THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION NEWSLETTER

JANUARY 1994

IN THIS ISSUE

SPECIAL FEATURES

REGULAR FEATURES

Newsletter Production By DW Hunt for all Desktop Publishing neeeds. This month's newsletter edited by Charles Balas.

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As our interstate numbers grow to a critical mass in a state, formal meetings will be held in the capital city. If you wish to help create an informal group that will lead to that critical mass, call or write to DW Hunt in NSW.

Disclaimer

The views and articles in this newsletter are the author's and do not necessarily reflect the views of the Australian Technical Analysts Association (A.T.A.A). The A.T.A.A therefore, does not warrant the data, views or opinions expressed in this Newsletter. Trading or investing in stocks, currencies, bonds, commodities via forwards, futures, physical markets or options involves risk. If you trade or invest, it is your own decision and you alone are responsible for the outcome.

PRESIDENT'S ADDRESS

Welcome to the start of a new Gregorian year and to January, named in honour of Janus, the god of doors and openings and to Hephaestus, the god of fire, who has recently organised "his own superannuation fund in NSW."

The past year has certainly seen some magnificent growth in our Association and our AGM was well attended with enthusiastic and encouraging suggestions from many members.

The future of our Association is now firmly established. Not only have we developed internal momentum, but the sum of all members has grown to be larger than the whole.

We are now also presented with some tremendous opportunities to diversify into new areas, specifically as host of the 1995 IFTA conference. This may well be a mass media event. Our education programmes will also need to be expanded to accommodate the growing demand from new members and existing practitioners.

1994 will be a year of many changes and new directions for our Association. Recent changes in your executive committee are reflected in the committee list on page 2. Welcome to our new VICE PRESIDENT Merril Armstrong and our New EDUCATION CO-ORDINATOR John den Hollander.

Our data survey of market price vendors is well on track and is due out shortly.

By the way. When is a data set random ? Just ask the Department of Statistics and Supercomputer Computations Research Institute at the Florida State University. They have developed the "Ultimate Random Number Generator" with extremely long period, (more than 10^356; that's more than 10^270 numbers for each atom in the universe.......in case you want to simulate creation).

Virtus Animusque Praesens & kind regards,

Charles Balas.
President

WELCOME

Welcome to the following new members:

Mr Chris	Bagnall	Knight Ridder	NSW
Ms Carolyn	Meyer	Castle Cove	NSW
Mr Michael	Leahy	Killara	NSW
Mr Ross	Druitt	North Rocks	NSW
Mr Robert	Chong	East Killara	NSW
Mr Duncan	Clark	Avalon Beach	NSW
Mr Daniel	Fock	Bell Commodities	NSW
Mr Simon	Erder	Wahroonga	NSW
Mr Barry	Lee	Dundas West	NSW
Mr Jason	Julian	Bondi Beach	NSW
Mr Ali ghor	Kahn	Booragoon	WA
Mr Paul	Cumerlato	Banque Nat'l de Paris	NSW
Mr Gerald	Raichman	West Pymble	NSW
Mr Kevin	Francis	ESL	NSW
Mr Mark	Szozda	Burwood	NSW
Mr Doug	Penny	Lindfield	NSW
Mr Robert	Berkeley	Balmoral	NSW
Ms Megan	Nicholson	Northbridge	NSW
Mr Nicholas	Kirke	Cooparoo	QLD
Mr Tony	Cade	Mayfield	NSW
Mr John	Hepburn	Thornleigh	NSW

VIDEO TAPE LIBRARY

Currently twelve tapes are available for members to borrow:

"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".

"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.

"MACD and MACD-Histogram" MACD measures the intensity of bullish or bearish pressure and helps you trade in the direction of the dominant market group. Divergences between MACD-Histogram and prices identify important tops and bottoms.

"Stochastic" One of the most popular technical indicators, Stochastic identifies short-term tops and bottoms. It helps you find buying points in uptrends and shorting points in downtrends.

"Relative Strength Index (RSI)" RSI confirms trends and helps to forecast their reversals by measuring closing prices, which are the most important prices of the day. You learn RSI trading rules.

For more tape information or to book a tape please call Colin Nicholson (02) 436 1610.

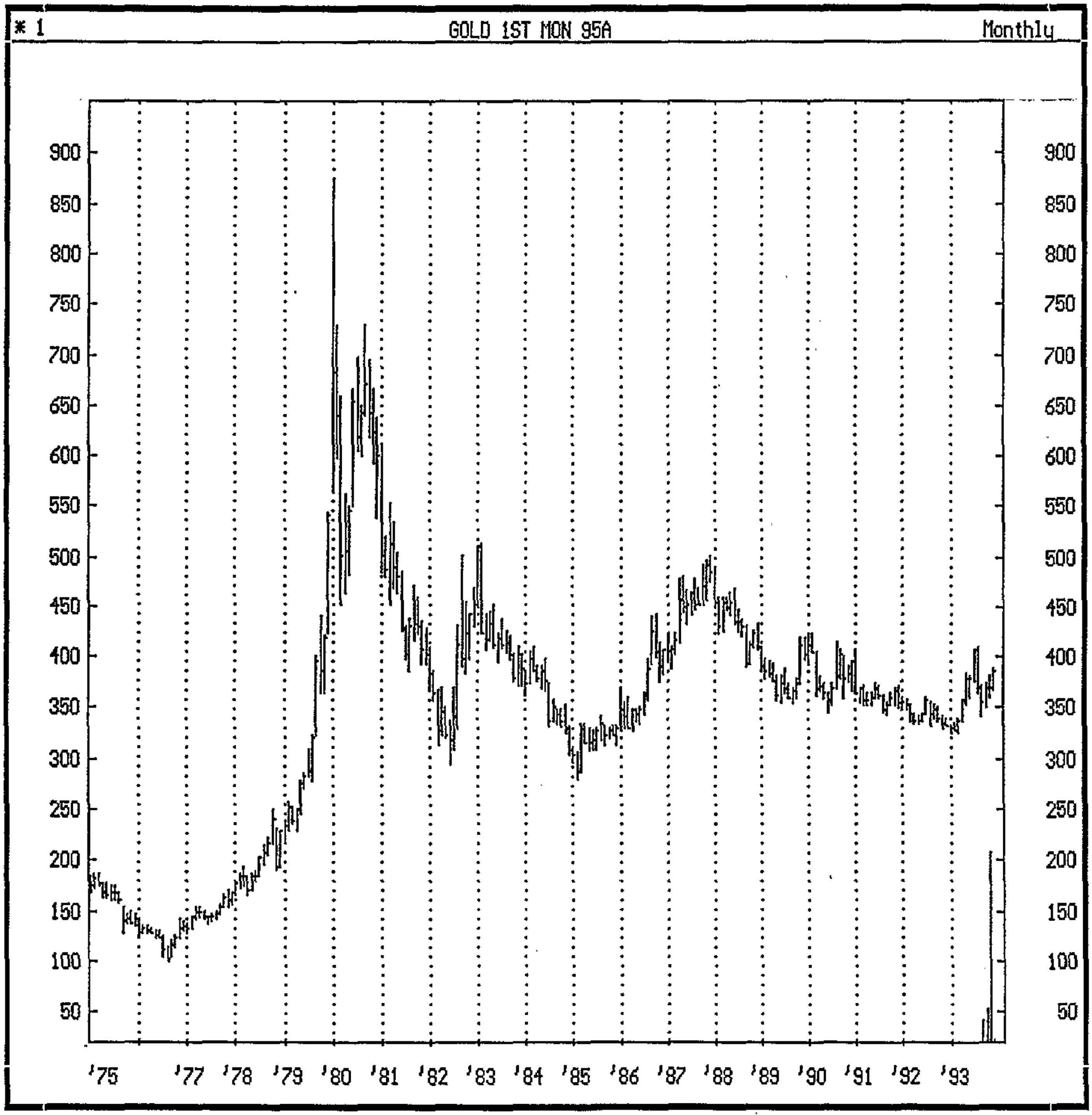
THE KRONDRATIEFF WAVE & GOLD

The third in a series of articles by David McMinn.

Gold has always been esteemed as a store of wealth. Although there is no definitive 'gold cycle' as such, the history of this metal has been integrally tied to financial trends. Kondratieff believed gold production to be 'subordinate to the rhythm of the long cycles in economic conditions and hence cannot be regarded as a random adventitious factor in the latter'.

The Rising Kondratieff Wave

Gold becomes devalued in real terms with inflation of paper currency and increased supply from new mine output near the Kondratieff lows.



For example:

1850's: Californian & Australian discoveries
1890's: South African & Alaskan discoveries
1930's: Greater mine output due to high prices

Nations tend to go off the gold standard during the rising wave in times of war and revolution. This action can further accentuate inflationary problems as governments no longer have the monetary restraints imposed by the gold standard. Governments may print paper money at will because it no longer has to be backed by gold holdings.

In the current wave, the USA maintained gold as a medium for international transactions. After World War II, most exchange rates were pegged in gold or the US Dollar for international payments. No gold coinage was utilised internally as currency. Even so, the USA suspended US Dollar convertibility into gold in 1971 during the Vietnam War, which contributed to the inflationary trends of the 1970's. Prevailing high gold prices in the 1970's and 1980's boosted world new mine output.

Kondratieff Wave	Off Gold Standard
I	1789: France. French Revolution 1797: England. French Revolutionary Wars 1814: USA. War of 1812
II	1861: USA. American Civil War
III	1914: UK. World War I 1914: Europe. World War I 1917/19: USA. World War I
IV	1971: USA: Vietnam War. US Dollar convertibility into gold suspended.

The Declining Kondratieff Wave.

In the 19th century, the gold price rose in real terms on the down wave, due to deflation in paper currency and higher demand as it was increasingly utilised as a monetary medium. According to Kondratieff (1935), this metal attains its highest purchasing power (in real terms) at the bottom of the long waves when new mine production becomes most profitable and the maximum incentive is offered to boost output. Furthermore, the greatest number of discoveries of new gold fields and technical inventions in gold production come when the peak of a long cycle has past (i.e. approximately in the middle of the downward wave).

The gold standard tends to be deflationary, because the limited stocks of this metal restricted expansion in money supply. Governments could not issue paper currency without it being redeemable in gold and newly mined output is independent of the currency needs of a growing economy. In the 19th century, nations adopted the gold standard on the down wave. The break in the 'cycle' came in the 1930's when most nations went off gold during the financial crises of the period. Even so, the USA maintained US Dollar convertibility into gold as a medium for international transactions until 1971.

Kondratieff Wave	Gold Standard Adopted/Abandoned.
I	1803: France. Napoleon established the 'Franc de germail'. Gold to silver ratio for all new coins set at 1:15.5. 1817: USA. Price set at US$20.67 an ounce. (Applicable from 1817 to 1934 except briefly in 1837-38, 1857 and 1917-19, as well as during and after the Civil War) 1819: England. Price set at £4.4s.11.5p a troy ounce. (Applicable from 1717 to 1931 except during and after the Napoleonic Wars & World War I)
II	1873: USA. On gold standard. Specie payments resumed in 1879. 1870's/1880's: Gold standard made universal in Europe.
III	Late 1920's: Most nations on a gold standard. 1925-31: UK on gold bullion standard. 1930's: Most nations abandon the gold standard after its wide re-introduction in the late 1920's. 1933: USA. US citizens banned from owning gold. 1934: US export of gold permitted to foreign governments and institutions. Price increased from US$20.67 to US$35 a troy ounce. 1936: France off gold standard.

As gold was in short supply prior to the 19th century, most countries were on a silver standard or bi-metallic standard of gold and silver. It was not until the 1850's that gold stocks soared with new mine production from California and Australia. This resulted in gold becoming the sole standard of value and silver being de-monetised in Europe and the USA between 1870 and 1900.

From previous Kondratieff waves, it could be expected that gold will again reach its highest value in real terms at the bottom of the current long cycle (2000's ?). Furthermore, some sort of gold standard could also be anticipated to be re-imposed in order to bring stability to the international currency market in the next few decades. However, the adoption of the gold standard on the down waves in the 19th century accentuated economic malaise and deflation in paper currencies. In the late 20th century, the metal has tended to become just another commodity, as its price is no longer set by government fiat. During the 1980's, it was not even widely seen as a refuge during times of crisis, one of its prime traditional roles. Thus, the precious metal mania of 1979-80 may represent the peak real value of gold in the current Kondratieff wave.

David McMinn (066) 89 1278

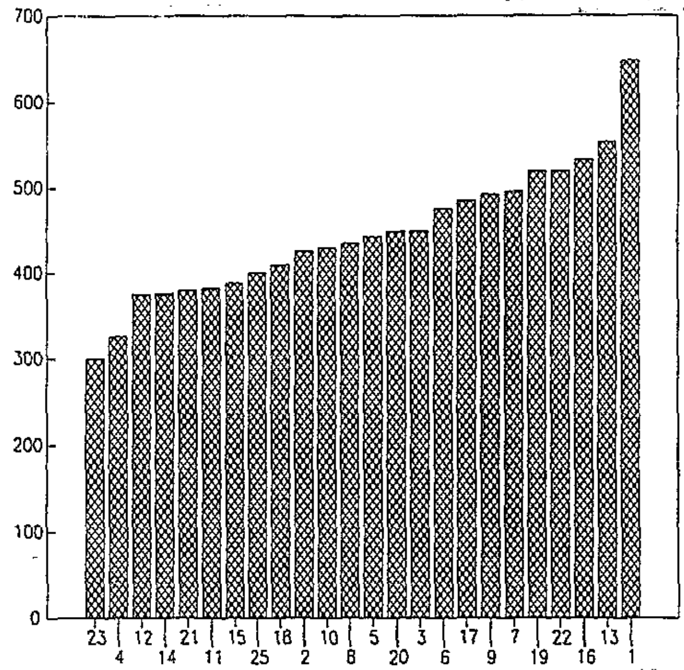
FORECASTING COMPETITION

The forecasting competition was announced in our September Newsletter and an entry form was sent to every member with the November Meeting Notice. By the closing date of November 15 1993, twenty five members submitted entries. One of these entries only forecast the price for one of the instruments.

The competition was to try to forecast the price of three instruments on October 31 1994. The winner will be the nearest forecast and will be announced at the Sydney Annual General Meeting in November 1994.

A condition of the competition was that only the winners' names will be disclosed. However, you may be interested in how each entrant forecast the three instruments. So that you can see this, each entrant is identified by a code number in the tables below.

The first instrument to be forecast was COMEX GOLD SPOT MONTH. The twenty four forecasts ranged from a low of $US 300.00 to a high of $US 645.05. The average price forecast by the twenty four entrants was $US 445.60.



Name Code	Price Estimated
23	300.00
4	326.00
12	375.00
14	376.00
21	380.00
11	382.00
15	388.00
25	400.00
18	410.00
2	426.50
10	430.00
8	435.00
5	443.00
20	450.00
3	450.00
6	475.40
17	485.00
9	492.50
7	496.00
19	520.00
22	520.00
16	533.00
13	554.00
1	647.05

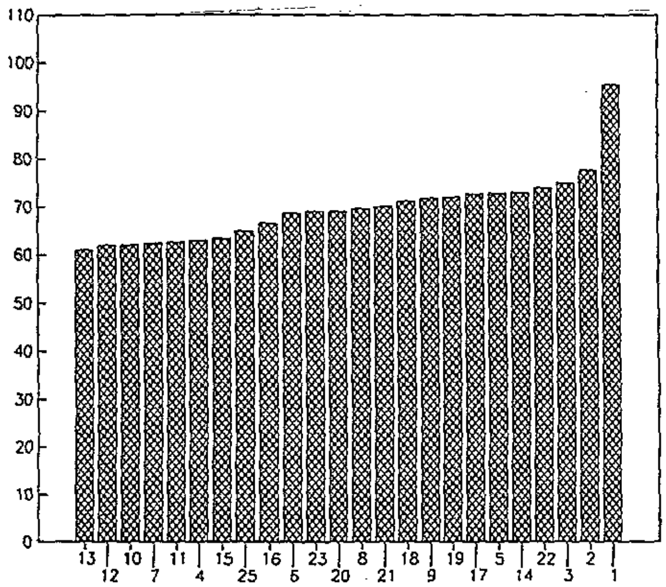
Average of 24 entries: 445.

The second instrument to be forecast was the SPOT AUSTRALIAN DOLLAR Vs US DOLLAR. The twenty four forecasts ranged from a low of 61.00 cents to a high of 95.47 cents. The average price forecast by the twenty four entrants was 69.57 cents.

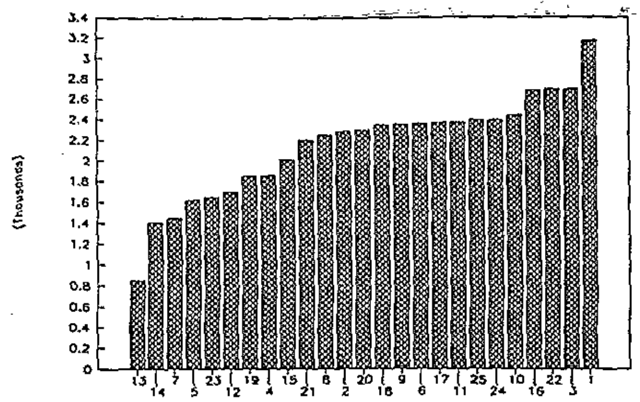
Name Code	Price Estimated
13	61.00
12	62.00
10	62.10
7	62.44
11	62.70
4	63.00
15	63.50
25	65.00
16	66.50
6	68.68
23	69.00
20	69.00
8	69.50
21	70.01
18	71.00
9	71.72
19	72.00
17	72.65
5	72.80
14	73.00
22	74.00
3	75.00
2	77.62
1	95.47

Average 24 entries: 69.57

The third instrument to be forecast was the ALL ORDINARIES SHARE PRICE INDEX (physical). The twenty five forecasts ranged from a low of 850.0 points to a high of 3174.2 points. The average price forecast by the twenty five entrants was 2150.4 points.



Name Code	Price Estimated
13	850.0
14	1408.0
7	1447.0
5	1620.0
2	1650.0
12	1700.0
19	1850.0
4	1856.0
15	2012.0
21	2200.0
8	2250.0
2	2284.0
20	2300.0
18	2350.0
9	2354.0
6	2360.4
17	2375.0
11	2380.0
25	2400.0
24	2400.0
10	2450.0
16	2690.0
22	2700.0
3	2700.0
1	3174.2
Average 25 entries:	2150.4



Remember that this competition is intended to be a fun event. It is disappointing that only twenty five of our members entered the competition.

How to Contribute:

WRITE ABOUT SOMETHING THAT INTERESTS YOU.

PLEASE PROVIDE COPY ON AN IBM DISK OF ASCII, WORD, WORD PERFECT OR ANY WORD PROCESSING PACKAGE WITH PCX OR TIFF CHARTS,

OR

GOOD QUALITY PRINTOUT OF WORDS AND CHARTS.

IF YOU CAN CONTRIBUTE, PLEASE CONTACT COLIN NICHOLSON ON (02) 436 1610.

Implications for the $A, Bonds And Stocks

The Past Five Years

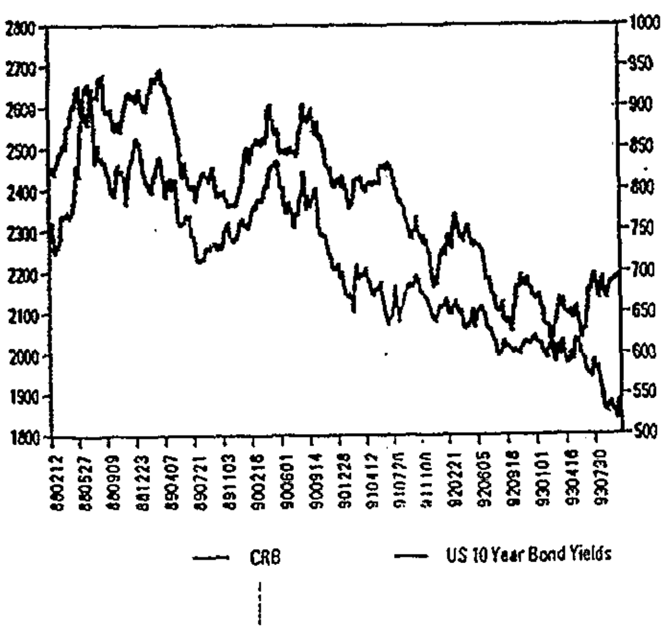
Fact:
Historically the CRB Index has had a positive correlation of 82-92 percent with US 10 year treasury bond yields. Where typically the CRB Index's trend peaks and troughs lead US Bond Yield trend peaks and troughs by about four months.

Further:
Declining Bond Yields are usually bullish for stock values while a falling bond market (i.e. rising yields) is almost always bearish for equities The correlation between bond yields and equity prices statistically has averaged 90 percent in the past two decades.

The Past 5 Years

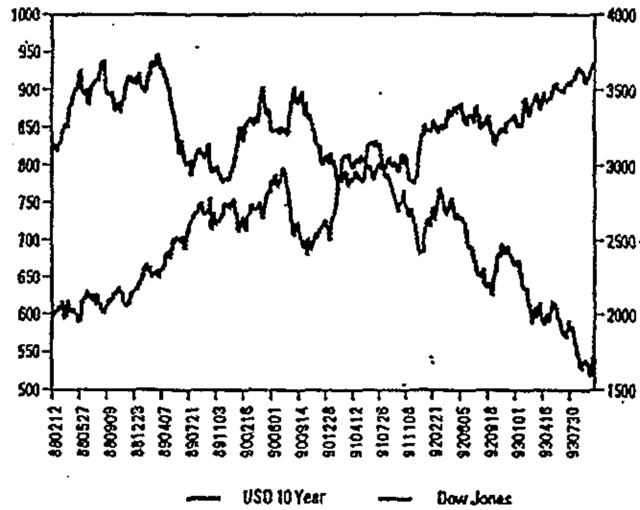
The CRB Index has been steadily declining tor the past five years from its highs in the middle of 1988. You will notice with the first graph. The correlation between the decline in the CRB Index with USD 10 year Bond yields. This is consistent with the assertion that Bond yields and the CRB Index move together. With the CRB peaking and troughing before the comparable trend reversal in bond yields.

Graph 1:
CRB Index Futures (Spot) Weekly vs 10 Year Bond Yields



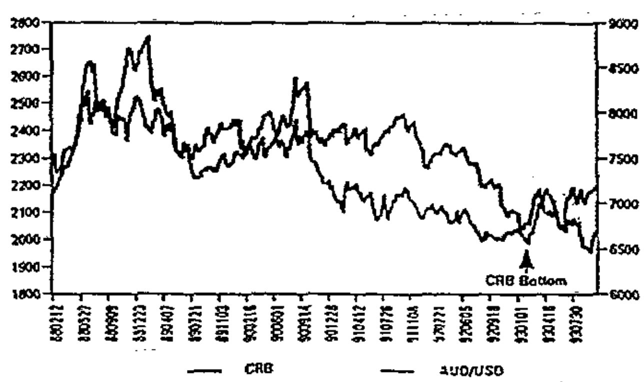
Graph 2 illustrates the inverse relationship between bond yields and stock prices, (the latter measured here by the Dow Jones Industrial Average). The statistical relationship correlations here are comparable to that of the CRB and Bonds. That is, approximately 90 percent.

Graph 2:
10 Year Treasury Bonds US (Weekly) vs Dow Jones Ind. Ave



Graph 3 tracks the CRB Index against the A$. The relationship here is analogous to the USD Bonds. The CRB appears to peak/trough significantly before the AUD.

Graph 3:
CRB Index Futures (Spot) Weekly vs AUD/USD



The correlation between the CRB Index and the AUD/USD can be explained in terms of Australia's heavy Trade dependence on commodity exports. It has thus gained a reputation as a "commodity" currency. Stronger commodity prices - in addition to boosting export revenues, would also boost international sentiment towards the AUD.

A Closer Look - 1993 to Date

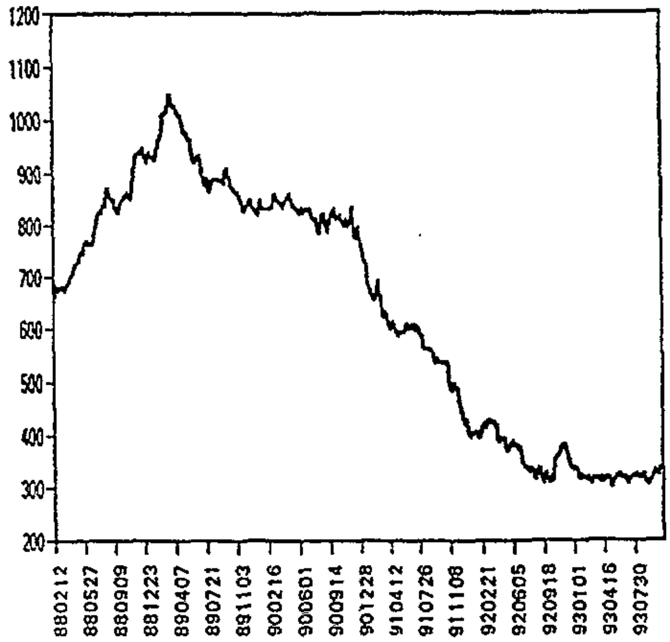
Till the beginning of 1993 the decline in the CRB and USD bonds yields and the rise (at least in the US) in stocks has been consistent and in one direction. However, in this calendar year the CRB Index *has diverged from the underlying trends in stocks and bonds.*

That is, commodity prices and by extension inflationary pressures are rising. Short-term US interest rates which have had their previous 5 year slide stall in the last six months. reflect this fact (see Graph 4). The risk now is for a rise in general interest rates and inflationary expectations

The recent rise in the CRB Index is also at odds with the $A, which unlike the CRB, is still in an ostensible downtrend.

Accordingly, the rising CRB Trend of 1993 presents a warning about the trends in bonds and stocks in the United States. It also suggests a cause for concern in overseas bond and equity markets that take their cue from United States Financial Market activity.

Graph 4:.EuroDollar 90 day (Spot) Weekly



The CRB Index - An Analysis

The key to the continuation of the CRB Index rise (and thus divergence from Bullish trends in bonds and stocks) centres around 220.00 level (see Graph 5).

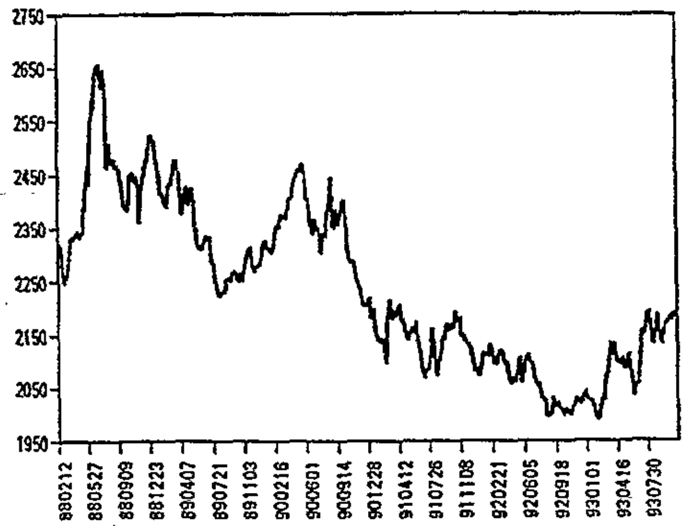
Several weekly closes above the 220.00 level will be a warning that the CRB Index rises begun in January 1993 will continue into higher regions than those seen this year.

Technical and momentum indicators currently are still supporting the uptrend in commodity prices since the beginning of this year.

But as stated, it will take consistent trading over 220 to confirm the rise in the CRB as more than a short-squeeze; and an actual reversal of its downtrend begun in Mid 1988.

A continuing rise in the CRB Index should then - by historic patterns - impact bonds, stocks and the $A in a variety of ways.

Graph 5:
CRB Index Weekly



A Rising CRB Index: USD Bond Market Implications

Equity Market Implications

$A Implications

Given the statistical relationship between the CRB and the US 10 year bond market; the presence of divergent bond yield and CRB Index trends are not tenable in anything but the short-term (read here, an average of four months).

Cross border bond and equity plays aside and all other things being equal. International asset allocation plays will tend to:

Favour the A$ (in conjunction with other stylised "Commodity" Currencies). Which will see it rise versus the USD and on its cross relationships.

These effects will most clearly impact positively on the Trade Weighted Index.

Summary

The CRB Index (as an index of commodity prices) is a leading indicator of the direction of US Bonds market prices. The Bond market in turn drives a large part of the valuation process of equities The $A in turn regarded still as it is, as a "commodity" currency is in turn measured internationally against the general level of commodity prices typified by the CRB index

Given also the mature state of:

- The CRB Bear market
- The US Bull Bond Market
- The global equity market rallies

A continued rise in the CRB Index presents threats to Global Bond and equity markets and a salutary effect on the AUD.

It is an index worthy of respect at both a micro and at inter-market linkages.

Peter Pontikis

Bibliography

John Murphy
"Inter-market Technical Analysis", John Wiley Inc., New York, 1991

Powers Research Inc
The CRB Index white paper:
"An investigation into Non-Traditional Trading applications For CRB Index Futures", March 1988

CRB Index Futures Reference Guide
New York Futures Exchange, 1989

AUDIO TAPES TO BUY

Computrac ran their TAG XV conference in October 1993. As in previous years, they are selling audio tapes of the workshops, complete with copies of the visuals shown by the speaker. ATAA members wishing to acquire these tapes may order them directly from Computrac using the order form below. The order form shows the prices.

A short summary of the content of each tape is set out below. Members requiring further information may call Colin Nicholson on 02 436 1610.

Each tape is coded to indicate the likely interest area as follows: F = Futures, I = Indices, S = Stocks, C = Cash, D = Day Trading. Since options are a function of their underlying issue, they are not designated.

Speaker: Thomas Aspray and Manning Stoller.
Interest: FIDC
Topic: Short, medium and long term analysis with RSI, MACD, Herrick Payoff index, Directional Movement Index and Andrews Pitchfork.

Analyses weekly, daily and hourly time periods for the same market, as is done by most professional traders before taking a position. Shows how to identify both short and intermediate turning points. Shows how to determine support and resistance levels using Fibonacci fan and arc lines, P&F analysis as well as Andrews Pitchfork lines. MS, who developed the "STARC" bands (Stoller Trading Average Range Channel), shows how these bands are constructed and how they are used to determine high and low entry points. Also: risk management techniques, psychology of trading and how several indicators can be combined into a single technical tool.

Speaker: Thomas Bierovic.
Interest: FSICD
Topic: Synergy and the Art of Trading.

In technical analysis, synergy is the use of several studies, tools and techniques together in ways that make the total system greater than the sum of its parts. These synergised systems combine oscillators such as MACD, RSI and Stochastics with four trend following components that Tom has developed for his own trading: Micro-M Tops and Micro-W Bottoms, On Balance True Range, True-Range Expansion and the Pentagon Reversal Pattern. New this year is a discussion of six Candlestick patterns that synergise effectively with oscillator signals. Also ideas on trading tactics and several ways to teach yourself to trade in a consistent, professional manner.

Speaker: Walter Bressert.
Interest: FSICD
Topic: Controlled Trading.

Most traders react to the market, their broker and their emotions. When you react because the unexpected has occurred, you are out of control. When you respond as part of a pre-determined game plan, you are in control. Walt shares his 4 Step Program of Controlled Trading, that will keep you in control. Part I deals with market analysis to define the trend and anticipate tops and bottoms. Part 2 deals with oscillator analysis as an indicator of tops and bottoms. Part 3 deals with market entry and exit techniques. Part 4 covers controlled risk money management.

Speaker: Connie Brown.
Interest: FID
Topic: Utilising the Wave Principle.

Demonstrates use of the wave principle in the transition from analysing to trading the S&P futures market. Various analytical techniques are incorporated with the Elliott Wave Principle to increase the probability of the preferred Elliott Wave count.

Speaker: Andrew Cardwell.
Interest: FSICD
Topic: Trend Analysis, Trend Change and Price Forecasting with the Relative Strength Index (RSI).

Most traders use RSI to try to identify bullish and bearish divergences. Andrew explains how most traders are faked out by divergence. He explains why it is necessary to be aware of the range of RSI and how range can help you to identify the trend. Introduces one of RSI's more dynamic applications: Price Targeting with Positive or Negative Reversals.

Speaker: Barbara Diamond and Perry Kaufman.
Interest: FSICD
Topic: Trading Strategies for Change.

How evolution of markets affects system trading and which trend following methods work best for markets in different stages of development. Uses simple tools and Computrac programs to show which systems are better than others. Demonstrates that trend following alone is not as desirable as frequent profit taking. Shows that stop losses are not the right way to control risk and presents more realistic low-risk substitutes. In a unique presentation, Perry shows how to make the best of price shocks, which play havoc with trading risk.

Speaker: Mark Douglas.
Interest: FSICD
Topic: The Path to Consistency.

Explores the attributes and components of the kind of Market Mind Set that will create consistent results.

Speaker: John Ehlers.
Interest: FSICD
Topic: Secrets of Predictive Filters.

All moving averages and smoothing filters give lagging outputs. Shows how to characterise them in terms of lag, to keep the lag under control. By controlling lag, you will understand the underlying secret of predictive filters. Uses mathematics extensively, but contains vital information for traders at every technical level.

Speaker: Dr Alexander Elder.
Interest: FSIDC
Topic: The 3 of Successful Trading: Mind, Method and Money.

Will point you in the direction of mastering all three areas; how to become a cool, calm and collected trader; how to profit from reading the behaviour of the market crowd; how to use a computer to find good trades; how to develop a powerful trading system; how to find the trades with the best odds of success; how to find entry and exit points, set stops and take profits.

Speaker: Peter Eliades.
Interest: SI
Topic: Dynamic Time Cycles, Use and Construction.

Peter's theory of price movement in the stock market relates to repeating cycle rhythms. Fundamental analysis has no effect on market timing. His analysis is 100% cyclically and technically oriented.

Speaker: Nelson Freeburg.
Interest: FSI
Topic: System Design and Function.

Builds a stock market timing model from the ground up. Discusses one of the primary pitfalls of system design, excessive curve-fitting and how to counter it. Also highlights some powerful timing tools used by equity portfolio managers that may have been overlooked by futures traders with specific examples from markets such as bonds, metals, currencies and index futures.

Speaker: Ed Gately
Interest: FSI
Topic: Predictive Networks.

Predictive networks such as neural nets, how they work and what they can accomplish. Emphasis on Neural Networks, but also discusses the Model Ware program and Pattern Matching programs. Discusses practical problems with Neural Networks.

Speaker: Lisbeth Keefe.
Interest: FCD
Topic: Looking at Markets from Different Perspectives.

Shows how a cash foreign exchange trader views and analyses a related market such as gold and how a futures trader extrapolates critical information from both these markets.

Speaker: Charles LeBeau.
Interest: FSICD
Topic: The trading tools he believes to be the most value to the active trader.

Explains in practical, down to earth terms, both the advantages and limitations of the important technical tools you are likely to use every day. Among the most critical topics discussed will be exit timing.

Speaker: Bill McLaren.
Interest: FSICD
Topic: How to integrate Gann and the demand index into your position and intraday trading.

Includes how to locate the start of the fast moves that make you the most in the shortest time. Uses S&P 500 futures and cash index, T Bonds and a few stocks as examples.

Speaker: Steve Moore.
Interest: FIC
Topic: Correlation studies, Howe's limit rule and historically reliable strategies.

Shows how by relying on the analytical muscle of the computer, one can discover recurrent tendencies for each market to trend, top and bottom every year. From these windows of opportunities, one can optimise historically reliable strategies with precise entry/exit dates from which to anticipate future price movement.

Speaker: Martin Pring.
Interest: FISC.
Topic: The KST System.

Prices at any one time are determined by the interaction of a number of different time cycles. Studying one specific momentum indicator only reflects cycles whose time span exceeds the indicator's. The KST system combines four momentum time spans into one indicator, therefore simultaneously reflecting several cycles and can be calculated for any type of trend, short, intermediate or long.

Speaker: Linda Bradford Raschke.
Interest: FICD
Topic: Swing Pattern Set Ups.

Prices tend to form a distinct three day swing trading pattern, which consistently repeats itself in a tradeable fashion. Discusses why this pattern sets up, how to recognise it and how to trade it. This presentation will give you a new perspective on price behaviour and chart patterns.

Speaker: Dr Clifford Sherry.
Interest: FISC
Topic: Testing for Stationarity and Dependence.

If a time series is stationary (the rules do not change) and/or dependent (the past prices impact on the current price), then the methods used by technical analysts can potentially be used to isolate and identify patterns of activity that can be used to make valid and profitable buy/sell decisions. Uses simple, easy to apply, but statistically rigorous techniques.

Speaker: Will Slatyer.
Interest: FICD
Topic: Strategic Trading of International Markets.

Follows the policy that one should trade the strongest potential markets with best currency advantage. See ATAA July Newsletter page 3.

Speaker: Joseph Stowell.
Interest: FCD
Topic: Short term trading techniques for bonds, Three Bar Net Trendline, Caps and Cups.

The trailing protective stop technique taught in this workshop demonstrated how to capture intermediate term profits when using the short term trend entry signals. Traders are taught how to identify a primary trend, to identify trend reversals and counter trend trades and much more. The techniques are integrated into a Master Trading Plan.

Speaker: Ted Tesser.
Interest: FID
Topic: How to Create and Manage a Profitable Trading Business.

Discussion focuses on the strategies necessary to become a successful futures trader, including techniques for developing and evaluating a suitable trading methodology for each person's style of trading. Also reveals a system for methodically grinding out a small, but consistent profit month after month using OEX option credit spreads.

Speaker: Neal Weintraub.
Interest: FID
Topic: Technical Trading Tricks Floor Traders Use.

Teaches off the floor traders what technical tools are used by floor traders so they can integrate the ideas into their own technical trading. Discusses over nineteen techniques that floor traders use to exploit market movement; ideas based on sophisticated techniques that enable them to do more than merely get the edge.

WHAT'S ON WHEN!!!

February 1994 is shaping up as a big month for the Australian Tecnical Analysts Association with two names from overseas addressing us in the same month. David Fuller talks exclusively to members, for free, at 12.45pm on Friday February 4th at the State Library of New South Wales. David is also presenting his renowned Charting Analysis Seminar in Sydney in February.

Then, just 10 days later Nick Flambouras will address the regular Sydney meeting on the 14th of February at 5.30 for 6pm in the State Library of NSW Jean Garling Room.
PLEASE NOTE THAT THIS ONE WEEK EARLIER THAN THE USUAL MEETING.
Mr Flambouras will be presenting his popular WD GANN FORECASTING & TRADING WEEKEND in Sydney on February 11, 12 & 13 1994. As well he will present the WD GANN ASTRO-FINANCIAL SEMINAR in Sydney on February 18, 19 & 20 1994. ATAA discounts apply. Phone (02) 545 2605.

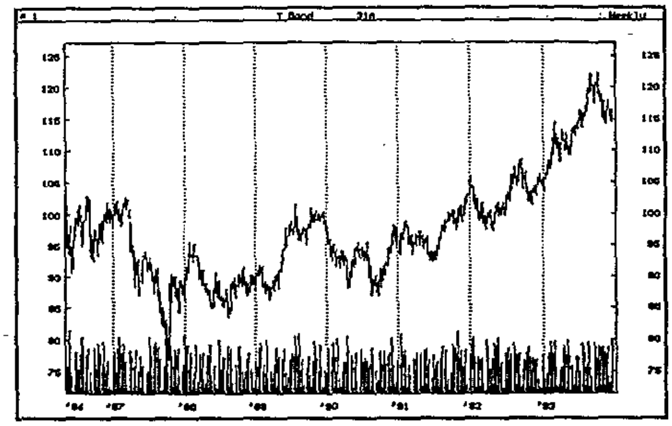
In addition, for all you budding astrologers the Asutralian Federation of Astrolgers has its annual conference in late January.

US 30 YEAR T-BOND UPDATE

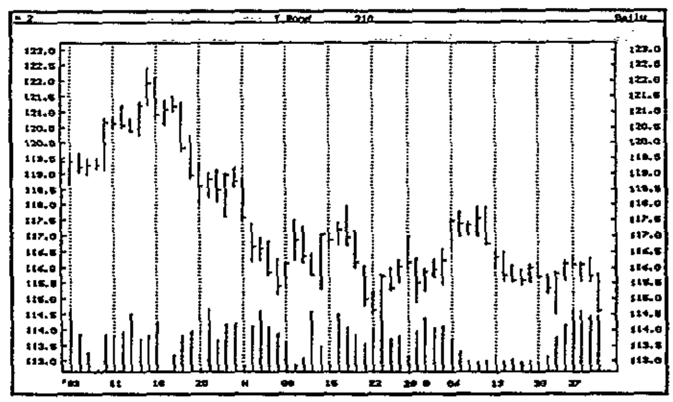
The US Government 30 Year Treasury Bond has one of the longest maturities of any borrowing in the world. The UK has some borrowings of 30 years but is nowhere near the size of the US market. A primary law in Bond Markets is that 'the longer the maturity of debt the greater the impact of a change in interest rates on the value of the bond'. That is, a 1 year bond's price will not be as volatile as a 30 year bond's price for a general move up or down in interest rates. The effect is just as dramatic in the US 30 Year Treasury Bond Futures, if not more so. This is because the Futures contract is leverage on the already highly leveraged US Government 30 Year Bond.

With that in mind, any analysis and trading in US 30 year Treasury Bond Futures, needs to be pretty well spot on. Otherwise, leverage can come back and hit you in the face. If the analysis and trading is wrong, losses seem to pile up faster than profits ever do. In the September 1993 issue of the ATAA Newsletter we published an article written by Mr Nick Flambouras in July forecasting a TOP for the US 30 Year T-Bond Futures contract on Monday 18 October 1993. The actual day of the all time high was Friday 15 October 1993. The forecast method he used to pinpoint this high was worked out months in advance and not only that was correct in its call for a high. The highly accurate method used, and how to apply it to your markets, will be taught by Mr Flambouras at the WD GANN ASTRO-FINANCIAL SEMINAR in SYDNEY on February 18-20 1994.

In the November 1993 ATAA Newsletter we published an article written on 21 October 1993 by Mr Flambouras, 6 days after the all-time high CBOT T-Bond December Contract High. In this he presented some quick and easy Gann techniques to forecast the duration of the next short term move ie both TIME & PRICE targets, based on the December 1993 contract swing highs & lows. He calculated a price target of 116.11 and a turn date of 19 December. Given the strong uptrend in the T-Bonds over the past 3 years, such a forecast so early in the move was pretty brave. The following weekly chart shows the strength of the multi-year uptrend.



Let's step down to the daily chart to see how Mr Flambouras's quick and easy Gann methods have fared:



He was 100% on the direction of the market, which comes from his advanced Astro analysis. The price target at 116.11 was well and truly reached. The fact that it was surpassed, going as low as 114.5, before the time target of 19 December 1993 was reached, may have some bearish implications. These targets were initial down move targets calculated based on time & price moves from previous swing highs and lows. The true market Cycle turns can be more accurately forecast using the Natural Laws (AstroFinancial laws) of WD GANN.

Mr Flambouras will be presenting the next WD GANN FORECASTING & TRADING WEEKEND on February 11 to 13 1994 at the Ramada Grand Hotel at Bondi Beach. In Sydney on February 18 to 20 1994 he will also present the WD GANN ASTRO-FINANCIAL SEMINAR. Both seminars have a few places left. Phone (02) 545 2605 or Fax (02) 545 4705 to book a place.

ATAA 1993 AGM & XMAS PARTY REPORT

DAVE HUNT ASKED ME TO WRITE THIS REPORT, SINCE HE RECKONS I SEEM TO KNOW WHAT I'M TALKING ABOUT. PRAISE GOADS PEOPLE TO MAKE CONTRIBUTIONS!

THIS AGM WAS MOTIVATIONAL TO ALL MEMBERS, LEAD BY CHARLES BALAS, SAYING THAT THE GROUP HAS REACHED CRITICAL MASS, DEVELOPING AN INTERNAL MOMENTUM. IT IS EMERGING THAT TRADING MARKET IDEAS SEEMS ALMOST AS IMPORTANT AS TRADING SECURITIES: IF TWO PEOPLE EACH SHARE HALF OF THEIR DIFFERING IDEAS, THEY START OF WITH ONE UNIT BUT CAN END UP WITH ONE AND A HALF UNITS OF IDEAS, E.G. 1+1 => 1.5+1.5!

A CHAIN REACTION OF SUGGESTIONS STIMULATED MANY MEMBERS TO SPEAK OUT FOR THE FIRST TIME, TO SAY THEIR PIECE ABOUT HOW TO IMPROVE THE ASSOCIATIONS OPERATION.

CHARLES ALEXIOU, OUR PR OFFICER, WAS ENCOURAGING MEMBERS TO CONTRIBUTE, AND SAID NOBODY VOLUNTEERS UNTIL PUSHED. RESOURCE SHARING IDEAS INCLUDED VIDEO LIBRARY (NOW 9 TITLES, SOON ALSO DEMO DISKS FOR SOFTWARE), VARIOUS COURSES, TRADING STRATEGIES AND PSYCHOLOGY. SURVEYS AND AWARDS APPEAR GOOD WAYS TO STIMULATE ACTIVITY; AND IF SUGGESTIONS CAN BE TRACED TO AN INDIVIDUAL WHO SUGGESTED THEM, A MOTIVATED 'PROJECT CHAMPION' CAN BE FOUND. MANY US AND UK ORIGINATED IDEAS AND SOFTWARE ARE READILY ADAPTABLE TO NSW.

COLIN NICHOLSON, A POINT & FIGURE VETERAN, WHO ALREADY LECTURES AT THE SIA FINANCIAL STATEMENT AND TECHNICAL ANALYSIS COURSES, POINTS OUT THAT THE BEST WAY TO ATTRACT LIKE-MINDED PEOPLE TO YOU OR TO YOUR PET PROJECT IS TO WRITE ABOUT IT. COLIN IS VOCAL IN PROMOTING THE DEVELOPMENT OF FURTHER EDUCATIONAL PROGRAMS FOR NEW INVESTORS WHO ARE JOINING THE EXISTING MEMBERSHIP OF MORE ACTIVE OR PROFESSIONAL TRADERS. WEEKEND CONFERENCES AND SEMINARS CAN BE ORGANISED.

DAWN BOLTON-SMITH WAS AWARDED HONORARY MEMBERSHIP FOR HER LIFETIME CONTRIBUTIONS, AND RETIRED FROM THE COMMITTEE. SHE WAS PREVIOUSLY INVOLVED WITH QUEENSLAND INVESTOR GROUPS, AND HAS BEEN CREDITED WITH VIRTUALLY INTRODUCING TECHNICAL ANALYSIS INTO AUSTRALIA. LIKE COLIN, SHE IS ABLE TO CONTINUE FROM SIA COURSE LECTURING, TO IN-HOUSE ATAA SEMINAR SERIES, FOR NEW MEMBERS SEEKING A GROUNDING IN INVESTMENT.

BOB MCGREGOR, ONCE A TEACHER AT THE MOSMAN EVENING COLLEGE LIKE DAWN, AND AUTHOR OF THE WEEKLY MARKET ALERT/DAILY GOLD ALERT IN THE 1960s TO 1980S, SPOKE UP. HE SUGGESTED LECTURES AS MORE APPROPRIATE FORUM FOR NOVICE MEMBERS, RATHER THAN THE MONTHLY MEETINGS. BOB HAS BEEN TO MANY US CONFERENCES, AND SEEN MANY OVERSEAS NEWSLETTERS. HE COMMENTS THAT WE CAN CONTROL OUR OWN DESTINY; AND SHOULD NOT ALLOW OURSELVES TO GET TOO CONFUSED BY MYRIADS OF TECHNIQUES, OR DISAPPOINTED WITH THE EPHEMERAL NATURE OF MANY MARKET ALLIANCES.

WILL SLATYER SUGGESTED ORGANISING 5 MINUTE SPEAKERS.

JACK VAN DER MARK SUGGESTED THE USE OF NAME TAGS AT MEETINGS, WHICH PEOPLE CAN KEEP AFTERWARDS AND BRING TO EACH MEETING.

DENNIS ROSE SUGGESTED A MEMBERSHIP INTERESTS/ RESOURCES DIRECTORY OR DATABASE, WHICH HAS EARLIER BEEN MENTIONED BY KEL BEAVER, WHO EVEN SUGGESTS ALLOWING TRADERS TO FORWARD THEIR TRADING RESULTS TO A COMPARISON DATABASE, WHICH CAN ATTRACT INVESTOR FUNDS TO THEM. NEWSLETTERS CAN ALSO BE TRACKED AND COMPARED, AS IN THE USA.

PAUL SIMMONS FROM THE NEWLY SET UP MELBOURNE ATAA (34 MEMBERS COMPARED TO NSW 117) MADE HUMOROUS CONTRIBUTIONS TO PROCEEDINGS. CHRIS CARR METICULOUSLY PRESENTED THE ANNUAL FINANCIAL STATEMENTS, RESULTING IN A SURPLUS OF $5000 OUT OF THE $17000 REVENUE, BOOSTED BY THE SUCCESSFUL DAVID FULLER TOUR.

MANY MEMBERS HAD FURTHER INTERESTING EXCHANGES DURING THE INFORMAL CHATS OVER SANDWICH SNACKS. KEL QUERIED TARMO RAE (ORD MINNETT) AS TO WHY STOCK OPTIONS AND SPI BROKERS SEEM TO RARELY EXIST IN THE SAME DEPARTMENTS, LET ALONE IN THE SAME PERSON. ROB GRAY (894 5546) AND BASIL NOTARIS SEEK TO INITIATE A METASTOCK USERS GROUP, KEEPING IN TOUCH OVER THE PHONE. ZORAN GAYER CONTINUED TO DISPLAY HIS RECENT GANN-ELLIOT TECHNIQUES SOFTWARE. NEW, BUT NOT ALL NOVICE, MEMBERS WERE INTRODUCED TO OLD HANDS. A FEELING EMERGED THAT THE ATAA IS MOVING FORWARD MORE VIGOROUSLY, AND IS OFFERING BETTER SERVICES FOR MEMBERS.

Kel Beaver

YOUR PERFORMANCE TRADING EDGE

DR. VAN K. THARP

Dr Tharp thinks the interview format is a great way to convey certain information. As a result, he has elected to interview himself in the following newsletter I'm sure you'll find the information useful and beneficial. These are the questions people ask the most.

Most people are not successful when it comes to trading Why?

I can answer that question on a number of levels At the most basic level, people must trade by processing information Unfortunately, we're not very Efficient information processors We have a lot of biases which enter into trading decisions I've documented 25 of them in my course However I think most of those biases can be summarized by realizing that trading/investing are very simple processes and we human beings try to make it into something much more complex Those basics are all about adding complexity to the world

Is it really that simple?

Consider the trading rules that work 1) follow the trend; 2) let your profits run; 3) cut your losses short; and 4) manage your money so you can stay in the game If you design something around following those rules, you'll make a lot of money But then hen a great trader says, "That's what I do," the average person responds, "Yes, but tell me what our real secret is "

The markets are not random in that we have very large abnormal price moves On a normal distribution curve, these amount to abnormally large tails For example, in the past decade we have seen a one-day move of 500 points in the Dow Jones and a very short-term move of crude oil from the mid teens to the $ 40 level and back to the mid teens. We might expect those moves by chance perhaps once in a 1000 years, but not several times in a decade But we've seen those moves in the last decade Consequently, what most traders need to do to be successful is to participate in those moves in some way and not lose too much money when we're wrong Unfortunately, we have all sorts of biases in our thinking which keep us from doing so

What are some of those biases, Van?

First, we have a bias to understand things - such as why is the market acting like it is? Most traders make money with systems that are right less than fifty percent of the time. What makes them money is that they make a lot more, on average, than they lose Executing a system based on probabilities doesn't require an understanding of how the market works, it requires money management. Nevertheless, people want to treat the world as if they could predict and understand everything As a result, they tend to seek patterns where none exist and to invent the existence of unjustified, causal relationships. Traders don't want to trade probabilities Yet trading is a probability and money management game.

Another bias that most people have is called the law of small numbers This means that we don't need a lot of information in order to find the patterns or causal relationships that produce our understanding - it only takes a few examples People also have a bias in that we tend to imagine that what we see or expect to see is typical of what can and will occur. Thus, if you observe a pattern in the market, you expect it to occur If you develop some concept about the market, you will look for data to support that concept in the market - and you will probably find it whether it exists or not

Add to those another bias called the conservatism bias This means that once we find a pattern or causal relationship, we tend to ignore contradictory evidence no matter how pervasive it is There are many more biases Hopefully, you get the picture We tend to create a reality that's much more complex than what really works - we try to add complexity rather than employ sound money management.

There is one more important bias, called the ego bias The ego bias amounts to the fact that most of us make the following statement "Yes, I understand that most people have these biases, but none of them apply to me "

Are there any biases around money management?

Yes, there are several. The most notable is called the gambler's fallacy. People tend to assume that after a string of losses, a win is much more likely and vice versa. Thus, after a losing streak they are likely to risk a lot because they believe a win is more likely. Or after a winning streak they are likely to bet less because they believe a loss will occur soon. However, in reality a win or loss depends upon the probabilities levels in your type of trading - not what has happened in the past. Professional gamblers know that you bet small during a string of losses and bet big during a winning streak. This is the reason most professional traders use some sort of money management in which they risk a percentage of equity. Your equity increases during a winning streak and decreases during a losing streak.

Most good traders would agree that risking less than 1% of equity in a trade (where 1% is the amount you would lose if your stop loss was hit) is a prudent risk. Risking between 1% and 3% gets into the gunslinging range. Risking any more than 3% is usually financial suicide and the average trader commits financial suicide all the time without knowing it.

Your definition of 1% risk is important!

Most people don't understand risk at all - including a lot of professionals. Risk often is equated with the probability of losing. Thus, for some people, futures trading is considered to be risky. Others equate risk with the amount invested or with margin. But that's not it at all. Risk is the amount of money you are willing to lose if you are wrong about the market. When you define risk that way it changes a lot.

Let me give you an example. An equity trader might say, "I risk 10% on each trade." For him, that might mean that if he has $100,000 he *wouldn't invest* more than *10% in* each stock or $10,000. That's not the same thing. According to his definition, he could only buy 50 shares of a $200 stock. But let's say that he bought a stock at $200 and that he would admit to being wrong if his stock dropped to $198 and sell it - that's a $2 stop. If he is willing to risk 10% of equity it means that he could buy 5000 shares of the stock. Those 5000 shares would cost him a million dollars and no brokerage house would allow him to buy that much with a $100.000 account. Risk must be thought of as the percent of equity you are willing to lose on a trade if you are wrong. And when you do it that way, anything over 3% is extremely risky - especially if you have 10 to 15 positions on at one time.

What's really interesting is that once you understand risk and portfolio management, you can design a trading system with almost any level of performance. For example, you can design a system to trade for clients that would make about 30% per year with only 10% drawdowns. On the other hand, if you want to trade your own account and be a little more risky, you can design a system that will produce a triple digit rate of return - as long as you have enough money to do so and are willing to tolerate tremendous drawdowns.

You said there were other levels at which we could talk about why people lose in the markets?

Yes, at another level, people get exactly what they want out of the markets. Most people are afraid of success or failure. As a result, they tend to resist change and continue to follow their natural biases and lose in the markets. When you get rid of the fear, you tend to get rid of the biases.

I guess the classic question is can a losing trader transform himself?

I believe that if one person can do something, then you can model it and teach it to others. And we've developed all sorts of trading models that work. In fact, we've had great success teaching the models to other traders.

Yet transformation is only something that winners do. I've found over the years that most of the people who come to me are way-above-average traders and investors. In fact, when my clients have tried to talk others into using my service, they don't want it. I can remember one client telling a friend that if my course didn't help him (both his life and his trading) that he (my client) would pay for it. The friend still refused to buy it. Eventually, the friend lost so much money that he no longer trades. Yet he never called me. I hear stories like that all the time. The best way to describe the phenomenon is to say that losers don't want to transform themselves.

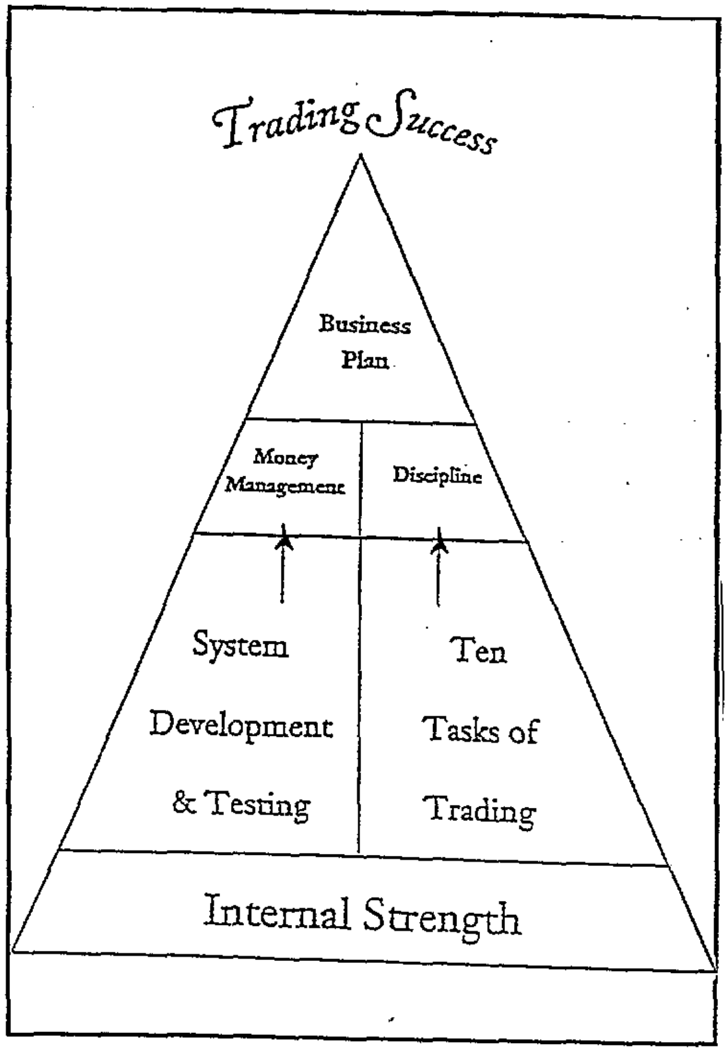
Van, you call yourself a modeller. What is a modeller?

I've had a lot of training in Neuro Linguistic Programming (NLP), over 100 days worth, and I consider NLP to be the science of modelling. That means if you can find several people who do something well, then you can determine how they do it. You need several people, because if you try to model one person you tend to find that person's idiosyncrasies rather than what makes that person a superperformer. For example, I know one "Market Wizard" calibre trader who has actually hired people to model him. However, they've all failed because they were only trying to model one person and that just doesn't work. They'd just find out what he thinks he's doing and that's not it at all - most of what he thinks is important are his idiosyncrasies.

Anyway, once you get the common tasks that produce excellent behaviour, you need to get the ingredients of those tasks. Those ingredients include the beliefs, mental resources, and mental strategies necessary to carry out those Tasks. Once you have that, then you can teach the same skill to others and have them perform well. And when you can duplicate success in others, which we have been able to do in most aspects of trading, then you know you have a workable model.

And what have you modelled to date in trading?

Just about everything. If you notice the diagram, we've outlined the entire task of developing trading competence at the most advanced level - that is becoming a well respected Commodity Trading Advisor (CTA) or Registered Investment Adviser. When you reach the point where many people are willing to give you many millions of dollars, and you do pretty well with that much money, then you've become a pretty competent trader.



Notice that the overall model for trading success tends to form a triangle. At the base, I've included what I call inner strength *development. I think it is the basis for everything.* When you've got inner strength, it's easy to develop the discipline to trade well. Basically, you no longer have any hang-ups that prevent you from doing well. But without it, you're in pretty bad shape. It's like attempting to build a skyscraper with little or no foundation. As soon as you have a strong wind or an earthquake, or in the case of trading perhaps a big loss, the whole thing falls down. That's what happens with most traders - they have no foundation, so they are constantly sabotaging themselves. Thus most of my consulting work is in this area - helping traders develop a strong foundation.

In the right side of the diagram is the trading model we've developed. It centres around the idea that most traders simply trade low - risk ideas using the ten tasks of trading. We've taught this to hundreds of traders with great success. It results in strong discipline and good performance.

Van, what's a low risk idea?

A low risk idea is a trading strategy or concept with a long-term positive expectancy for profit, but which allowing for the worst possible result in the short-term, still allows the trader to remain in the game to obtain the long-term rewards.

And what do you mean by discipline?

Discipline, to me, means bring able to control one's mental state where mental state is like the emotional context one brings to a task. Every task has some has some sate of mind that's important for optimal performance. For example, in answering these questions I would describe my state as being relaxed, confident and focused. I just let the answers flow. If I were in any other state, I think it would be a lot harder to come up with the answers.

Well the same thing holds for trading - there's some optimal state that is necessary for carrying out each of the tasks of trading. Overall, you need a background state of confidence - of knowing that you'll make money in the long run. If you don't have that context, then trading is quite difficult. And, each trading task requires a different sort of state.

Can you give me an example?

The first tasks of trading, self analysis, requires that you be introspective, dissociated, objective, curious, and willing to trust messages that come from your unconscious mind. If you don't have a mental state like that, then it's hard to do self-analysis properly. And the same goes for any of the other nine tasks that are important to successful trading.

And people can change their mental state?

Yes. We teach about 15 methods for changing one's state. One that everyone reading this interview can use immediately has to do with what we do with our bodies. Our posture, our breathing, the muscle tension in our bodies - all have a profound effect on our mental state. There's a profound statement credited to the Indians: "Before you judge someone, walk a mile in their moccasins." So try it - only imitate their walk rather than actually wear their shoes. Try on four or five different walks.

That also leads to a profound way of changing yourself when you are not in a resourceful state. Change what you are doing with your body. Change your posture! Notice your posture and change it. Notice the muscle tension in your body (especially your face) and change it. And notice your breathing. Sometimes when people panic, for example, they completely stop breathing. That's not very useful, so change your breathing.

Looking at your model, you have separated system development from trading. Why?

System development is different to trading. For a beginner, its learning how to trade. For a seasoned trader or investor, it is ongoing research. But in either case, it is different to the actual tasks of trading. Since I include money management and the development of low-risk ideas within the trading side of the model, I avoided the systems development portion during much of my early research.

However, I have continually asked top traders how they learned to trade and there are a lot of commonalities. As a result, we have been able to develop a seminar on the topic of How to Develop a Winning Trading System that Fits You. Interestingly enough, Jack Schwager says in his New Market Wizards that the most important characteristic that all market wizards have is that they've adopted a trading system to fit their personality. Well, that's what we teach in that seminar.

What can you share with us about system development?

First, there are a number of psychological issues involved in system development. I've done a whole newsletter on that, so I'll refer readers to that issue. (See Update 19 - Psychological Issues in Trading System Development).

Second, trading systems tend to have various components. Those components include selecting the market, the entry, the initial stop, the exit, and the money management overlay. Everyone concentrates upon entry which is the least important component. In fact, technical analysis, which is now popular among investors and traders, focuses primarily upon market timing - which implies entry. As we're going to show in a future update, you can use a coin flip for entry and still make money if you use the other components effectively.

Incidentally, the most important part of the equation is the money management overlay that I've already talked about. Yet, if you bought a software package to develop a trading system, you could not apply any of these money management overlays. Isn't that interesting? All of the software packages give people what they want and thus focus on the least important areas of system development - how to use various indicators for entry.

There's nothing in terms of software for system dc-development that includes money management?

Well, Bob Spear developed a program called Trading Recipes that allows for portfolio management. Bob understands that a system that might not work with one particular contract can do well trading a portfolio. And Bob has agreed to modify his soft ware to include the sort of risk management we recommend. As a result, we are willing to distribute and support that software. However, at this time there is nothing that supports exactly what we suggest for risk management. By the ay, Bob has agreed to send a free demo disk to anyone who is seriously interested in the program and mentions this newsletter. He can be reached at 713-953-7829.

And what about a trading business plan that you show at the top of the triangle? What role does that play in trading success?

I think the statistics indicate that 90 to 95% of all new businesses fail and the reason they fail is that they do not plan adequately. Most fail because they lack an adequate business plan. Well, trading is just like a business. Traders need more than just a system, they need a business plan. And that business plan should include several systems that generate low risk trading ideas; a psychological management plan; a money management plan; and a worst case contingency plan.

The psychological management plan has to do with managing oneself. Trading is human performance and the main determiner of the performance is the trader. For example, most people spend all their time analysing the market and trying to predict what is going on - which has very little to do with successful trading. As a result, I recommend that people develop a full psychological management plan. This involves analysing themselves regularly and spending time on anything that would improve their own performance. This would include such things as proper diet, regular exercise, regular relaxation or meditation, goals, planning, and avoiding anything that would get one's life out of balance, etc. This kind of mental rehearsal will go a long way toward improving performance.

But perhaps the worst case contingency planning is even more important. It amounts to brainstorming about what could go wrong. That doesn't mean that I'm advocating that one expect disasters, just that one plan for them so that it's easy to weather the storm. Once you've brainstormed what could go wrong, then I recommend that your plan include three or four ways of dealing with each potential disaster.

Earlier this year, I got a phone call from Tom Basso wondering what I had called about the previous day. He said, "We had a disaster yesterday and I wasn't able to answer the phone." I said that I hoped everything was okay and Tom responded that it was a planned disaster. They had planned and run through a dress rehearsal of a disaster in which all of their computers and phone systems were down. Thus, they were assuming that they had to run the office on Tom's home computer and home phone line. Could they do it? What would the problems be? And how would they overcome problems they hadn't predicted? I think every trader should do that kind of planning.

Do you have a school that teaches this kind of thing?

Yes, that's our week-long Training for Professional Traders. We cover such topics as business planning, marketing, presenting and selling yourself, handling clients, dealing with back office problems, etc. Also Tom Basso comes in and does a weekend on what it is like to run a CTA and RIA business. Managing clients, raising money, and dealing with back-office administration are serious issues that I don't believe are taught anywhere else. Most traders don't even think about them and then these issues become a major distraction from trading.

Are there any particular books you would recommend to any trader?

Yes, and my list would fall under three categories. First, would be the area of developing inner strength. I'd recommend that people go through the 365 daily lessons of A Course In Miracles. Both from a psychological and a meditative perspective that is the most sophisticated daily program that I know of. Doing those lessons changed my life and I think it would for anyone else. Also, I'd recommend Jim Sloman's new book, When You 're Troubled and my Peak Performance Trading Course.

The second category in which I recommend traders learn more is trading development. Here I'd recommend Chuck LeBeau and David Lucas' book Computer Analysis of the Futures Market. That's currently out of print, so I don't know how much longer we'll be able to carry it.

Lastly, I recommend books in the category of modelling trading. The best books in this area are my course and Jack Schwager's two books interviewing great traders, The Market Wizards and The New Market Wizards.

Van, you also call yourself a coach for traders. What's a coach for traders?

A coach is someone who takes raw talent and brings out top performance. People sometimes forget that trading is human performance - measurable human performance. Changes in equity reflect the performance of the trader much more than what happens in the market. A good trader can make money in the long run no matter what the market is doing. In contrast, a poor trader is unlikely to make money, regardless of what the market is doing.

A coach is someone who attracts talented people and then teaches them the fundamentals of good performance. At the Yankees spring training camp, Casey Stengle, who coached such baseball greats as Mickey Mantle and Roger Marris, used to hold up a baseball to his entire staff and begin the season with the statement, "This is a baseball." Even the best players need to be reminded of the fundamentals occasionally.

But just what are the fundamentals of trading?

To me, trading fundamentals include the ten tasks of trading. Traders need to be reminded of that and to eliminate any self-sabotage that keeps them from following those tasks. That's what I do and I am very effective at doing it.

Can you give us some examples of the successes you had?

Well, it's hard to express in words exactly hat happens when someone does a mental clearing. However, Jimmy Sloman gave a good example in the last newsletter when he said that suppose you were asleep and having a nightmare with numerous bad things happening to you. He said that the easiest way to solve those problems would simply be to just wake up. Although I don't claim that my clients "wake up" to a new awareness, what seems to happen is similar to that. Since I can't express it that well in my own words, here are a few examples that some of my clients have given:

The first gentleman had a problem with organization and procrastination, so we did a clearing of the root cause of that problem. Essentially, I have my clients get in touch with their unconscious minds (it's not really hypnosis, but more a sense of being able to play like a child) to find the root cause of their problem. We go back to a time before the root cause existed and, by taking a whole new perspective, we can change the impact of that event on their lives. The results, usually go something like this:

To summarize my feelings after the session with you: It felt like a river running through my body for about 15 minutes. When I looked up at the sunset, it felt like a very big bright light beamed at me; I had an incredible impression that it was a light showing me the way which was now open. While on a walk, I heard the birds singing for the first time in 11 years. That nightly experienced my eyes filling with tears of joy several times.

Regarding the market since our meeting: 1) I am much more relaxed; 2) I have stopped doing useless things; thus I 'm even more relaxed; 3) I've been able to complete the more important tasks first, which I hadn't been able to do; 4) I accomplish much more each day; and 5) I was able to clean out my files and throw away reams of information which I was never able to make myself do. I have made more money in silver stocks in the one month since I've been home than I did in all of 1992.

The next example is someone who was an excellent trader to begin with. I did a full mental clearing, although I didn't expect much of a change. Instead, what I got was a dramatic change. At this point, my belief is that more advanced traders tend to go even further when they do a full mental cleaning.
Here are the results in his words:

Moving on my time-line gave me the experience that everything is as it should be. Please note that I use the word "experience " rather than "know-ledge of " Experiencing this is like letting a feeling roll over your body completely. I had harmony in every molecule of my being. I like being connected with a world where everything is okay just as it is. This is a profoundly powerful mode of living. This is a profoundly efficient mode of living. This is a profoundly joyful mode of living.

My trading system hasn't changed one iota. I have changed. I work hard at what I do. My strenuous efforts were getting in the way. This month I allowed myself to research and trade with ease and made more profit than ever before. I thought I was open to what the markets were saying. But the evening after our session, I looked at my charts and models and realized how the drama that I had been acting out affected me. I was amazed at the patterns

I saw for the first time, as if my eyes had been closed for years. I was astounded at how the trading signals leaped out at me. The signals had been there all along, but I was literally blind because of inaccurate and limiting beliefs.

Do these effects last?

These changes are relatively permanent based on my experience. What happens is somewhat like taking out a weak foundation of a building and replacing it with something much stronger. When you take out the old foundation, you shake up a lot of things. Many old beliefs must fall away because they are no longer supported at the foundation. As the old beliefs fall away, it's like a spiritual revelation because suddenly (at least for a day or so) you're existing without a lot of core beliefs. As new, more useful beliefs tend to replace the old ones, the spiritual experience tends to slip away because beliefs are grounded in this universe. Nevertheless, people can early on their lives at a much more profound level And that level usually means more effective trading.

One of my clients, that I worked with about seven years ago, gives a good example of the long-term effects of such a transformation. For example, he's continued to earn around 50% per year on his client's money, and he seldom has a losing month. He's now an example for other traders and other people. He trains traders to be more successful and helps them go through personal transformations. In addition, he does things like talk before high school groups on how to live life to the fullest. I really find it wonderful to know that my work can have such a long-reaching effect. And yet he's really done it all himself. I was just the spark that got things going.

What do you mean by saying that beliefs arc grounded in this universe?

Everything I've said in this interview reflects my beliefs. Beliefs are filters. You see and experience what you expect because your beliefs are filters to reality that allows you to find information and evidence to confirm them. Beliefs are concepts that help you understand things in this universe.

For example, people once believed that the earth was flat and that everything in the universe revolved around the earth People's lives were shaped by that belief. We then believed in Newtonian physics where everything was mechanical and lawful and most of the universe was thought to be outside of us. And today we've moved into quantum physics in which everything is relative and the observer has an effect on the observation because he is part of it. The laws of physics (which are really just beliefs) shape our concepts, inventions, and progress. Probably at a level beyond all of that (of course, this is a belief) is that once you give up all of your beliefs, you have an experience of the universe as it really is - which tends to be a very profound spiritual experience of the kind that some of my clients have after an emotional clearing.

I probably should add to this discussion the fact that beliefs are one of the ingredients of success. They tend to form a hierarchy with spiritual beliefs and self-concept beliefs being the most significant. However, I've already written a full newsletter on this concept (i.e., Logical Levels of Belief, Update #5) and the material is now in my course as well.

How about any failures you've had with clients, Van?

I cannot remember any of my clients who did not get a major transformation and who were not satisfied with the experience. We offer a guarantee of continuing to work with someone until they get what they want and that's seldom necessary. In fact, in most cases, I've reduced the time for the initial consultation down from two days to a single day. However, the transformations don't always lead to long-term **trading success.** Sometimes, people just decide that trading is not for them and they end up doing something else.

Van, what produces these changes so quickly?

When you can heal a major childhood wound in a few hours, it has a profound effect on people.

What's a childhood wound and how does it occur?

First, I believe that as a child we are conceived as pure and innocent beings. Some people would argue that we carry with us the Karma from past lives or from our ancestors. That also may be true, but I would prefer to believe that babies are conceived basically happy, joyful and here in the present moment.

However, in every case I can remember, people are wounded in one or more ways within the first five years of life - sometimes in the womb - where wounding means something that blocks our inherent innocence.

Is that why you say people arc conceived as innocent rather than born innocent?

Exactly, because wounding may occur in the womb before someone is born For example, when a child is not wanted by one or more of the parents, I believe that he or she senses it somehow. And whether wounding occurs while a child is in the womb or later, it still occurs. And I think that becoming wounded in some way is inevitable - it's part of what we have to learn while we're in this existence. It's not necessarily anyone's fault. It just occurs. Even the best of parents can in some way wound their child.

A good illustration of how that occurs is shown in the movie, My Life. I encourage everyone to see that movie. The movie begins by showing us little Bobby who probably doesn't get enough attention. For example. Bobby's father, who definitely loves his son, spends most of his life working to see that the family is well provided for. He also probably neglects his son because of his own woundedness, but that's another story. Anyway, Bobby feels a lack of attention and love.

One day, because his father doesn't have the time to take him to the circus, the boy prays to God to have a circus in his backyard the next day. The little boy tells God that if He'll grant the wish, he will invite all of his friends. The next day he invites everyone from school to the circus in his backyard. However, when his friends and teacher show up, there is no circus. Bobby feels totally betrayed by everyone - his parents and by God. Yet everyone did the best they could. No one really tried to hurt Bobby. His father loved him and showed the love the best way he knew - by working hard. Yet Bobby still feels betrayed.

Unfortunately, the child carries that anger into his adulthood and it affects the rest of his life. He grew up avoiding his family because he didn't want to feel rejected any more. And his father feels very hurt when Bobby later changes his last name. He believes that Bobby feels he's too good for his family. Thus, as an adult, Bobby is cut off from his family emotionally. He hides behind his success and when he does come out of hiding, he is criticized and so he quickly retreats. So here's a man who only calls his parents a couple of times each year and who is not even planning to attend his brother's wedding. Yet when he's told that he has anger inside, he totally denies it. I'd estimate that most of my clients have some sort of wounding of this nature - much of which is out of conscious awareness - but nevertheless, the wounding affects everything we do.

Let me quote from Jim Sloman in the last newsletter and then expand upon what he said:

Every time we suffer a trauma in childhood and don't fully experience our pain, the pain goes into the unconscious and affects our actions and sense of well-being. To overcome the problem, we must become more conscious of that pain and re-experience the feeling and integrate it into consciousness. At that point, it becomes a neutral memory rather than a source of emotional charge.

As children, we are taught to judge our feelings as being good or bad. We're willing to experience the good feelings, but not the bad ones. Thus, if something is funny, we will laugh until it's out of our system. But if something makes us fearful or angry, we try to suppress that kind of feeling. When we suppress a feeling, we really store it inside our bodies. And the unconscious mind continually looks for ways to release the stored feelings. Consequently, whatever we have stored inside ourselves we continually experience in the environment. Only we think it's our environment, rather than us. Thus, in the movie, Bobby thinks his family has cut him off. He doesn't realise that he's cut off his family.

As traders, such stored anger may be directed against the market. It's possible to create lots of dramas to justify anger in the market. Consequently, we get angry over bad fills, losses, and a lot of other things, instead of just realizing that they are all a normal part of trading. Or, unconsciously, we may feel a little angry at the market and get out of a position only to watch it take off. Then, we get furious, not realizing that it's really us. We created the situation Without the feelings controlling our lives, it would be easy to get right back into the position and catch most of the move. But that's not something that an angry person will typically do. You couldn't keep your anger if you did that. And fear, or any other negative emotion, works the same way.

You said that the techniques you use are different from hypnosis. Do you use hypnosis at all?

Well, I'm a Certified Master Hypnotist, so I certainly can if someone wants that type of approach. However, to me hypnosis refers to an "altered state of consciousness" - rather than a technique. If someone uses a formal induction procedure to put a person in a state of "hypnosis," then they still have to know how to deal with the unconscious mind in order to help them produce the desired change. Most hypnotherapists simply put people in "hypnosis" and then offer suggestions to the unconscious mind. I personally think that there are much more effective methods to help the unconscious mind change. I use those methods, but I don't necessarily have to put someone in a so-called state of "hypnosis" to get results.

Do you advocate a mechanical approach to trading for most people?

That's generally true. Most people have better things to do with their time than sit around watching a monitor all day, which is usually necessary if your trading is not mechanical. Also a lot of problems tend to develop in discretionary traders that system traders can easily avoid. Consequently, I advocate system trading for most people.

But I also think that discretionary trading can be terrific once someone has had a mental clearing and knows what he or she is doing. As a result, for more advanced people, either for clients or those who have already gone through the Peak Performance Trading Seminar, I offer the more advanced seminar. In it, we cover mental strategies, intuition, and developing unconscious competence.

What are mental strategies?

Essentially, mental strategies refers to another of the three ingredients of success. It refers to the sequencing of our thoughts - most of which is unconscious. For example, most people make decisions based upon specific details of their mental images. Traders usually have a mental image of a trade that works. If the image is in the correct location and has a sharp figure-to-ground distinction (i.e., the last bar stands out), then people get a strong feeling to act. Now, that's not the same for everyone, but it's the most common pattern. Everything else we do in terms of manipulating the environment or changing our own thinking is just to set up an image like that which causes us to act.

Are there different mental strategies for different types of trading?

Floor traders, for example, tend to be more auditory than off-the-floor traders. That's one reason floor traders have trouble making the transition to an off-the-floor job. Their decisions usually relate to the volume, pitch, and location of the sounds they hear in their mind. When they are off-the-floor and don't have that input, they feel lost. We usually have to do some strategy work with them to help them make the transition to being a position trader.

Fascinating! What other kinds of strategies are there?

We have strategies which distinguish confusion from understanding; successful versus unsuccessful decisions to act; what is easy-to-remember from what is hard-to-remember; and even what's "real" from what's made up. People are really amazed when I teach them that! That's why we're going to devote even more time to strategies in the Mental Strategies Seminar. Incidentally, we'll offer that seminar at half price to anyone who has taken the old version of the Intuition seminar.

Tell me about your Professional Traders Training? What is the objective and where are you going with it?

In late 1991, I took a look at two of my clients. One started with about $20,000 and in about 4 years had about $50 million under management. I don't think he would have made it without me, but I had only collected about $5,000 in fees from him, while he was now making about a million dollars a year in fees. I had been well-paid, but I felt that I needed some way to "let mv profits run" with clients like that.

The second client, right after he worked with me, started with a managed account of a million dollars. Two years later he had about $100 million under management. This fellow was a very seasoned trader, so I can't claim too much credit for his success, but still the same thoughts crossed my mind. As a result, I decided to set up my own school for developing money managers. So far we've had a 10-day school in 1992 and a 14-day school in 1993.

I have revised the program slightly to overcome problems, associated with presenting so much material, in such a short period of time. The complete program now consists of 1) the Peak Performance Trading Seminar; 2) the Intuition or the Mental Strategies seminar; 3) the Systems Development Seminar; 4) the 7-day Professional Trader's Training and 5) some private consulting. The cost for all of that is about the same as the previous program, but this gives people time to apply the material. And to get a certificate of completion, a trader must complete all five elements. However, he may take two or three years to do so. Thus, we can work with people much more throughout their development and it's a much more powerful program. Eventually, we'll even be helping our traders with their system development and testing.

However, there is still a difference between completing the program and graduation. To graduate, a trader must complete the entire program and show an 18-month track record trading at least $ 100,000 to illustrate that they are applying what we teach. In addition, the majority of our Board of Directors must agree to their graduation. We're that strict, because we want to create a program in which anyone who graduates and thus has our endorsement will be in high demand and have no problems getting money.

Has anyone graduated yet?

Three people from the first school formed an alliance - called Webster Management. In June 1993, they became the first graduates of the school -meaning that they met all the criteria that we had set up for someone to be able to show that they were applying the material that we teach at the school. They show good, <u>consistent</u> returns by taking risks of less than 1% of their equity per position. And more importantly, their reward-to-risk ratio is incredible - at least for 1993. I expect that they will soon be known as one of the better CTAs in the business.

I want to build the school to a point such that when we say that someone graduates, everyone wants to give them money. Of course, we have to build our track record as well. And right now I don't make a penny from someone like Webster other than the consulting and training costs and the fact that I've invested some money with them Incidentally, they graduated in late June. And, by the 1st of November they went from about a million under management to about three million It wouldn't surprise me in the least if they have about $25 million under management by next summer That will be a real success story.

You want to develop a vertical organization for trading development. Tell me about that.

Exactly. One of my goals is to develop a great model for institutional trading. My conclusion is that there are no good existing models. Therefore, I need to develop my own model - my own institution. That's my long-term goal. When we are able to develop a group like Webster, I want them to be trading for us. It's very frustrating to see other people hesitate over whether or not to give them money, when I know what they could be doing for us in the right setting. As a result, I intend to provide the right setting.

Is that what you mean by a vertical trading organization?

Right now we teach traders how to develop their own system, how to trade that system, and how to become professionals. However, we're still missing part of the training - on the computer side of things. As a result, our students have to get that on their own and that's not always easy - especially when there is no software to do the money management overlays that are so essential to what we recommend. As a result, the next step in the development of the International Institute of Trading Mastery will be the ability to develop trading systems for our students and the in-house nurturing of certain students. We're not too far away from this. As a matter of fact, I'm looking for the right sort of computer person to add to our staff right now - someone who is really good with computers and who knows little about trading (and thus has few biases). Look for some interesting new developments in our company in terms of services and seminars within four months after I find such a person. Who knows - maybe the right person will read this interview.

In the meantime, I still believe we are about as vertical as anyone in the business. We're the only organization to offer the kind of training and coaching that we do. While we only expect that about 10% of the people who complete our school will be superstars, I doubt if anyone else can match that. And I expect all of our graduates to be noticed by the industry. Right now we get a few calls from people who want us to recommend traders to them. In the future, those calls will go up substantially and such recommendations may be part of our service.

Why did you decide to do modelling and coaching with traders, Van?

During the next ten years, I expect a lot of people will want to know how we're getting the results we're getting. We have a lot of word-of-mouth referrals right now. But I expect that to increase dramatically. But the money we make is not the most important thing that we're doing. Yes, it's great when our clients make a million dollars . But what is really great is when I see a major transformation in someone's life and that person starts to help and influence so many other people. At that point, I know I've done my job well.

My mission in life is to teach people how they think and how they can change their lives and this planet by changing their thinking. Traditional occupations do not do that. If I can influence just one more person by creating great models, I'm eager to do so. People need to realize that they can wish upon a star and get their wish. What they really want is happiness. Happiness does not come from wealth or money or achievement. People get happiness from deep down inside of themselves. And they realize they have it by giving it away. I guess that's what I'm about - giving away happiness. I sell financial success, but what I'm attempting, to do is give away happiness in the process.

Dr. Van Tharp was profiled in the Market Wizards book. He has written numerous articles for Technical Analysis of Stocks & Commodities magazine.

*On 4 weeks notice he paid a flying visit to Sydney in December and spoke to a special meeting of the Australian Technical Analysts Association and presented a well attended and well received Peak Performance Trading Seminar in Sydney. For 1994 he is giving Australia much more notice. He will be presenting his **Peak Performance Trading Seminar** November 12,13 1994 and the **How to Design a Winning System That Fits You Seminar** November 19,20 1994. Given the unsatisfied demand generated by his December 1993 visit and the generous early bird discount, it is advisable to book now.*

Dr. Tharp can be reached on USA (919) 362 5591 or Fax. USA (919) 362 6020. Or write to 8308 Belgium St Northb Carolina USA 27606. In Australia for more information call (02) 545 2605 or Fax (02) 545 4705..

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