Have you ever watched the sport of dueling? This is a very exact, precise sport involving posture, stance, and action. Pivots and thrusts. Pauses and turns. Action and reaction.

Price movement is similar in many ways. Upward and downward motion in price acts much like two duelers facing off and trying to dominate, make points, and come out ahead. And of course, timing is key. If your timing is good, you can make a profit. If it is poor, you can get a painful wound.

I sometimes find myself following a trend and thinking all is well and then changing my opinion. This is not arbitrary; my opinion changes because the character of price behavior changes. When I
see a steady pattern evolve into an impulsive one, it becomes less predictable. But I want to get into some more detail about what I mean by “impulsive” price behavior.

**The Wheels of Price and Time**

I like to think about price and time not as isolated attributes of a stock or index but as part of the same thing. I refer to this as the “wheels of price and time,” which work together like the precision movement inside a watch (figure 1.1).
You have the big wheel (monthly) interacting with the smaller wheels, and that wheel’s teeth lock into the trends you see on weekly and daily charts. This visualization of price and time help me to explain why I assign so much importance to a change in price behavior. Time frames work together just as the gears in a watch. The smaller time frames are fractals of the larger ones. You will see the same patterns repeating themselves over and over again, and I will show you examples of this as we move through the sections. The point to emphasize here is that if you think about trends as belonging in time frames, you can spot them more easily. You come to appreciate the fact that behavior in a very brief time frame has a context in a longer time frame, and its purpose is to fulfill the trend on both levels. The nature of price movement, like the duel between two experts, is to thrust, pause, and pivot back—in the case of price, the pivot goes back in the direction of the underlying trend if it is a legitimate movement.

**Observing Market Behavior**

If it helps to make this more vivid, we can try a different analogy. This is of the trend as a runner. When the runner inhales, it should provide momentum and enable the runner to continue forward. But if the runner is exhausted, he might simply collapse. The market is the same. When you identify a specific kind of movement, it enables you to take the temperature of the market and observe its behavior. Will price movement continue to move in the same direction, or will the trend collapse and fall apart? You can observe
market behavior. Just as you can spot when a runner is about to collapse, you can also spot a weakening trend in the market. A runner’s legs begin to wobble, he moves a bit from side to side, slows way down, and then his knees buckle. Think about this mental picture and then think about how stock prices rally and decline … this is what I mean by observing behavior.

In my opinion, observing the behavior of prices as daily, weekly, monthly, or quarter charts turn up or down is the real sign of whether the bulls or the bears are in command. It’s not the turn upward or downward that counts, and it’s not the breakout or the breakdown. It is the behavior that happens next. A runner slows down and then collapses, or reinvigorates and sprints on a second wind. It is what happens next that matters.

**Confirmation**

The big question is: How do you get on board with a discovered change of direction? How do you discover enough information to act before you get confirmation from other related trends? This concept—confirmation—is so key to virtually all technical analysis that the question is a critical one. Once everyone recognizes a new trend, it’s too late. You need to be able to act with extremely fast and immediate forms of confirmation, and that is where my intra-day strategies come into play.
Confirmation is the verification by a second indicator or pattern of what is implied about the direction or change in direction in price of a stock or index.

Once everyone realizes that a new trend is underway, it’s too late to beat the averages, at least in the short term. Traditional methods of confirmation, such as movement in a second major index, usually take too long to use in the moment. Secondly, because trends start and end quickly in the short-term environment of the market, a trend is likely to be over and done with by the time the market at large realizes it.

In this situation—fast-moving, fast-acting—you need a method for efficiently and quickly recognizing emerging trends. You need to be on the train before it goes screaming out of the station; once you see the train passing by on its way, it is too late to jump on board.

It is most interesting, in fact, that so many people are out there trying to get a jump on the market that their efforts can and do provide you with a real preview of what is about to occur. These traders attempting to get a jump on everyone are so plentiful that they create their own trend. This is good information. As legendary trader Bernard Baruch said, “Successful speculation is about anticipating the anticipators.”
Shakeouts

So how do we get on-board before the trend has been confirmed, before a new trend has been confirmed, or at least a respite in the current trend? Once a move is confirmed for everybody to see, usually you get a shakeout. So maybe once we have seen a top or bottom signal, that means the market is ready for some change.

A shakeout is a change in direction, usually temporary, in which prices are adjusted for consolidation at the bottom or profit-taking at the top.

The goal in intra-day trading is to identify specific patterns fore-shadowing shakeouts or downright reversals in trends. You need to find a solid risk-to-reward point for entry into a stock or index. But that should be set to occur only after you see the signs of a cyclical bull or secular bear market. How do you get on board before the market shows its hand to everybody? How can we capitalize on price and direction change before the meat is already off the bone, so to speak?

A cyclical bull is a market condition in which prices rise as part of a broad price and value cyclical phase within the broad economy or the market economy.

The market is perverse. In a bear or volatile market, when trends are overly choppy, recognizing tops and bottoms are very momentary,
and trends can be extremely short-term in nature, lasting a day or less in some cases. In order to capitalize on the here and now, you are going to need efficient methods for timing your entry and exit. You need to play the short-term, because if you wait for long-term signals to develop, you’ll only have history and a list of “things I should have done” instead of profits.

A secular bear is a type of negative market condition that tends to be long-term in nature, often occurring during recessionary economic times.

Everything in the market is an act of faith, and this is the point. It’s unpredictable, and price can move in any direction at any time. Strong and confirming signals are merely indicators, not sure things. If you become effective in using buy and sell set-up signals to time your decisions, your percentages will improve, but you will never get to 100%. The uncertainty of the market ensures that this can never occur; there are too many unknown influences, random events, and illogical forces at work to bring true order to the market’s chaos. So if you want to wait until the market proves itself, you’re going to be late for the party.

**Chart Interpretation**

The key to short-term trading is going to be found in pattern recognition on the daily chart. What is the daily chart doing? By observing a subtle change of character in price on a very small wheel of
time, you can make a series of well-timed assumptions. If the daily chart is turning down, is the low going to occur immediately, or will the trend continue downward for an extended period of time?

Chart reading is easy, and any five-year-old can do that. If a stock’s price is traveling from the lower left-hand corner to the upper right-hand corner, he’s going to see that the stock is in an uptrend. Why can’t we, as adults, believe what we see? I think the difference is psychology. We arrive in the trading arena with much baggage and many preconceptions. These have developed as a culmination of all our profits and losses in prior trades. We believe that logic and thinking are the keys to taking money out of the market. But in fact, no matter how much studying you do or time you put in, if your timing is off, you’re going to lose. It’s that simple.

Chart reading is easy. But chart interpretation requires greater skill. Otherwise, someone would have developed a system by now to accurately predict the market. But in spite of the dozens of claims to that end, it just can’t be done. No computer program or trading system can interpret behavior as accurately as your own mind; and price movement is the net result of offsetting buyer and selling psychology at every instant.

Here is the key lesson you need to remember about this: Speculation is observation, pure and experimental, like the mind of a five-year-old. Thinking isn’t necessary and usually just gets in the way.

“"This means that we have to trade based on what is, not what we think should be or want to be.”
This means that we have to trade based on what is, not what we think should be or want to be. For example, I was watching CNBC one evening at a point when the market was falling over a period of time. One of the talking heads was being taken to task for being bullish throughout the fall. He explained, “Well, I’ve been wrong, but I’ve been wrong for the right reasons.”

That’s dangerous thinking. That’s a recipe for disaster. That’s just not how you make money in the stock market. The market is always right, except for two times, at the very bottom and at the very top. And of course, trying to pick the very bottom and the very top may be a lot more emotionally gratifying than trying to get on a trend; but, if you want to succeed in consistently taking trading profits, you have to decide whether you want to be right or you want to make money, and they are non-exclusive of each other. They have nothing to do with each other. It’s necessary that you try to divorce and suspend your disbelief in what you see and just follow the price. Price is the final arbiter. In the next section, I expand on this to show you how price patterns reveal the trend, and how you can use those patterns to get a jump on price.
1. The “wheels of price and time” is a reference to:

   a. The “turn” seen by insiders, a tendency for buyers and sellers to reverse roles at pivotal points in the trend.
   b. A likely outcome for cyclical movement, which invariably returns to its starting point.
   c. Behavior of the two elements, like the gears inside of a watch.
   d. Those key stocks that drove the market and cause trends.

2. Confirmation is:

   a. The ticket a trader receives advising that a trade has failed.
   b. The validation of a trend, found in a second indicator drawing the same conclusion about the direction of price.
   c. A large block trade by an institutional investor which confirms the good timing of a previous trade by an individual.
   d. Of interest only to highly technical study of the markets.
3. A shakeout is:

   a. Fear or panic setting in to the market after prices begin to fall, in which the most nervous investors sell everything at the worst possible time.
   b. A temporary adjustment in price, usually involving consolidation at the bottom or profit-taking at the top.
   c. The consequence to corporations when investors perceive that earnings trends have weakened, usually resulting in a lack of interest in the stock.
   d. Any news that adversely affects stock prices.

4. The key to understanding the short-term trend is found in:

   a. The 200-day moving average in convergence with the 20-day moving average.
   b. A detailed study of candlestick charts.
   c. The long-term chart and well-established trading patterns.
   d. Pattern recognition in the daily chart.

5. Speculation is simply a matter of observation. Thinking:

   a. Usually just gets in the way.
   b. Is the key to intelligent judgment every speculator needs.
   c. Enables you to recognize a false pattern and avoid it.
   d. Tells you specifically what to observe.

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