

Chart # 1. Has us starting a new (16 day) cycle in Jan.'96. I made a bold outline around our Square.

We would expect this market to "react" to not only "pre-set" price levels (horizontal) but also Time Lines (1/8ths) into the future.

Side note: 90.% of all Americans don't know the difference between an up day and a down day on a stock chart. (So I always explain the difference). It is just easier to start over each time than it is to assume that most "investors" know much of any technical "lingo" about how to "read" a chart.

The Solid bar forms (Japanese Candlesticks) are down days. And the open bar forms are up days.

Note of Caution: There are over 750 different Japanese Candlestick formations that you might want to learn, but if you aren't Mr. Steve Nison, it's just a waste of time to learn more than 32 or 64 of them.

The Japanese Candlesticks were devised by Muneshia Homma (1724) for the rice Futures "traders," "speculators," and rice farmers, which (70.%) could read very little (much like this country) and had to rely upon pictures that told a story to understand "prices."

Example: Chart # 1. Please find (A). This Index had a sharp long fall at the end of the last "Time Cycle."

But if you go back just 2 days prior, you see a "Hangman" where it told you that this market wanted to fall soon. (The body is solid and the "tail" is long).

The thin line hanging from the solid body is the recorded downrange of intra-day activity where the stock market sold off early in the day and all the "optimists" went in on the low for the day and bought it back up to almost its opening price. The next day it traded in a very narrow range waiting for "news" or direction. On the "exact end of the previous 16 day cycle" the general market sold off - 7.00 points on this Index (which equates to almost 56. points on the Dow)

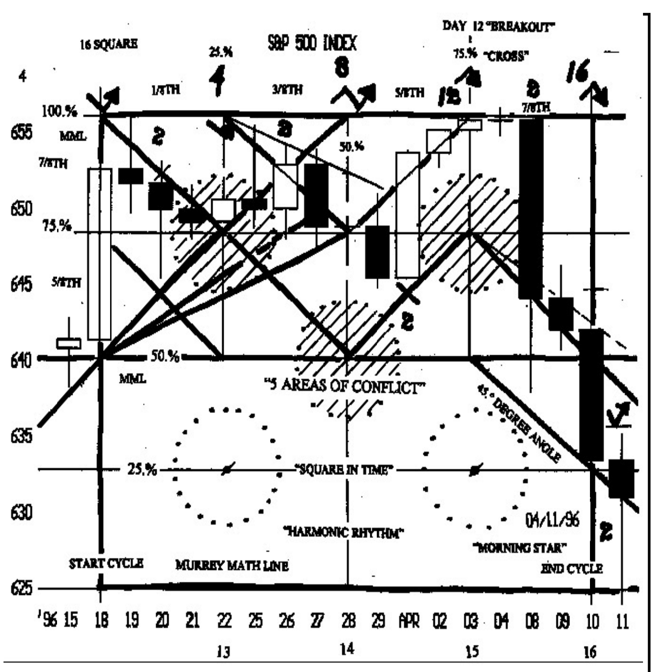

Figure 5

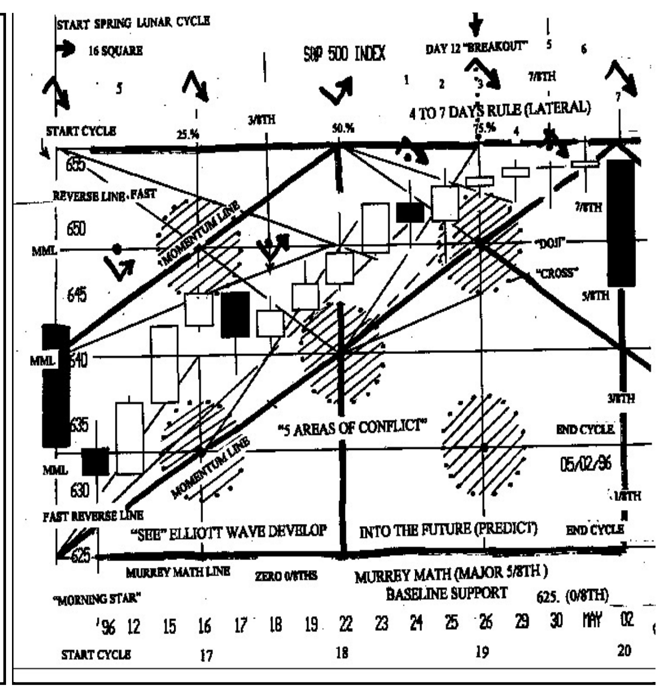

Figure 6

The next day it slide down even further and when it stalled out on the downside, it had stopped down around 598. (which is the 1/8th line) (which is a fast reverse line in the opposite direction).

This market consolidated for 3 days (moving laterally for 3 straight days), then on the 4th day (25.%) time line, it reversed fast to the upside. It kept running up on the 50.% line and cleared the 50.% (horizontal line) far enough for the "short sellers" to be taken out and having to cover, so the market moved up slightly, and laterally for 2 more days, then it went up big to 618. on the 24th, and right on schedule, on the 75.% line in time, it stalled out and went down. The next day this market sold off early in the morning and started charging up to take out all of the previous day's sell-off, so the "short-sellers" had to cover once again, and the general market was forced up by more "buyers." Please notice the 45 degree angle lines called momentum lines. (This market runs faster than 22.5 degrees).

Roger Babson spent much time and study deciphering future "affects" on a market as a result of past market trading action "momentum waves." (1880)

Andrews drew parallel lines off lows and highs and postulated that stocks or markets would bounce off equal multiples off these "observed" lines of support/resistance as a stock or market traded to the right in time.

John Murphy uses these "common sense" "observed" lines to project future support/resistance in markets.

Murrey Math Trading System doesn't have to do that. My way is much simpler: I simply draw the 45.∞ degree angle lines off the lower left-hand corner of my "Square in Time" as the market enters my square. I always expect this market to get tremendous support/resistance off the 45.∞ degree angle lines of this square. (Just as Andrews postulated and I have affirmed, this market reversed of 25. % and 75.% lines above and below the median line moving up the right in the "Square in Time." (This eliminates the "guessing" of just what low is the low for support).

Let's just draw a parallel line and get down to the "business" of trading not "knit-picking" strategy.

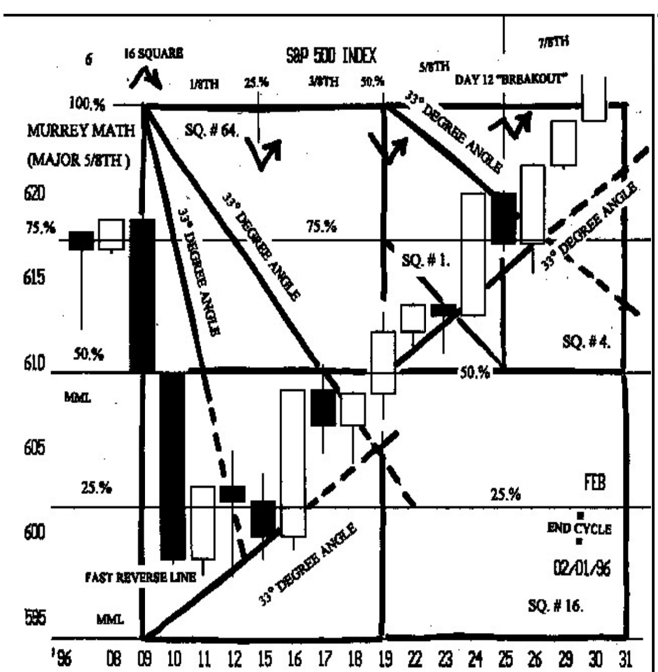

Figure 7

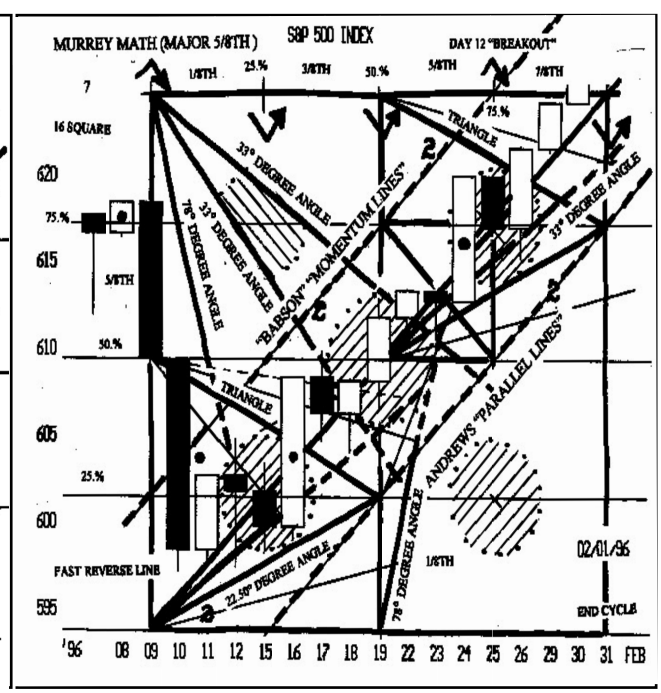

Figure 8

Notice the 78 degree angle line at the top left-hand corner of the square. All markets (everything) react faster off 78, 45, or 33 degree angle lines inside our square (same as old vinyl round records r.p.m.s).

Now you probably already asked yourself the obvious question: how did I set the horizontal (price) lines?

Simple: A) just “observe” the close of the day at the end of the cycle, which was 609.375, B) use “common sense” to “see” that this market wants to run up to its “perfect square” (which is 1,000), C) so we use the number that Foxi (China 3,000 b.c.) formulated Binary Math from the number 1.125 D)You are allowed to multiply only 4 numbers inside any “perfect square” by 1.125 to “set” the “Harmonic Rhythm” for that particular market E) Let’s choose 1,000 and x 1.125 = 125, F) 125. X 5 = 625, G) 125. Divided by 8 = 15.625, H) we subtract 15.625 from 625. = 609.375, I) then we deduct another 15.625 from 609.375 and we set the bottom of our “frame” down at 593.75. (“Harmonic Rhythm” - “Octave”) J) now we divide 15.625 x 2 = 7.8125 = (1/8th).

We now have the Octave that this market wants to trade within to the right inside this square. We know that all music pieces must change pitch in a orderly fashion to sound “melodious” to the human ear.

Juxtaposition, all markets want to move up or down their Octave (scale) at pre-set lengths (1/8ths) inside its particular scale (Octave).

All markets want to move up in increments of (1/8ths) + 1, 2, 3, 5, 7, 9, 11. And all markets want to fall in speeds set at - 2, 4, 6, 8, 10, or 12 (1/8ths).

My trading system uses no “smoke or mirrors” nor does it require any “fundamentals” to predict moves.

Please look at (A). This market fell (-5/8ths) and it stopped just above its (1/8th) line (which is a fast reverse line) and it consolidated for 3 days, and then on the 25.% line (Time) it exploded up for the next 12 trading days.

Please find chart # 2. We simply repeated our 16 day time cycle to the right and kept “trading inside this same Octave (horizontal price lines) (Murrey Math).

This market opened the day on its (1/8th) line and started this “new time cycle” by moving up this day.

And it continued to move higher until it stopped on the (1/8th) line in the next higher Octave.

If you go back to chart # 1. And start counting from down at the last low up to its high “exactly on the 50.% Time line” you shall see that this market has run up + 16 (1/8ths) short term, which equals 2/8ths long term which tells us that there is an 85.% chance that this market can’t move up any higher short term.

It fell-off sharply for 5 straight days and stopped “exactly on a 50.% Murrey Math Line” on the 20th.

The next day it reversed and took out all three of the “daily momentum price points” from the previous day.

It took 5 days to fall back down to its 50.% line, but only 3 trading days to make back up to its old high (+1/8th) above 100.% (8/8ths). (Close inspection shows you that it closed “barely” below the last high) strong potential “sell signal” (coming soon).

Please notice that the daily trading action reversed twice off “fast reverse” 45 and 33 degree angle lines in chart #2.

Please look at chart # 3. This market starts off up above the Octave (8/8ths) on the (1/8ths) line, which is a fast reverse and fall line (Gann talked much about it) plus the range of daily activity formed a “cross” “doji” or “rickshaw man” that signals a change in direction of this market. (Since it had already run back up a 2nd time and couldn’t close on the line or above the line, the odds were 95.% of a “sell off” soon.

The “sell-off” came sooner than later. This market “tanked for 4 straight days and stopped “exactly on a 50.% Murrey Math Line (exactly on a 25.%