

**THE
AUSTRALIAN
TECHNICAL
ANALYSTS
ASSOCIATION
NEWSLETTER**

MAY 1994

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The Australian Technical Analysts Association Newsletter is published by the Australian Technical Analysts Association Inc (ATAA). It is a vehicle for the interchange of ideas and information about technical analysis of markets. This forum is available at the discretion of the editor for the views of members, guest speakers and guest writers.

Contributing to the ATAA Newsletter is encouraged and will repay your effort by expanding and sharpening your analytical ability. The emphasis of the Newsletter is on original articles, although consideration may be given to material of importance previously published in other publications.

Newsletters are published each March, May, July, September and November. The deadline for copy is the 20th of the previous month: ie February, April, June, August and October.

If you would like to discuss how you could contribute, telephone Colin Nicholson on 02 436 1610. Contributions should be addressed to Colin and sent to him at 3 Eastview Street Greenwich NSW 2065. Our preference is that you submit articles in both hard copy and on IBM disk. Software packages preferred are WordPerfect 5.1 and Lotus 2.2. However, most packages will generate an ASCII file, which will be fine.

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President's Message

In accordance with the ATAA constitution, election of office bearers occurs every three years. That time is now with us.

During my term of office, I have had the pleasure to meet some wonderful and interesting people. With your support, we have managed to build an Association from a handful of analysts and traders, to an internationally recognised organisation. We have had tremendous support from the broking industry and software vendors and I wish to thank all those people who have contributed in even the smallest way to our prosperity. Special thanks also go to the exchanges and to the Securities Institute of Australia for their assistance in marketing our courses. Our fraternity now numbers in excess of 200 members and we have developed a sound financial base, that should see the Association continue to prosper in the years to come. There will be many challenges to meet in the future and I wish the new executive committee all the best.

It is with a feeling of accomplishment that I now stand aside from the executive role as President and pass the reign over to the new board of management when duly elected and installed.

Wishing each and every one of you every success with your trading and may God bless you all. Charles Balas. President.

Point and Figure Charting

Colin Nicholson addressed both the Melbourne and Sydney meetings of the ATAA on September 15 and 20 1993 respectively. The first part of his presentation was printed in the March 1994 newsletter. This is the second part, in which he gave an example of the Point and Figure method and also discussed some of his views of the market at September 1993. This is a transcript of the Sydney presentation and was prepared by the speaker. Where possible, postscripts bring comments about specific markets up to date to the end of May 1994.

Example: Delta Gold

What I now propose to do is to look at an actual example and I have chosen Delta Gold. This example is designed to bring out a number of points about the Point and Figure method.

The first question you might ask is how I came to be charting Delta Gold. As the task of charting all the stocks on the ASX would be herculean, how do I decide which charts to keep?

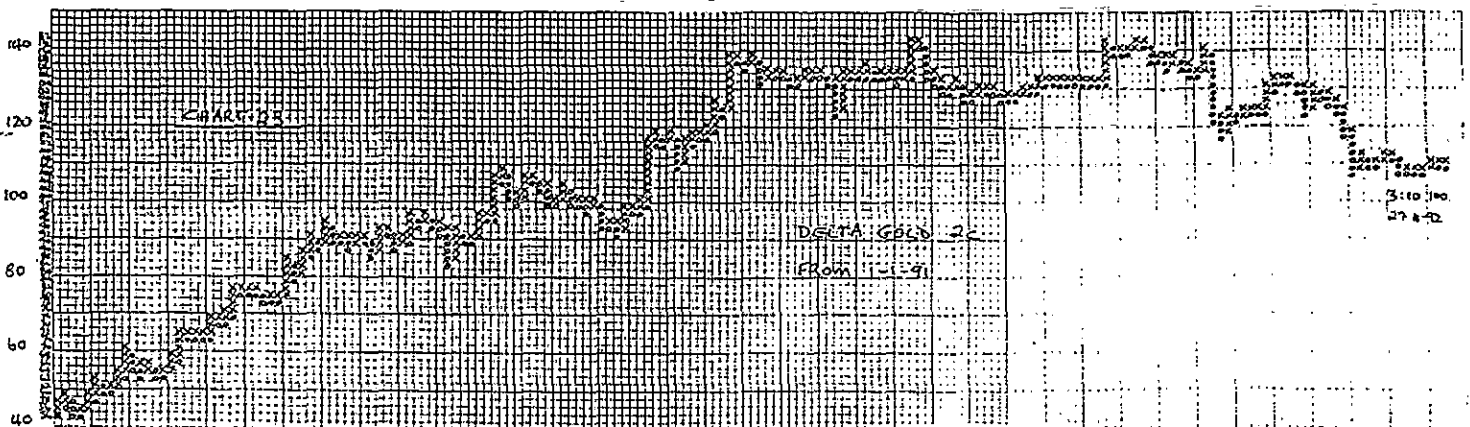
I become interested in stocks for all sorts of reasons. For instance, I run some filters over fundamental factors looking for undervalued companies. I like to keep charts of those sorts of

stocks and wait until the market shows signs of recognising the value. In many cases you have to wait several years for this to happen.

In addition, I am interested in companies where the market does not seem to be taking notice of apparently bullish information. I am also keenly interested in stocks that are increasing their margins, say where growth in net profit exceeds growth in sales.

Finally, I will pick up an interest in stocks like Delta Gold that are promoted on fundamentals, where the market does not seem to be already discounting all the potential. I originally came across Delta Gold some years ago in an out of date copy of the Huntley "Your Money Weekly". Huntley is a fundamental analyst. Though he makes a pretense of some technical comment, it is very weak. However, he does have good fundamental information. His problem is that, like all fundamental analysts, his technique identifies value, but tells you nothing about timing. So, I like to pick what sound like good stories and watch the charts for a trading opportunity.

I found, when I drew the chart, see Chart 23, that it had already had a substantial move from just



above 40 cents to about \$1.40, which is not surprising, as Huntley had been pushing it for some time.

However, although it had had a good rise, it had gone into a large congestion area, from which it had seemed to break downwards. I decided to keep the chart going as the story on the new mine being developed with NBH Peko was good. Also, I like fundamentally good stocks that go down, because they present opportunities in the future.

Delta Gold then made a 3:10 rights issue at \$1.00 in April 1992. One reason for showing you this example is to demonstrate the method that I use for adjusting for a rights issue. I believe this is a very important point that is not generally appreciated by technical analysts, and applies equally to bar charting.

With a bonus issue, you need to make the same proportionate reduction to each historical price. Most computer programs allow you to do this. It is usually called an adjustment for a stock split, but a bonus issue is just a form of stock split.

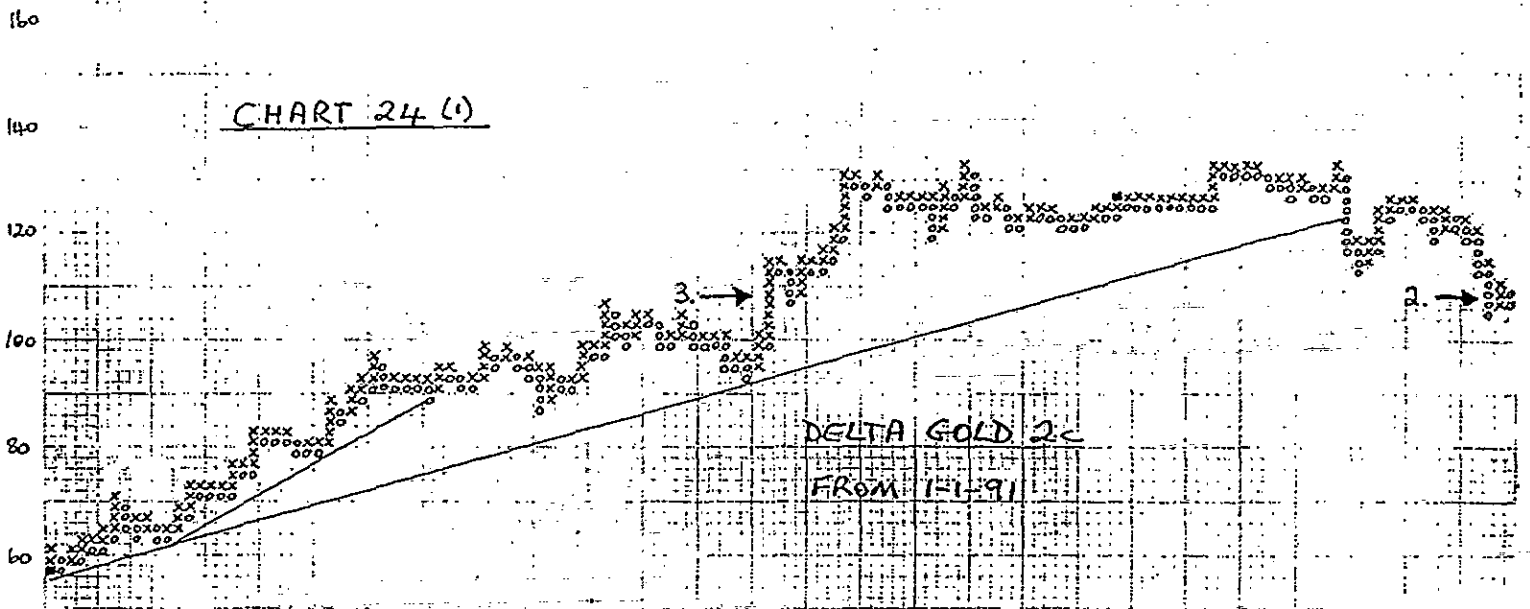
However, with a rights issue, it is a complete nonsense to use the proportionate stock split method and there is a need to recalculate every price in the historical chart. (I dealt with this in more detail in an article in the Newsletter published in October 1990, called: "Adjusting Share Price Files For Rights Issues, or Are You Losing Your Support And Resistance?". If any member wishes to have a copy of that article, send a stamped, self addressed envelope and an unused 45 cent stamp to cover photocopying, to me at GPO Box 2774 Sydney NSW 2001)

So, what you have to do is to take each historical price and adjust it for the rights issue using the same logic as is implied in the bonus calculation. In the Delta Gold example, you take each price, multiply it by 10, add \$3.00 and divide by 13. If I have the daily range history in the computer, I simply drop the file into a spreadsheet and make this adjustment instead of using the stock split function.

However, for Point and Figure charts, the Course of Sales data is not in an electronic form, so I make the calculation for each box on the price scale and round the answer to the nearest box. I use a spreadsheet to calculate all the adjusted prices. However, it is not difficult on a calculator, since there is always a recurring pattern to the adjusted prices and, once you find it, you just write in the rest of the changes.

It is then a simple matter to draw the adjusted chart from the old chart, using the adjusted price scale. You can see on Chart 23 where I have written the adjusted prices in against the old scale. In Chart 24, you can see how the adjusted chart looked. The adjusted chart is always condensed vertically, by the adjustment process, since any rights issue at a discount will mean that the stock will trade at a lower price ex rights and historical prices lower than the rights price will be adjusted upwards.

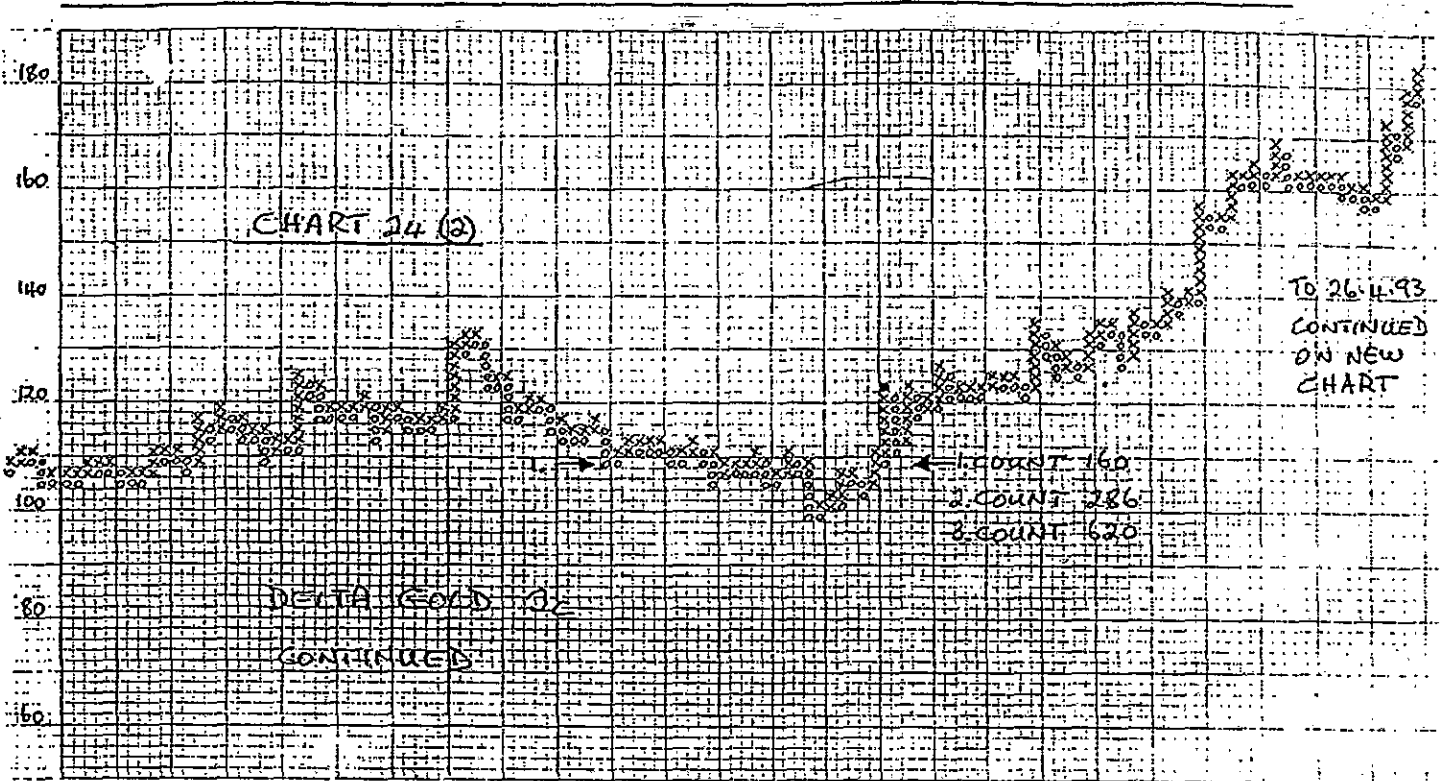
Chart 24 also shows the subsequent price action up to late April the following year. This shows that Delta Gold did not fall much further, having encountered support from the 1991 congestion area around that range, and went on to form a wide congestion area between 98 cents and \$1.36 on the adjusted scale. This congestion area is not a textbook pattern,



but it has some fulcrum characteristics in the second half of it and the distinct shift from price action concentrated at the top of the pattern to the bottom of the pattern is definitely indicative of reaccumulation. The break out buying point was the first move above \$1.36.

There were three possible price projections from counts across the \$1.08 line: The first target was to \$1.60, by counting across the last, rather ill defined, congestion area. The second target was \$2.86, by counting across the whole of the second half of the congestion area. The third target was \$6.20, by counting across the entire pattern. These indicated the potential for a substantial move, so a long position was taken. It needs to be stressed that the second and third targets need to be fine tuned on a 5 cent or 10 cent box size chart as we get closer to them. From my experience, a 2 cent box size chart projection to such high prices must be treated cautiously.

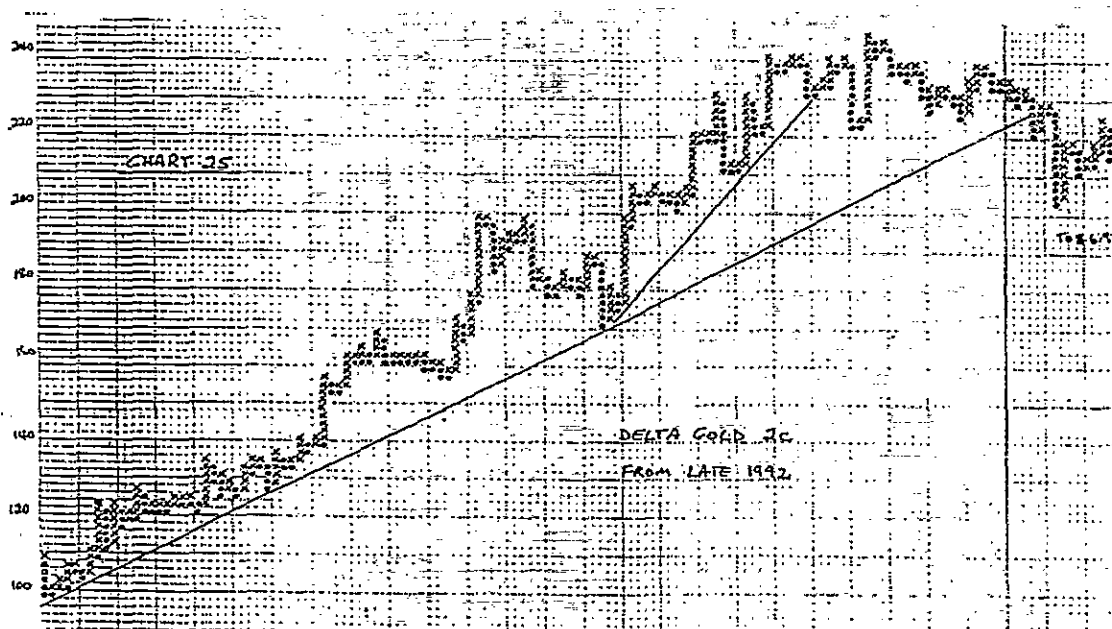
There is another consideration here. When you have adjusted a chart for an issue, the congestion areas alter in size and sometimes in shape, because of the rounding of the adjusted prices to the nearest box. So, you have a problem, in that the chart should be adjusted to properly place the support and resistance areas. However, the resulting adjusted chart is no longer accurate for price projections. The solution is simple: You make the projections from the unadjusted chart and adjust the projection in the same way that you adjusted the pre issue chart. So, if the target from the unadjusted chart is \$3.00, you adjust the \$3.00 target and then mark the adjusted target on your new chart. In the Delta Gold case, the first two projections were across post issue price action. However, the longest count was across part of the pre issue price action. This is another reason to distrust the highest target from the 2 cent box size chart. In this case, a 5 cent or 10 cent box size chart target would be more applicable.



If you do encounter a situation where you have to count across pre issue and post issue price action, you need to measure each section separately, from the old and new charts respectively. An alternative, suggested by Wheelan, is to maintain two charts: one in the manner described above and another with post issue prices adjusted back to a pre issue

basis. I have never bothered to do this.

With the breakout above \$1.36 established and the price moving up to \$1.80 at the top of the chart paper by late April, I drew a new 2 cent box size chart from the bottom of the move, rather than add paper to the top of my existing chart, as I was by then



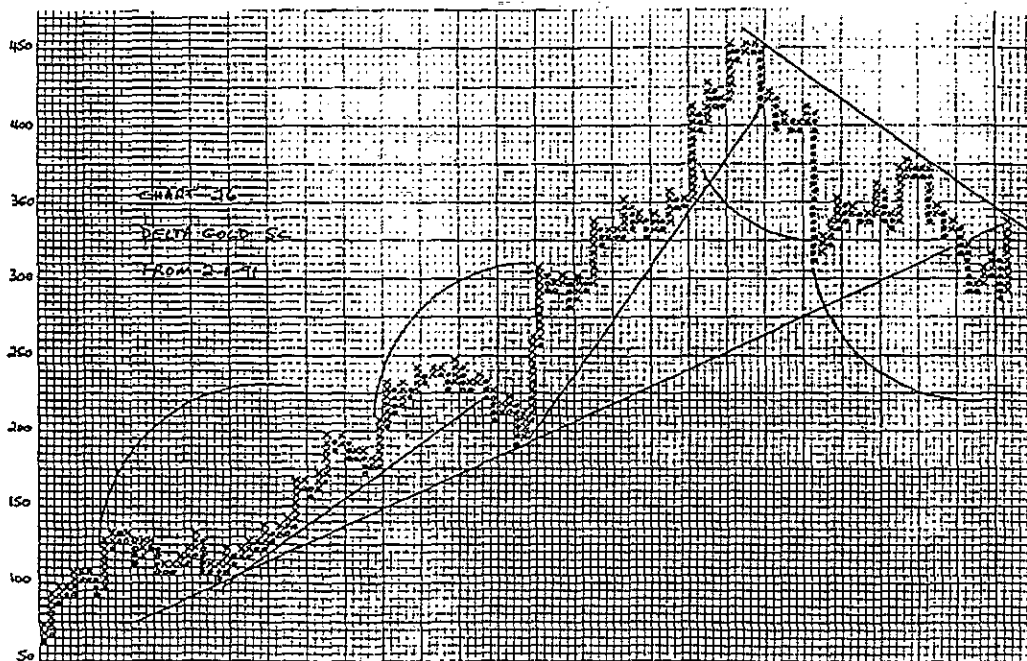
primarily interested in the trend. See Chart 25.

As you can see from Chart 25, the initial projection to \$1.60 was met, but no sell signal emerged, with an unbroken trend of higher highs and higher lows and an unbroken trend line. The price then ran up to \$1.95, where it formed a double top and subsequently made a lower top at \$1.86 and a lower low on the move through \$1.78, which also broke a short term trend line. This was an important move that could have been taken as a sell signal. My reasoning, however, was that this may be only a reaction in the main up trend. I had a price target of \$2.86 from the 2 cent box size chart and the primary trend line was still intact. A price projection across the delayed ending type pattern at \$1.86 was to only \$1.54, which I reasoned would not be achieved because of support above \$1.60. Accordingly, I kept my stop at \$1.54 (below the last natural support level) and maintained a long position. If you had exited at \$1.56, you should have then re entered following the bullish pattern below \$1.80 and subsequent break

of the down trend line across the tops in the flag (not shown).

The price then moved up very nicely to \$2.40, before breaking another short term trend line. While a double top pattern developed, it was quickly followed by a new high. However, the price action deteriorated from there, with prices falling back into the pattern between \$2.20 and \$2.40, making a lower high at \$2.38 and a lower low at \$2.20, which also broke the main trend line. This was a significant decision point. While I had a price objective of \$2.86 from the 2 cent box size chart, I have already mentioned that this was conditional on confirmation for the 5 cent box size chart. The 5 cent box size chart (see Chart 26) gave a price projection to \$2.25. So, with achievement of that and the deteriorating picture already described, I sold immediately on the break to \$2.20. Not long after that, I discontinued the 2 cent box size chart and relied on the 5 cent box size chart, Chart 26.

So, although I have talked to the 2 cent box size chart so far, I



was keeping and watching the 5 cent box size chart at the same time. When you look at the 5 cent box size chart in Chart 26, you can see clearly the price projections I had at that point and the break of the main trend line, which influenced me to sell, as there were no higher targets on the 5 cent box size chart.

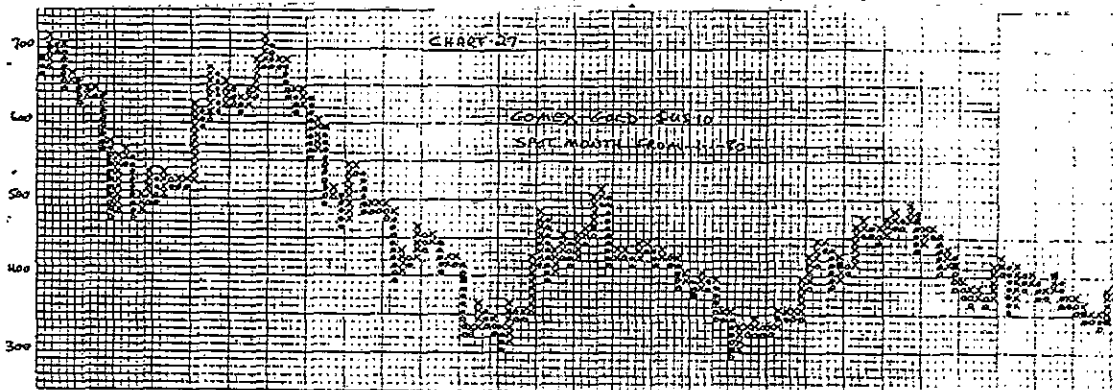
The price then retreated, but held well above the last significant low at \$1.70 and quickly took off again. Now, what I teach in the course is that you should regard the break of the trend line across the tops in the flag (now shown), as a buy signal. I am sorry to say that I did not re-enter Delta Gold, but it was for a good reason: I had a price projection

do take notice of trends and trend lines, especially in timing exits, because I find that if you wait until a top pattern has formed, you spend too much time in there waiting and I prefer to get out and get onto something else with more potential. I can always get back in and am prepared to buy the same stock again if it breaks out higher from a good re-accumulation area.

Interesting Markets

I now propose to look at some interesting markets.

Firstly Gold: Chart 27 shows Comex Gold, with a \$US10 box size. It is a long term chart from 1980 to date. The chart is not from the



to \$3.05, but nothing higher and the price raced very quickly to that level, without a reaction. I did not want to chase it so close to the target. A pity, because it went on to a high on Chart 26 of \$4.50, although a good part of that gain might have been given up waiting for a clear sell signal other than the break of the short term trend line. This goes to show the value of short term trend lines when a move is well advanced.

So, this is an example of the way I look at the market using Point and Figure charts. I primarily look for base patterns, and like to trade the first leg of bull moves, as I did in this case. I

all time high, which was earlier and higher. We can see a substantial move down through 1981 and into 1982. We then have the development of what I see as a large base pattern, which I remember David Fuller mentioned when he spoke to us early in 1993.

So, Gold has spent a long time building this base pattern between \$300 and \$500. The recent move that drew so much attention is in fact the last three columns on the chart.

It seemed to me, while I was also trading some gold stocks, that it was more than the gold price that was moving the stocks. In retrospect, it had a lot to do

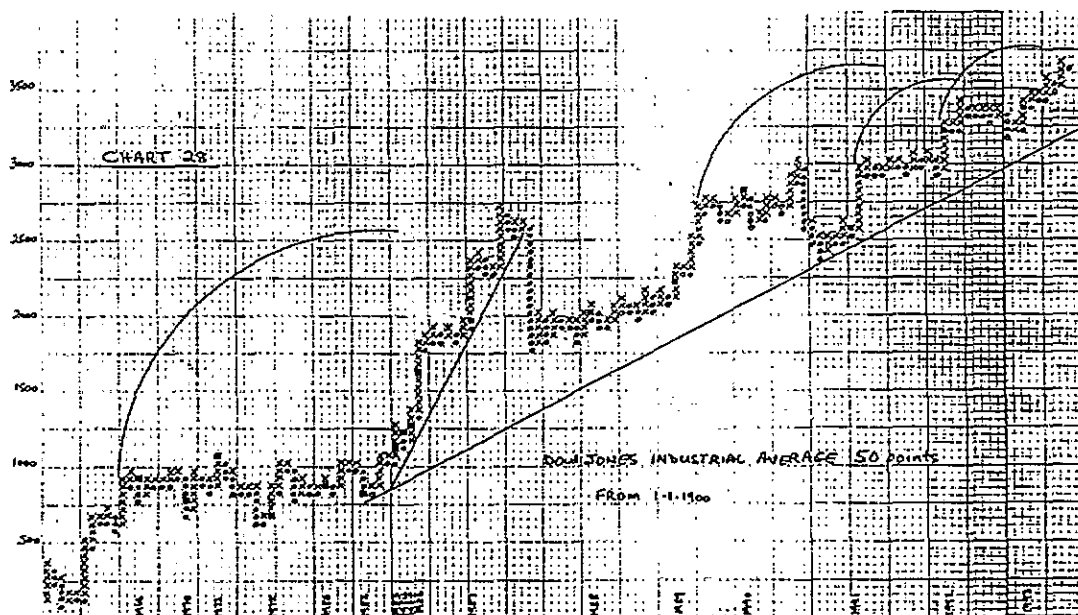
with psychological over-reaction to the imposition of the gold tax. It seems that many analysts swallowed the propaganda of the gold miners and most people lost interest in gold stocks because the government had ruined the game. Then in late 1992 and early 1993, analysts started to wake up to the fact that the world had not come to an end and many companies were still profitable even with a gold tax and relatively low prices for gold. So, when the move up in stocks became noticeable to the press, the journalists looked around for a reason and found that the gold price had risen.

What is bullish about this chart is that the recent action, since the start of 1989, is tending to

If you keep a chart like this, you should have plenty of time to get on board when it takes off.

The other interesting point to watch is the currency. I keep a chart of gold in Australian dollars, which can at times look quite different to the US dollar chart.

Postscript: Since the chart shown, there has been an unsuccessful retest of \$400 on two occasions. Recent action is starting to look a bit "Topy", but this may be just building up strength to challenge the last of the resistance above \$400. In trend terms, we need a higher top to become more interested in this chart.



concentrate in the bottom half of the congestion area. Although we are clearly still in the base pattern, the action since 1989 has formed a congestion area large enough to project a move out of the overall base pattern. David Fuller told us in early 1993 that he expected a major bull market in gold later this decade. Well, I do not think this chart is telling us that it has started yet, but the ingredients are building up.

Next, a very long term chart of the Dow Jones Industrial Average, a 50 point box size chart from the beginning of the century (see Chart 28). At the extreme left of the chart, you can see the run up to 1929 and the subsequent depression. From that there was a long bull trend through the pre and post war booms, that ended in 1966. Then followed a long period when the market went sideways. However, there was a

lot of money to be made in the bull and bear swings within that congestion area. Then followed the breakout in the early 1980s and the run up to 1987. Looking back, I wonder why one should have been so incredulous about the price projections to 3000 on the 20 point box size chart and 2500 on the 50 point box size chart. In hindsight, the 1987 top was just above the price projection and was marked by a nice descending triangle pattern. It was just a pity that the first move down was so violent as to not give enough time to exit near the top.

This chart is drawn from only the closing value of the average. I have found that you can get reliable price projections from this chart, even though I said before that you need Course of Sales. The reason is, I think, that other than October 1987, I do not remember many days where the move was so great that you might have had intra day reversals. So, because of the large box size, you have something that is equivalent to a chart drawn from Course of Sales. The only criticism you could level at this chart is that it may miss some extreme points, which might have been captured by using daily high and low, rather than just the close. The reason I am still using only the close is simply for consistency, because for many years I did not have access to the daily range data.

You can see that the base pattern that formed after the 1987 crash gave a good price projection for the 1989 retest of the 1987 high. However, I have not shown a count because with a sloping right wall, the count is to some extent subjective and there is a risk of using hindsight. Counts since then have been pointing to a target around 3500 to 3700, but

there is generally a lack of good base patterns to count from. The most important thing is that we do not currently have a price projection much higher than current levels.

Why do I watch this chart if I do not trade US stocks or index futures? I do it because the US market is very influential on our market. Why not the S&P 500, which is a broader indicator and statistically more representative? There are two reasons: Firstly, it is the Dow that everyone watches, so it is what they are reacting to. Secondly, I kept the three US indexes for a number of years and concluded that the long term picture was not too different.

My conclusion for this market is that it is still clearly in an up trend. However, it has gone a long way and there are no projections substantially above where we are now. What it says is not that the sky is going to fall in as some are suggesting, but simply that there is no reason for this market to go much higher at this time. Before it can go substantially higher, it needs some significant accumulation. That may well happen, with more action such as in 1991 and 1992. Or, we may get a top forming, with no indication now as to whether the subsequent fall might be like 1987 or be a more leisurely affair. Where the bottom of such a reaction might be is not clear from that chart, although there are some very clear support areas.

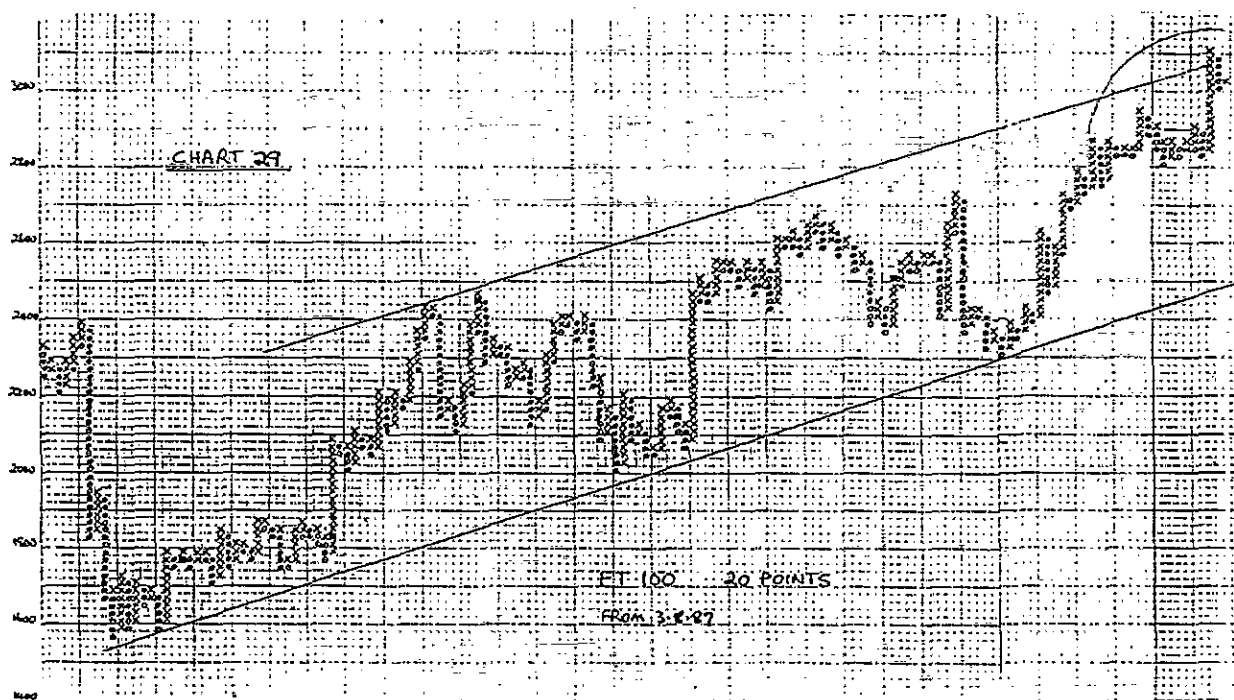
Postscript: Since the above chart was drawn, we saw a strong move up to 3950. This looked suspiciously like a blow off phase and a sharp reaction to 3600 was not unexpected. This was back to a support area. We have since then seen a more leisurely resumption of the uptrend, with the next

critical test being a retest of the previous top. A very significant point about the reaction to 3600, was that it did not reach the previous low and there is an unbroken succession of higher lows from 3150 and a lower high is also yet to occur. The trend is still up, even if under suspicion until it takes out the last top. I do not think you can make any other predictions from this chart at this time. We have seen a strong move followed by a reaction in proportion and an apparent resumption of the trend. We should keep an open mind and watch for a clearer signal for the long term.

Next, the London market, the FT 100 Index, shown here is a long term chart with a 20 point box size, also drawn from closing values. My chart starts from the 1987 top, as I do not have any data for earlier than that.

patterns that looked like classic head and shoulders tops. The first formed in 1989-1990 and broke through the neck line quite clearly. However, it was followed by a classic five point triangle pattern that set up a substantial bull run in 1991. The second "head and shoulders" formed in 1991-1992, but before it could break the neck line, it roared off up through the top of the pattern (on an election result, as I remember). The subsequent sharp reaction led to the development of a quite different pattern, with a price projection to 3420 (off the top of the chart). What this reminds us of is that there are a lot of patterns that start off looking like head and shoulders tops, but very few of them are the real thing. Many of them turn into other patterns.

From there, we have had a move up to the top of the trend channel,



From the descent in 1987, we see this market trading in a broad trend channel. It has been an interesting market, because we have seen the failure of two

where a reaction might have been expected a la the comment in Part One on BHP. The channel return line might also be looked at as a resistance line and was effective

again in this case. Unlike the Dow, there are counts on this chart to indicate higher projections. From the 1993 congestion area there is a target of 3160 and I have already mentioned the target of 3420 from the 1991-1992 pattern. My feeling is that this market is likely to trade sideways within the channel now, before we get a clear message as to whether the next move will be up or down.

Postscript: Well, the action since this chart was more bullish than I expected, which is also more dangerous than the chart looked at the time of the talk. There was an initial move to 3180, just one box above our first target. Following a reaction, there was then an even stronger move up to 3520, which was just a little higher than the longer term projection. These moves took us well clear of the trend channel, which was a dangerous sign: An orderly appreciation had turned into something much more aggressive and inherently less stable. Moreover, it is possible to draw another return channel line through the 1987 high, parallel with the main trend line. This was also cut by the last up move, by about 80 points on two occasions. Another small head and shoulders type pattern developed at the top and the subsequent fall has already exceeded the price projection of 3200. The down trend was halted briefly at the first support at 3200 and for a bit longer at 3100, but is currently moving sharply lower, having reached 2980 at time of writing. The short term up trend line was clearly broken in the move down to 3200. The next significant support level is around 2900, which will be around the mid point in the trend channel. My best guess from there would be some sideways consolidation until the long term

trend line comes into play. That will be the point of decision for a resumption of the up trend, or for the current reaction to be confirmed as the start of a bear trend of some significance. I would be standing aside from the long side of this market until a bullish signal emerges.

Next, the Nikkei Dow long term 500 point box size chart from 1985 (Chart 30). I started keeping this chart, because the Japanese market is starting to affect our market more and more. Again, I keep the Nikkei chart, rather than one of the more representative indexes, simply because it is the index that everyone is watching.



You can immediately see how little the effect was of the 1987 crash on this market: just a reaction in a long term bull market. No top pattern developed, as it usually does on individual stocks, and prices declined quite substantially to the first projection of 29000. This was followed by a reaction, before the down trend continued to bottom out with our next projection around the mid point of the 1987 congestion area.

In 1992, this pattern was broken on the down side and the first target of 15000 was quickly reached. There is problem with

price projections from this congestion area. Although there is a clear "wall" on the left, the right side slopes. I think the projection to 15000 is logically supported, but there are two other possible lower targets.

This down trend was followed by development of an inverted head and shoulders type base pattern and a break out carrying to the first resistance at 21000. The price projection of 22500 needs to be modified by the heavy resistance below it.

My view of this market is that it may turn off and perhaps retest the low, or even test the lower price projections. However, there is not much evidence for this yet. On the other hand, this market may be going higher. However, before it can do so we need to see some further consolidation, with a price projection sufficient to break the top of the resistance at 25000.

Question: When you have more than one count from a congestion area like that, do you find that it often only makes the first one, or is it the case that it invariably meets the second target?

Colin: I find that it often respects long term targets, eventually. What you find is that across a congestion area there will be sometimes three, four or five counts and sometimes these counts will give you each of the steps on the way up. However, you have to confirm long term targets with shorter term counts. Long term targets are also modified by support and resistance and by the performance of the overall market. There are no black and white rules. You must never stop trying to think it through for yourself.

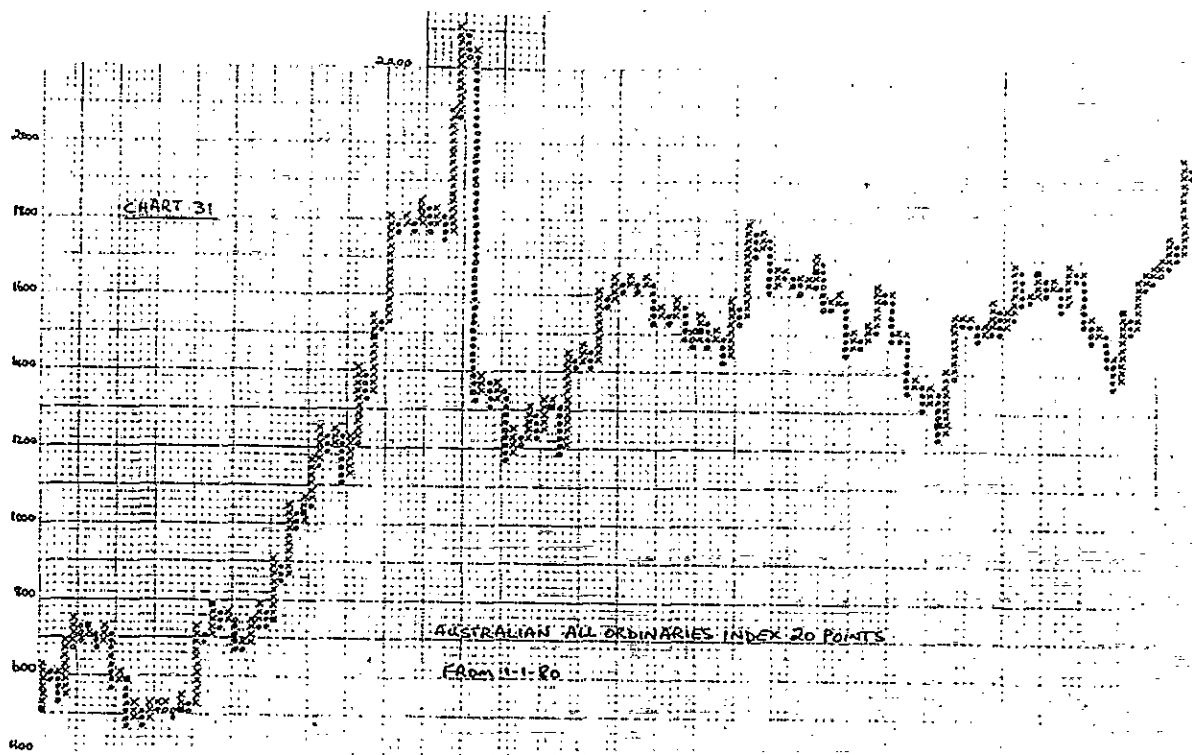
Question: So, on the Nikkei Dow, what is your expectation, that it

will reach the lower targets?

Colin: I am not certain that it will. I am waiting for the chart to give me a further indication that it is going to do that. You must keep an open mind as to all the possibilities and weigh the evidence as it unfolds. We have a down trend line break and a down trend break. We also have a reversal pattern. However, we do not yet have a price projection that breaks the overhead resistance. The recent action has some topy characteristics, which is bearish, so it does not look terribly good at the moment, but quite often a congestion area will start off with topy characteristics, but go on to see more action at the bottom, which is bullish, so it changes its character.

Postscript: Since the chart above, we have seen a retest of the low, but it only carried about half way into the base pattern. This is bullish, as is the subsequent up move back to above 20000, which featured a succession of higher tops and bottoms. I think that we are now seeing a congestion area developing between 15000 and 21000, that is starting to become significant in that it might project above the overhead resistance. However, it could take quite some time to complete this pattern, much like Australia 1987-1993.

Now, the Australian Market. My Australian All Ordinaries Index chart only goes back to 1980 (Chart 31). I started a new chart when the new indexes were established on 1.1.80. At the start of the chart you can see the end of the run up to the top in 1980/81 and the rapid descent to the base pattern that developed in 1992/93. This base pattern is considerably condensed on this chart because of the box size used



which is appropriate for the 1987 to 1994 index levels. The base led to a breakout in 1993, followed by a very rapid advance.

Postscript: It is interesting to note that this first advance recovered all the ground lost in the bear market that preceded it and was terminated around the levels of the old high. There is an interesting parallel with the run up in 1993/94, which has also recovered all the ground lost in 1987 and was halted around the old high. It will be interesting to see whether there are any more similarities as the future unfolds.

There was then a significant reaction and the market was difficult to trade through 1984, before the bull trend resumed early in 1985 and ran without serious interruption to the failed head and shoulders in 1987, which preceded the blow off phase that led to the "crash".

It is interesting to note this congestion area around 1800 in

1987, which was called prematurely by the Sydney Morning Herald as a head and shoulders top. I remember giving a talk at Research Technology a day or so after the Herald gave that call and showed the audience where the trend line was and expressed the view that the pattern had failed and that the market was likely to go up further.

Dawn Bolton-Smith: It did break the neckline on that day.

Colin: That is true and you can see it on the chart. Whether it was just a failed head and shoulders or what, I don't know and I have never taken the time to find out whether the volume confirmed the pattern. I suspect that it was not a very good example of a head and shoulders pattern and that someone was just trying to make a story up to fill some space.

Since 1987 we have seen the development of a large roughly rectangular area, which is not easy to read in my opinion. We

have seen it run up in 1988 and then come off. However it did not seriously retest the lows, before making a higher high in 1989, without even pausing for the previous high. We then had a descent to retest the lows in 1991, followed by a rapid run up to retest the 1989 highs. We then had a reaction in 1992, which did not retest the last lows, but then again charged straight through the previous highs as it did in 1989. So the present move could be a repeat in type of 1988/89 and we must keep that in the back of our mind. It is not a perfect rectangular base. It does however look more consistent with a large double bottom base pattern, with the right hand bottom slightly higher, which tends to be bullish. The last down thrust in the pattern was also terminated at a higher level, so it also has some of the characteristics of an ascending triangle, another bullish pattern.

My conclusion about this market is that this market is currently in an up trend, demonstrated by consecutive higher highs and higher lows since the early 1991 low. Therefore it should be traded from the long side, but with some caution now that we have had such a very substantial move without a significant reaction. Some sort of correction is due, because charts never continue to go up for very long without some kind of correction.

What will be important will be how large that correction is. If it is only 50% of the last move, it will present no problem, because it will remain above the 1700 to 1800 level and therefore not penetrate back into the base pattern. From the longer term perspective, 1800 will be the level to watch for a reversal and continuation of the bull market, if the index comes back that far.

That is about as much as I am prepared to say about the chart. I am not in the prediction business and do not try to forecast markets. I like to have an idea of the direction I think the market is going and the direction that the charts indicate it may go from here, but I do not make predictions, because I find that once you do, you tend to want to defend them and find you are in a psychological trap where you cease to be able to be very objective about your analysis. The most difficult thing of all about analysis is to remain objective and let the market tell you what it is going to do.

David Hunt: So you wait for the pattern to unfold itself, rather than guess at it?

Colin: Yes and there is something else besides. If you are looking at a currency, you would have clues from other cross rates. If you were looking at a commodity, you would have other related commodities to look at and also other contracts for the same commodity. Likewise, with the All Ordinaries Index. You also have the charts for the sub indexes that make up the All Ordinaries. You also have the individual stock charts. I am not trading the index, the SPI, so I am not trading this chart, I am trading individual stocks. I will take my signals from the individual stock charts, so regardless of whether the trend has terminated on the index, I will be acting on trend breakdowns on the charts for the specific stocks that I am trading. I may then look for other stronger stocks, or I may stand aside if there are no interesting stock charts. The index chart is only used by me to give an idea of the direction of the "tide". Quite often, you get a good signal of what the market as a whole is likely to do, because the leading

stocks, the stocks that have led the move, change first and give you an idea of what is likely to happen with the rest. This happened in the gold market, where some of the ones that led the way up were the first ones to roll over at the top.

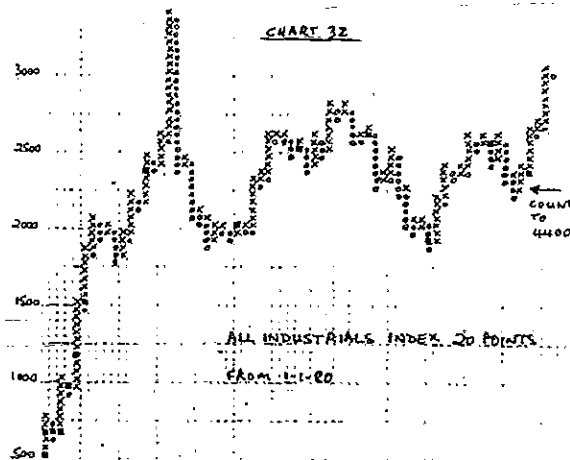
One other thing to note is that there is some similarity between the All Ordinaries Index chart and the BHP chart (not shown) and that is inevitable in our market, because of the size of BHP's weighting in the index.

Postscript: Since the meeting, the All Ordinaries Index moved higher, but not before some churning below 2000 and again, more extensively, between 2000 and 2120. As mentioned in the previous postscript, the market then went on to test the 1987 high, failing within two boxes on this chart.

Since then, we have seen a sharp reaction which met initial support at the top of the 2000 to 2120 congestion area on the way up and, after that failed, around the 2000 level. All this is classic charting and not unexpected. We have more recently seen a rally which petered out right where overhead resistance is clearly signposted on the chart.

I see two scenarios from here. One is that the support around 2000 will hold and, after more consolidation, the uptrend will be resumed. The other is that the immediate support will not hold and we will see a second down leg to about 1800. While both are bullish, the first would indicate a very strong market in the short term, but a dangerous one. The second would have more long term promise and the target area of 3300 to 4000 would be still there in the back of my mind.

Chart 32 shows the Australian All Industrials Index for the same period as the All Ordinaries Index chart that we have just looked at.



You can see that, like the All Ordinaries, there is a clear breakout above the 1989 top in the rectangular base pattern. The second low in the pattern this time was at exactly the same level as the first low and the top in 1991/92 was exactly where major resistance came in at 2600 in 1988 to 1990. So this is a more regular chart and lends weight to our interpretation of the All Ordinaries, in that the Industrials have been driving the market for most of the time of the base formation. Therefore, my prognosis for the Industrials is basically the same as for the All Ordinaries.

I have not brought with me tonight the charts for the All Mining Index and the Oil and Gas Index. However, you should be aware that both of those charts look quite different to the two charts we have just looked at. The Oil and Gas Index chart over this period has been in a general up trend with clear higher highs and higher lows. The All Mining Index shows a deeper dip in 1992, coming close to the low of the overall base pattern and creating a pattern with characteristics of a triple bottom. At this stage, it has not

clearly broken out of the base pattern and has reacted reasonably strongly.

So, it seems that once again, as in the early 1980's, the different sectors in the Australian market are behaving differently. I remember going David Fuller's course in November 1984 and hearing him tell us that the Australian market had not started its bull market yet. He was looking only at the All Ordinaries Index. I tried to point out that the All Industrials Index was the sector where all the action was and that the industrials had clearly been in up trend for some time. By looking only at the overall market, he had not detected that the industrials were leading the next move and had already started their run. In fact this is not all that unexpected, as commodities generally tend to trail industrial output in each up turn in economic activity. I notice that David is now looking at the sectors of the Australian market, as well as the All Ordinaries.

It is interesting that the All Mining chart shows a large base pattern that developed 1980 to 1986, followed by a boom in 1987 and then a retreat to around the original base pattern, where continued base building has continued. The Mining chart is very different to the Industrials chart, which did not retrace all the bull market gains in the 1987 crash as the Mining chart did.

Question: Do you chart the oil price also?

Colin: Yes I do. However, I am not sure that it is only the oil price that drives the Oil and Gas Index. Exploration success has been a very important factor in Australia where our oil and gas market is in an earlier phase than

say the US oil and gas stocks. However, the oil price does have an effect and it should not be ignored. However, while the oil price has been generally declining since 1990, the Australian Oil and Gas Index has been in up trend. So, there are other influences at work, probably to do with what has been happening within the few large companies that dominate the index weighting.

Question: What was the scale on the last two charts?

Colin: The All Ordinaries Index chart was a 20 point box size. The All Industrials Index chart was a 50 point box size. I keep other box size charts of both of those indices, but these long term charts are the most convenient to show the overall picture.

Postscript: Since the meeting, we have seen some significant developments on the Index charts.

The All Ordinaries Index has gone on to retest the 1987 high and almost exactly met the first target indicated by the width of the base pattern on the 20 point high/low chart (drawn from the daily high and low, rather than only the close as the chart I showed at the meeting was constructed). I have already discussed my views about the possibilities. So, the question in my mind is how large the present reaction will be. We have had a strong and rapid up trend. In the early eighties, this was a sign that there was enormous power in the trend and the reaction after the first leg was small. However, experience also indicates that strong moves generate reactions in proportion. So, there is room for either argument. I am not interested in which is correct at this point. I know the key points that will signal which is more likely and will wait for the

market to tell me where it is going next. There will be plenty of time to get on board once it is clear.

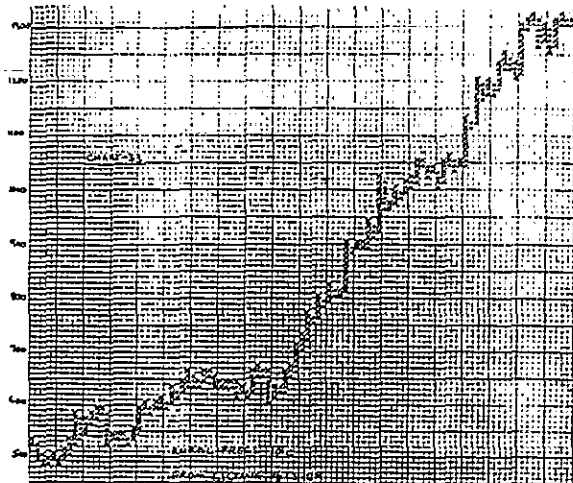
The All Industrials chart broadly confirms the All Ordinaries. The All Mining chart went on after the meeting to clearly break out of the base pattern and failed at the resistance area from the 1987 run up. We have then seen two clear reaction legs back to strong support at 900. More recently, the second leg has been completely retraced in a fast rally, consisting mainly of a few heavy weight stocks. There is very strong support at 850 to 900, so my first thought would be a retest of that support and, if it holds, development of a significant consolidation area to build strength for an assault on the 1987 high.

The Oil and Gas chart is still making higher highs and higher lows on a long term basis. However it has made a significant downward reaction, with two clear down legs. It then based out and rallied much like the All Mining chart.

For those of you that may be interested, my 20 point All Ordinaries target is 4000. However, the 50 point target is only 3300. This is quite a wide range and I would be more inclined to rely more heavily on the latter as the more appropriate box size for such a target. Both All Industrials charts give targets around 4500, however, there are technical reasons to distrust them as I am only using a close chart, which tends to understate targets. The All Mining target is only for a retest of the 1987 high. However, it is possible to see other, higher targets, which are quite irrelevant at this stage.

Now we will look at some charts of

individual stocks:



Firstly Rural Press, which is shown in Chart 33. This is from the listing of the stock in 1989. Notice how it formed a broad congestion area in 1991, which gave a price objective of \$8.30 after a magnificent up trend. It is currently selling at about \$13.00, which goes to show that in a bull market, a strong leading stock will often exceed all the counts possible from the chart.

Where another stock had a very long base with an almost unbelievably high target, you will often see it achieved. In the case of Rural Press, the media sector has been very strong in the last couple of years and Rural Press has been one of the leaders, moving up in 1990, while the overall market was declining. The only clues to the ongoing strength of the trend was a series of rising lows when it tried to form congestion areas. Also, the ascending triangle pattern formed above \$11.50.

Question: Could you please explain how you have used the pair of compasses to get your price target?

Colin: Yes, certainly. The basic principle is that we measure the width of the congestion area from the bottom (for an upward

breakout) of the "walls" on either side of the congestion area. Always measure across one line. Failing the existence of clear walls, the centre of the congestion area or the line with the most price activity would be used. In this case, I have measured across the \$6.20 line. I am simply using the pair of compasses to measure the width and project it upwards, which is quicker and easier than counting the number of squares across the congestion area and then upwards to get your objective. Note: the arc that prompted this question is not on the chart as reproduced above.

Note that the measurement is for an up trend. The direction of the objective is only determined after you have a breakout. Prior to that, there is equal potential either up or down, unless there are other clues, which there were in this case, but not conclusive enough to anticipate the breakout. Notice that the congestion area has some fulcrum characteristics and that the most recent action prior to the breakout was at the lows of the congestion area. These were bullish signs. However, I will usually wait for the breakout, which gives me a much lower risk trade, than trying to anticipate both direction and whether the breakout is imminent.

It is interesting to speculate that if this stock had been listed for many years, it may well have had a long base formation prior to the start of this chart. Indeed the fundamentals would suggest that such a scenario is reasonable. The problem with newly listed stocks is that we do not have the base patterns to support immediate up trends. However, against that, we do not have any overhead resistance either, unless it listed at less than the issue price.

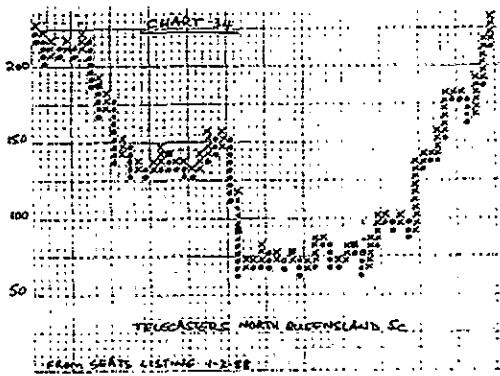
Postscript: After the action shown on the chart, Rural Press moved a little higher, before forming a rectangular congestion area. It broke out upwards from this, but almost immediately fell straight back through the congestion area in a classic bull trap. You could not have a clearer case for using David Fuller's mid point danger level as a stop loss point.

Around this time, Rural Press made a 2:1 bonus issue (3:1 split). This kind of issue is the bane of the Point and Figure chartist, as there is no straight forward way to adjust the scale of the chart. What I did was to recalculate each box and redraw the chart with a five cent box size. This is a compromise, that I am not happy with, however, not being in a position in this stock, I was prepared to wear it. The only real solution, which I have used before when I was long the stock, is to go back to the original data and construct a new chart with a fifteen cent box size, so that after the split, I have the desired five cent box size chart. If you had the data in your computer, the adjustment would have been simple, of course.

After reacting from the new scale high of \$4.90 to \$4.20, Rural press turned around without any significant base formation and started a new up trend which ran quite regularly up to \$5.60. The clues to an end of this trend were clear when there was a sharp run up to \$5.60, a sharp drop to \$5.45 and then another sharp run up, which failed at \$5.60 to make a new high. Then followed a lower high and a lower low, so the trend was quite clearly at an end. After that, we have seen another equal high, followed by another lower low: a kind of broadening pattern. The danger signal is that there is an increasing amount of work at the top of this

congestion area, a bearish sign. There is, however, a bullish implication in that while the general market has been declining, Rural Press has only gone sideways. Conclusion: The up trend is over for the time being. Stand aside and await a new signal.

Next, we will look at Telecasters North Queensland (TNQ), another media stock, shown in chart 34.



I became interested in this stock because a number of disasters befell a company that had previously had a record of very good management. My feeling as it went down and down from \$5.00 to 60 cents was that the management was likely to be able to turn the company around. Their worst disaster was to lose the Channel Nine franchise. They then took up a Channel Ten franchise and in fact have gone on to own a large slice of Channel Ten. The problem as always was one of timing. When had it bottomed and how long would it take to build a base from which the trend could be reversed? Fundamental analysis could therefore identify an interesting recovery situation, but only technical analysis would be able to identify the time to invest with minimum opportunity cost.

TNQ has moved up from \$1.75 to \$2.30 in the last few days. That is, while the market has been going down, this stock has gone up: a sure sign of a strong

situation. While the overall body of stocks will move with the market index, bearing in mind that the index is driven by a small number of large capitalisation stocks, it does not preclude strong small stocks moving against the tide.

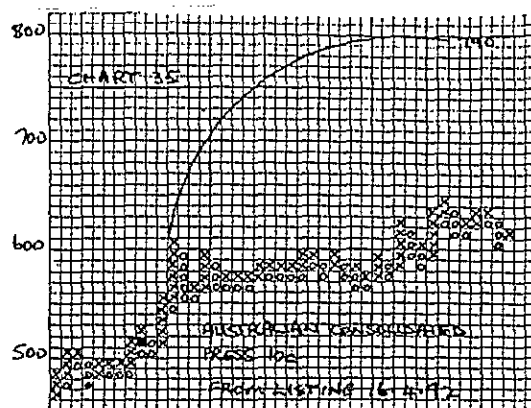
This was nevertheless not an easy chart to trade. I have shown the last part of the down trend. Between \$1.25 and \$1.50, it formed what appeared to be a textbook fulcrum pattern, from which it broke out upwards. In fact I bought it at just above \$1.50 and suffered a loss when the move did not carry through and I sold it at \$1.20. A further decline followed and then another lovely fulcrum pattern formed between 60 and 85 cents. I bought it again on the breakout at around 90 cents. After some hesitation, it moved below its last low to 85 cents. Remembering the previous failure, and the patterns were disturbingly similar, I took another small loss in case it fell out of bed again. Instead, it roared straight up to \$1.35 and I did not get a chance, or was not quick enough, to catch it. Having moved so far, with reference to the target at \$1.50, I decided not to chase it, especially as it was now in an area where substantial resistance was to be expected. Hindsight is a wonderful trading tool, but we unfortunately can't use it in the market. The lesson here was not to anticipate another failure and instead to hold until the stop was hit at 55 cents. Easy to say, but difficult in practice.

Postscript: TNQ has gone from strength to strength. It is another example of a stock that exceeds all expectations from the base and should be traded on a trend basis and on objectives from subsequent congestion areas, if any. Since the chart shown, TNQ rose to \$3.80. After a reaction

to \$3.15, it again ran up to \$3.80 again, which was followed by a slide to \$3.35. It then made a third attempt to break out on the upside, but failed at \$3.75, a lower high. At this point it looked ominously like a triple top pattern. Since then, we have seen a decline to \$3.20, a lower low, but not yet out of the pattern for a clear breakout. It seems now to be forming a descending triangle pattern, which is most likely to be bearish in the short term at least. The up trend line has been broken and if it is not forming a top pattern, the most optimistic interpretation is that it is forming a large reaccumulation area. The critical points are: \$3.10 on the down side. If TNQ traded at these levels, I would not be long. \$3.85 on the up side. I would not consider going long until trading at this level is seen.

Finally, I will look at some charts of stocks that look interesting at the moment. Firstly, Australian Consolidated Press. I am mentioning this stock and the next one, because there has been such a good advance from a number of media stocks. It is useful to look at the rest of the sector to see what is happening. However, there is one important caveat I would make here. That is that in my experience, stocks that start to move last in an advance tend to be the weakest ones. They may be being pulled up by nothing more than the general euphoria for that sector. Whether you do anything about such stocks must be taken with that caution in mind.

Chart 35 is of ACP from its listing in 1992 and shows that after an initial run up, it formed a broad rectangular congestion area, from which it has broken out on the upside. There is an objective from that congestion area of \$7.90. Notice that after

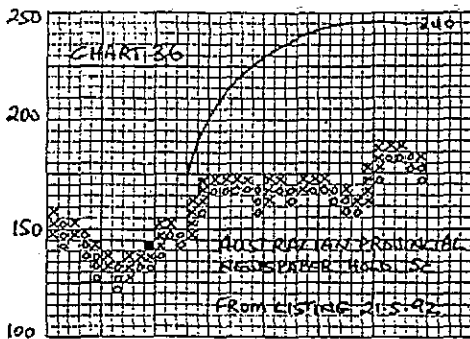


the break out, it reacted to part way into the base and then made a further high. The subsequent reaction last week was to \$6.00, which is where support might have been expected and presented a second opportunity to buy close to the break out point. I have found that patterns like this are quite reliable and the only negative is the lateness of the move relative to the rest of the media sector. The size of the base area indicates that there is significant support and there should be time to get out if the move does not follow through.

Postscript: Following a further reaction to \$5.90, ACP ran up quite sharply to \$7.10. This was followed by an equally sharp reaction to \$6.10, which was a first warning sign: It did not hold at the first support level at \$6.40 and the reaction was well in excess of 50% of the move. There was then another good run up to \$7.00, where two attempts were made, unsuccessfully, to make a new high, a second warning sign. I would have quit a long position when it failed to make a new high, or at the very latest after it made a lower high early in 1994. There would have been little profit in the trade, but it should not have been a loss. ACP has now traded in a down trend to around the level of its initial listing.

The second media stock is

Australian Provincial Newspapers Holdings, shown in chart 36, which is also from listing in 1992.

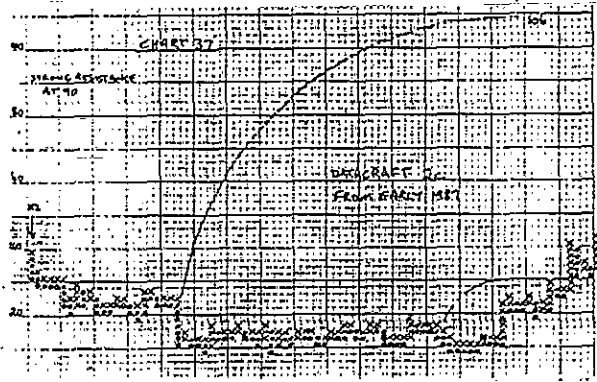


After an initial dip, APN moved up to \$1.70 and formed a broad rectangular congestion area. After retesting the low of the area, it has broken out upwards and pulled back to one square into the congestion area, presenting a buying opportunity around the break out level. There is a price objective of \$2.40. Thus, the situation is very like that for ACP above and is the type of situation that I am looking to trade.

Postscript: After the above chart was drawn, ACP first retreated another box, before it ran up quite nicely, reaching \$2.10. It then retraced all of the gain, first warning, and retested the \$2.10 level unsuccessfully, second warning. It is still trading above the top of the original congestion area, but has been very disappointing. I would be looking for better opportunities until this chart showed more bullish action.

The next stock is one in which I am currently long: Datacraft, which is shown in Chart 37. Datacraft listed in 1985 at 90 cents and formed a large descending triangle between 90 cents and \$1.12, before falling quite steeply to 40 cents in 1986 and then more gradually to 20 cents in 1988. A long base then formed as shown on the chart, from

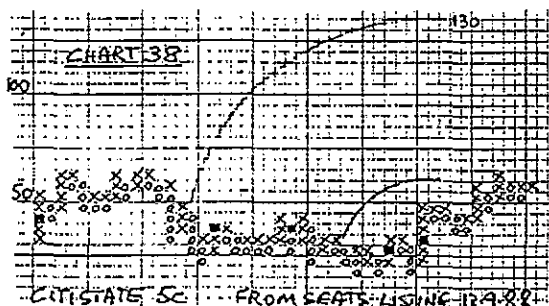
which there has been a breakout and a good up trend has started. From a five year base pattern of good width, you can expect a substantial move, which would seem to be under way. Marked on the chart is the first objective to 28 cents, which broke the pattern. The major target is \$1.06, which would be modified by the heavy resistance at 90 cents. It should also be noted that the 5 cent box size chart only counts to 55 cents. The actual target will probably be higher than this, as 5 cents is a rather large box size for a base below 20 cents. It is not unusual to have different box size charts give different objectives and some of the art of point and figure charting is to develop a feel for which ones work best. There are no firm rules that apply in all situations. The best guide is past action on the chart concerned.



Postscript: This was a great chart. From where we left it above, it trended up to 68 cents, forming a congestion area which gave another price objective of 96 cents. After moving up to 80 cents, another congestion area counted to \$1.04, so we should have been more and more confident of the initial target of 90 cents to \$1.06. After reaching \$1.10, there was a reaction and another congestion area formed. There was a breakout from it on the upside, but it failed immediately at \$1.12 and after pausing in the last congestion area, broke out on the

down side, a final sell signal at 94 cents. Since then a down trend has been in evidence, reaching 76 cents, before pulling back to 98 cents. The price has currently come off again and Datacraft is trading around 90 cents. There is a down side objective of 44 cents. However, before that comes into play, we need to see a move below 76 cents to resume the down trend. Currently, I see this stock trading between support around 80 cents and resistance around \$1.00. We should not rule out development of a consolidation area and eventually a resumption of the up trend. Watch for the breakout.

Chart 38 shows Citistate from its listing on SEATS on 12.9.88.



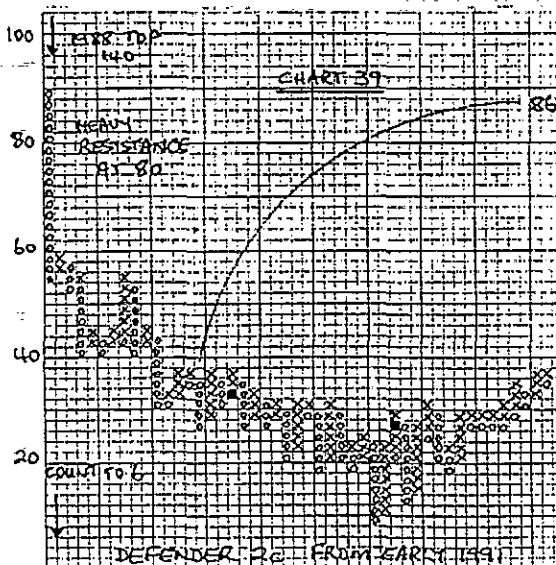
The 5 cent box size chart is shown for reasons of space, but the 2 cent box size chart is the main one for analysis at current price levels, although the base pattern is clearest on the 5 cent chart. Note the initial objective that broke the base pattern. There is also a higher objective of \$1.30. The base pattern is not unlike a delayed ending type pattern. The key point at present is that the breakout has been halted after reaching the first target at a very heavy resistance area. I would not buy this stock until it broke above that resistance at 65 cents. That would still leave a potential 100% gain, for a good trade.

Postscript: After some more accumulation, it broke above 65 cents and has twice reached 90

cents. It is trading in a nice trend channel on the 2 cent box size chart and has come back toward the lower line in the recent market weakness. There is a warning sign in the failure to get above 90 cents the second time. A break of the trend line or a new lower low at 68 cents would be quite worrying.

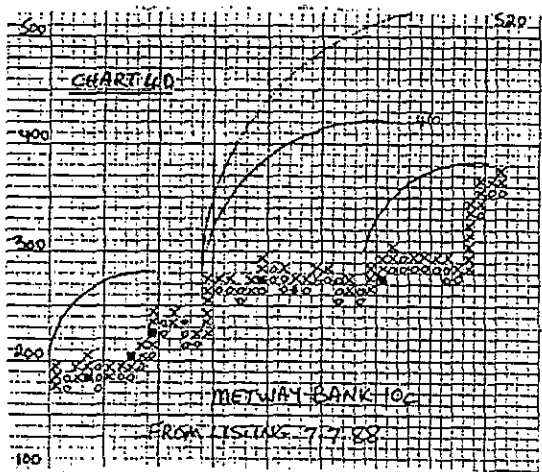
Next Defender, quite an interesting recovery situation in a growth industry, as shown in Chart 39. It has come down from its 1988 top of \$1.40 to bottom at 8 cents. That, in a nutshell, is the case against buy and hold as an investment strategy! There was a count to 6 cents, which we can say has been effectively realised. It has formed a pattern with some characteristics of a V type base below 30 cents and has tested 30 cents repeatedly before breaking out recently. There is an objective of 86 cents, with heavy overhead resistance at 80 cents, which would modify the price objective, but still indicates the potential for a 100% gain.

Postscript: Defender traded sideways for some time after this chart, unable to break the previously manifested resistance at 36 cents. However, when it did, there was an explosive move to 50 cents and then a slower



trending move up to 60 cents. It has tested 60 cents four times unsuccessfully and looked very topy, before breaking on the down side. Currently at 46 cents, it looks weak and I would not be surprised if it retreated all the way to support around 40 cents, a roughly 40% retracement from the high. It is only speculation after that, but a further consolidation would be necessary before it could resume its up trend.

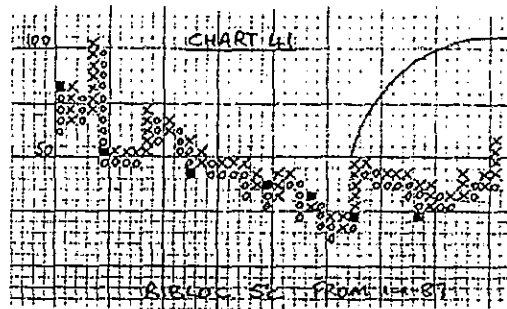
Also interesting is Metway Bank, which is shown in Chart 40 from listing in 1988.



It initially formed a congestion area which signalled a rise to \$2.70. A broad congestion area then formed, with two levels to it. The objective from the last level has been reached, but I believe it is possible to postulate higher targets at \$4.10 from the first level and \$5.20 from the whole pattern. In any case, the stock is clearly in an uptrend on a medium term basis.

Postscript: Metway continued to trend up quite nicely and reached \$5.00. Shortly afterwards, it broke the trend line and, without forming a top pattern, turned south and has trended down to \$4.00, where there is some support. It is unclear what the prognosis is for this stock now, so I would keep profits working

somewhere else until the chart gives some better indication.



Finally, Ribloc, which is shown from 1.1.87 in Chart 41.

This is a 5 cent chart. I also keep a 2 cent chart. The base pattern is clearer on the 5 cent chart, though the 2 cent chart would be better for timing entries and exits at the current price levels. The price has just broken out above the line of tops at 45 cents, which is bullish. The first objective is \$1.00, but there are higher counts that could be made from this pattern. The problem is that there is no clear wall on the left side of the base. The way to project from this pattern is to start conservatively and then go to more optimistic targets as each previous target is achieved without a trend break.

Postscript: Ribloc got only a little higher, to 56 cents, after this chart was shown. Since then it has traded between there and 40 cents. It has received support at 40m cents six times now and this level is obviously critical. A break of this support would be bearish indeed. There are not a lot of indications from the latest action, except that recent action is towards the bottom of the congestion area, which can be bullish. Buy a breakout above 56 cents, sell a break below 40 cents.

Question: Can you determine how long a move will take on a Point and Figure chart?

Colin: It is impossible really, as Point and Figure charting does not use a time scale. This is because the method rests on the assumption that it is price action that is important, rather than time. I find that I can get reliable indications of the direction of a move, but not on how long it might take. For that reason, I trade the equity itself, rather than derivatives, which have a time horizon. It is hard enough to get the direction right, why make it even more difficult. I hear too many stories of people buying the right stock using options, losing all their money on the options, yet they were right about the direction for the stock. It just took longer than they thought. Most people who are not experienced in the stock market think things happen much faster than they do, especially in the bull trends.

Question: What are your ideas on using the depth of the pattern as in bar charting?

Colin: I don't find it is terribly reliable. It tends to give you a short term target at best, rather than a longer term target, and I am looking for longer term targets. Sometimes you will find, using the depth of the pattern, that you will get a projection and, if you count across the first part of the congestion area, you will get a projection to roughly the same level. In other words, the first part of the congestion area will give you the projection for the the first part of the move, where you will get some reaccumulation and then a move on from there. Of course, you get a secondary count from that second congestion area. I find the horizontal counts are much more reliable than the vertical counts, just from experience.

Question: I notice that all your

charts are single box reversals.

Colin: Yes.

Question: Would you like to expand on that?

Colin: Well, that is true Point and Figure charting. There is also something called the "Chartcraft" method, which is a three box reversal system. There are also other people who use three box reversal charts with a small box size, the most notable being David Fuller. However, you need to understand what they are doing.

The "Chartcraft" method is based on a large box size and was designed purely aimed to catch the long term moves, where a position is taken and held until there is a major reversal signal. They have never put it forward as a short term trading tool. "Chartcraft" have tried in this way to turn something derived from Point and Figure charting into a highly systematised method, with clear rules and little room for interpretation of the chart in terms of what the chart is telling you about the market. True Point and Figure charting is much more than this, both in terms of what it can tell you about the market participants and its flexibility over different time frames.

The "David Fuller" method is, on the other hand, based on a small box size and highlights or exaggerates the vertical movements, while severely condensing the horizontal spread of the chart. David's method is based almost entirely on breakouts and reversals, with some pattern recognition, although he seems to prefer bar chart patterns. He holds little significance in trend line studies, congestion area analysis or pattern recognition and discards price projections

entirely. Three point reversal charts are not useful for these things, that are features of true Point and Figure charting. To the extent that David only wants limited information from his charts, his method is probably sufficient.

You will have heard people tell you that you can make price projections from three box reversal charts by measuring the width of congestion areas and multiplying by three. I tried this for quite some time and I found that it just does not work. The fact that David Fuller has little faith in these price projections, probably just confirms my experience.

Now, all this said, I do use some three box reversal charts, but only for the original purpose. That is, to condense history charts of stocks that get very strung out horizontally and have neither made any issues that would have condensed the chart, nor moved to higher prices, requiring a larger box size. For example, stocks like MIM, North BH Peko and Santos, that have moved sideways in a broad range for many years. However, I do this only so that I can see where the historical support and resistance areas are and for no other purpose. I would do all my other analysis from the one box reversal chart of recent market action.

I went through a stage where I traded with one box reversal charts for a long time, quite successfully. Then I thought that the computer was the answer to the chartist's problems in the stock market. This was that stocks make issues all the time, so you have to keep adjusting and redrawing your charts. The computer, with its data base, presented an easy way around this problem. I also attended David Fuller's Chart

Seminar around this time. So, I started using three box reversal charts, with both Course of Sales and High/Low range. What I found was that my trading fell right away and I had a lot of problems getting timely and reliable signals from the three box reversal charts. The signals come late, because you need three boxes reversal before you make the plot. Something breaks out and you are waiting for the three boxes before you see it. So after a number of years using three box reversal charts, I have come back to the original Point and Figure method of one box reversal charts.

Postscript: I would not like the reader to feel that I am running down David Fuller at all. It might be possible to gain that inference from the remarks I made. All I am saying is that this is what David does and it does not work for me in the market I am trading and with the objectives that I have. I know that David's method works for him and if you think it would suit your objectives and the markets you are trading, go for it. I must say that, although we draw our charts differently and use different methods of analysis, I find that I much more often than not share David's conclusions about markets. This only goes to show that there is more than one good method of analysis and there are more methods that work in experienced hands than most people think. If you are still looking for the "perfect" or the "best" system, you have a great deal to learn yet, most importantly about yourself.

Question: Do you put very much store on forty five degree trend lines?

Colin: Well, forty five degree trend lines are part of the "Chartcraft" method, not part of

true Point and Figure charting. In the "Chartcraft" method, you draw forty five degree lines, but they do not use them as trend lines. They use them as support or resistance lines. They are an absolutely vital part of the rules they have for initiating and exiting positions. Basically, you ignore all sell signals above the support line and ignore all buy signals below the resistance line. The lines are therefore used as a filter on the signals that would otherwise be taken prematurely. To call forty five degree lines trend lines is an incorrect reading of the method. I do not know of any other Point and Figure authority who advocates forty five degree lines.

Question: Using the Course of Sales is a lot of work, so it limits the number of stocks you can follow. Is that your experience?

Colin: Yes and no. If you wanted to follow every stock, you would have a lot of difficulty keeping up with it. However, if you are trading in, say the Futures market, you could easily maintain charts for every contract as well as long term continuation charts.

The other thing that you need to appreciate is that a Point and Figure chart can be updated more quickly than any other type of chart, except perhaps for a line chart of daily closes, where it would be about the same. In fact, I found that it took less time to update my charts from the Course of Sales than it was from the daily range (the "Chartcraft" method), though not as fast as from the daily close only (the David Fuller method).

In fact, back in the Poseidon boom, I spent some time keeping charts in the public gallery, directly off the board. My charts

could be kept constantly up to date "live" by hand. Trying to do the same thing with a bar chart was near impossible, because you have to wait till the end of the time period, select the range and draw it all with a pencil and ruler. With Point and Figure you just added "x"s or "o"s immediately the prices changes occurred.

In the Technical Analysis course we are running with the SIA, I give the students an exercise where, for one stock, they keep a daily close line chart, a daily range bar chart and a Course of Sales Point and Figure chart. What is apparent to them over a period is the economy of the Point and Figure method. The Point and Figure chart takes less time to update than the bar chart and it uses less paper space than either the line or bar charts. The time involved in keeping bar charts up to date is, of course, the prime reason why they were computerised.

At present, I have about 300 charts. They take me about an hour and a half to two hours to update each day, doing my analysis as I go. I find that you get to know your charts very well and you get a much better feel for the chart when you are updating it by hand. I think I am one of those people who find it easier to analyse charts or statistics if I keep them myself. I suspect that most people are the same and that it is very easy to miss things if you just look at computer updated charts, unless you look constantly at only a few charts, such as a currency trader might, so that he would know the chart backwards. However, if you are trying to follow 200 or more stock charts, you could not possibly have that familiarity with them just by looking at them each day.

Now, I am regarding trading as a

full time job, so the time I spend updating the charts compares very favourably with what you would put into most other occupations. I also spend a lot of time on charts other than just updating them,

such as drawing charts for stocks I have not drawn before and other housekeeping on the chart library, such as adjusting for issues, drawing alternative box sizes and so on.

Education Questionnaire

The Executive committee has been considering what type of educational courses to run for members. At the April 18 1994 ATAA meeting in Sydney, the views of Sydney members were sought using a brief questionnaire. The results are summarised below.

Sixty four responses were received, though some respondents did not answer all questions.

It is possible that questions F, G and I may have been ambiguous, but we have given the results as received.

Question A: Please indicate your major area of interest. Most respondents indicated more than one area of interest.

	Number	Percent
Shares	48	38
Commodities	32	25
Currencies	23	18
Options	24	19

Question B: How do you rate your current knowledge of technical analysis?

	Number	Percent
Beginner	18	28
Intermediate	36	56
Professional	10	16

Question C: If a comprehensive three part Technical Analysis course were available and this course was structured to cater for the varying educational needs and skill levels of members, please

indicate which level would be most applicable to you. The questionnaire allowed members to mark their first, second and third choices. We have only collated the first choices below.

	Number	Percent
Beginner	16	26
Intermediate	23	37
Professional	23	37

Question D: If there was a recognised course that led to an industry recognised accreditation certificate, would you be interested in completing the course for:

	No	%
Professional reasons	18	29
Personal interest	30	48
Not interested	14	23

Question E: When would you prefer ATAA educational events to be held? Again, members indicated their order of preference. We have only collated the first choices below.

	No	%
Full Weekends	11	18
Multiple Weekends	15	25
Holiday Weekends	1	2
Evenings	21	35
Working Days	7	12
Hybrids (1)	2	3
Fully Residential (Full Weekends only)	3	5

(1) One Weekend followed by one or more evenings.

Question F: If such courses were available on a free-to-members basis, should non members be allowed to attend?

	Number	Percent
Yes	43	69
No	19	31

Question G: If so, should this be on a paying basis?

	Number	Percent
Yes	58	98
No	1	2

Question H: Where should such courses be held?

	Number	Percent
CBD area	48	87
Other (specify)		
North Suburbs	2	4
Parramatta	2	4
Inner City	1	2
Resort	1	2
Close to city with parking	1	2

Question I: Should courses be restricted to the study of technical methods and application, or would you also like to see other areas covered (specify)?

	Number	Percent
Yes	47	78
No	8	22
Money management	47	47
Trading Psychology	50	50
Other: (one response each)		
* Putting it all together		
* Systems design		
* Options on Currency and SPI		
* Trading tactics, role and analysis of time		

The Executive committee is now considering these responses and working toward a proposal for a course or courses.

One of the problems with this survey is that it only captured responses from Sydney members who attended the April meeting.

Further, at our present stage of development, any courses run would be limited to Sydney and Melbourne, where we have enough members to support them. This poses a question of how we can cater for members in NSW and Victoria who are based outside Sydney and Melbourne and interstate members.

We invite all members who were not at the Sydney meeting in April to let us have your views on the educational courses you would be interested in attending. Would you be interested in coming to Sydney or Melbourne for a course? If so, how would it have to be timed and organised to suit you?

Please send your comments on these matters addressed to the Executive Committee at GPO Box 2774 Sydney 2001 or fax them care of Christopher Carr on 02 901 4468 as soon as possible.

A Reminder about courses already organised in conjunction with the Securities Institute of Australia:

Melbourne: July 5 to August 23 1994. Eight weekly hands on workshops 5.30 to 7.30pm.

Presenters: Josef Rudzyn, Vicki Stapleton, Richard Majewski and Paul Simmons.

A copy of the printed flyer, with all details, is included with this Newsletter. If you know anyone who may be interested, please tell them about it.

Sydney: The successful course being run now will be repeated later in the year.

Kondratieff Wave Extrapolations

"Economic forecasting is highly imperfect. Something that is conceded even by the forecasters, except when offering a new forecast."

Galbraith

Long waves in economic activity have been appreciated since the 1930's when Kondratieff (1935) correctly predicted the great depression by extrapolating from his long cycle of 50 to 60 years. He was one of the very few economists of the day to achieve this distinction.

However, since that time, predictions derived from Kondratieff's theory have been far less successful. Four forecasts based on the Kondratieff wave were presented subsequently - Media General (1972), Shuman & Rosenau (1972), Williams (1982) & Growth Fund Research (1985). However, none of these forecasts proved to be correct with the gift of hindsight.

the most obvious disagreements

Forecasts:

Source	Trough of Kw III	Peak of Kw IV	End of Plateau Kw IV	Trough of Kw IV
Shuman & Rosenau (1972)	1940	Early 1970's	Late 1970's to Early 1980's	Near 2000
Media General (August 1972)	1940	Early 1970's	Early 1980's	Near 2000
Williams (1982)	1933	1985(f)	Late 1990's	Near 2010
Growth Fund Research (1985)	1949	1974	Mid to Late 1980's	Near 2005

(f) Forecasted.

between the varying approaches were:

(1) Differing lows for the beginning of the current Kondratieff wave:

1933 (Williams 1982)

Around 1940 (Shuman & Rosenau 1972; Media General 1972) and

1949 (Growth Fund Research 1985)

(2) Continued price inflation after the 1974 peak of the current wave, in contrast to the general price decline after the previous peaks of 1814, 1864 & 1920. (Williams gave the peak as 1985 to be followed by plateau and downwave. This forecast was derived from Sequence 01 of the 56 year cycle by Funk 1932).

(3) Plateau period in the Kondratieff waves I, II & III was relatively short, lasting less than 10 years. However, in the

current wave, two decades have passed since the peak of 1974, with no evidence of a severe secondary depression.

Despite doom and gloom predictions in recent decades based on Kondratieff's work, the great secondary depression still has yet to materialise. The 1990-91 US recession could not be compared with the secondary depressions of 1819-21, 1873-79 & 1929-33 recorded in the previous Kondratieff waves after major panics in the 56 year Sequences O1 & O3 (McMinn 1993).

The futility of using Kondratieff's work for economic forecasting is further illustrated by the predictions of Shuman & Rosenau (1972). They believed that "after nearly two decades of a declining price trend (since 1920), a combination of the New Deal programs and huge armament expenditures that began just prior to the World War II, reversed the trend about a decade early. The model indicates that the trend should have reversed about 1950. Actually, it did so about 10 years earlier. From 1950 on, however, the model resumes its accuracy. There are two decades of gradually rising prices, with another sharp break predicted for about 1970, following a period of sharply rising prices".

Unfortunately, prices continued to rise even more sharply throughout the 1970s. These authors also predicted "euphoria and contentment in the late 1970s and early 1980s, arising from the plateau phase of the Kondratieff wave". This was not confirmed by history. Followers of Shuman & Rosenau believed the stock market "massacres" of October 1978, October 1979 & May 1980 were the beginning of the secondary depression. Even so, after each

of these breaks, the broad stock market averages reached new highs. The exception was the Dow Jones Industrials which seemed unable to stay above the psychological 1000 barrier for very long.

Michaels et al, (1981) speculated "if the Kondratieff pattern repeats, the great upswing would have ended around the time of the OPEC petroleum crunch. We would be in the early stages of a major downswing, which could bring wars and civil disturbances. Perhaps, we should indeed be caching food in country retreats". Wrong again. Although 1982 recorded a major recession and stock market low, the ensuing 1980s witnessed financial euphoria and the longest period of continuous economic growth experienced in US history.

The crash of 1987 was regarded by many pundits as another 1929, marking the beginning of the ominous "secondary depression". This was a reasonable speculation based on past patterns in the Kondratieff wave. Newspaper articles of the day discussed the prospects of another depression similar to the 1930s event. Many comparisons were made between the 1920s and the 1980s, with the major differences being generally glossed over. The experiences of the 1930s were anticipated to be repeated in the late 1980s and 1990s. This scenario did not hold up to the test of time. No economic downturn was recorded after the 1987 crash and the 1990-91 US recession was short lived and mild, albeit economic growth remained anaemic.

Although long cycles of around 50-60 years are evident in economic patterns, reliable forecasts cannot be made by extrapolating from historic precedent. At best, the Kondratieff wave is a broad general trend, rather than a good

tool for prediction. It can tell forecasters where the economy has been, but not where it is going. It is pointless to assess historic long cycles, find an average or a trend then project this into the future and expect to achieve great accuracy. Such techniques will almost always prove incorrect simply because no trend lasts forever and manifestation of the Kondratieff wave is extremely variable.

David McMinn (066 89 1278)
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REFERENCES

- Funk J M. "The 56 Year Cycle in American Business Activity" Privately published 1932.
Growth Fund Research Inc. Kondratieff Wave chart 1985.
McMinn David "Financial Crises and The Number 56" The ATAA Newsletter September 1993.
Michaels J W et al "Echoes From A Siberian Prison Camp" Forbes November 9 1981.
Media General Kondratieff Wave chart August 1972.
Shuman J B & Rosenau D "The Kondratieff Wave" 1972.
Williams David "Financial Astrology" AFA 1982.

ATAA Calendar of Events

Monday May 2 1994
Sydney Technical Analysis
Course Workshop 1

Thursday May 5 1994
Executive Committee Meeting

Monday May 9 1994
Sydney Technical Analysis
Course Workshop 2

Monday May 16 1994
Sydney Monthly Meeting
Sydney Technical Analysis
Course Workshop 3

Wednesday May 18 1994
Melbourne Monthly Meeting

Friday May 20 1994
Newsletter Publication

Monday May 23 1994
Sydney Technical Analysis
Course Workshop 4

Monday May 30 1994
Sydney Technical Analysis
Course Workshop 5

Monday June 6 1994
Sydney Technical Analysis
Course Workshop 6

Thursday June 9 1994
Executive Committee Meeting

Monday June 20 1994
Sydney Monthly Meeting
Sydney Technical Analysis
Course Workshop 7
Newsletter Copy Deadline

Wednesday June 22 1994
Melbourne Monthly Meeting

Monday June 27 1994
Sydney Technical Analysis
Course Workshop 8

Tuesday July 5 1994
Melbourne Technical Analysis
Course Workshop 1

Thursday July 7 1994
Executive Committee Meeting

Tuesday July 12 1994
Melbourne Technical Analysis
Course Workshop 2

Monday July 18 1994
Sydney Monthly Meeting

Tuesday July 19 1994
Melbourne Technical Analysis
Course Workshop 3

Wednesday July 20 1994
Melbourne Monthly Meeting
Newsletter Publication

Tuesday July 26 1994
Melbourne Technical Analysis
Course Workshop 4

Tuesday August 2 1994
Melbourne Technical Analysis
Course Workshop 5

Thursday August 4 1994
Executive Committee Meeting

Tuesday August 9 1994
Melbourne Technical Analysis
Course Workshop 6

Monday August 15 1994
Sydney Monthly Meeting

Tuesday August 16 1994
Melbourne Technical Analysis
Course Workshop 7

Wednesday August 17 1994
Melbourne Monthly Meeting

Friday August 19 1994
Newsletter Copy Deadline

Tuesday August 23 1994
Melbourne Technical Analysis
Course Workshop 8

Thursday September 8 1994
Executive Committee Meeting

Monday September 19 1994
Sydney Monthly Meeting

Tuesday September 20 1994
Newsletter Publication

Wednesday September 21 1994
Melbourne Monthly Meeting

Thursday October 6 1994
Executive Committee Meeting

Monday October 17 1994
Sydney Monthly Meeting

Wednesday October 19 1994
Melbourne Monthly Meeting

Thursday October 20 1994
Newsletter Copy Deadline

Monday November 7 1994
Sydney Monthly Meeting and
Christmas Party

Thursday November 10 1994
Executive Committee Meeting

Wednesday November 16 1994
Melbourne Monthly Meeting and
Christmas Party
IFTA 7th Annual Conference
Paris France Day 1

Thursday November 17 1994
IFTA Conference Day 2

Friday November 18 1994
IFTA Conference Day 3

Saturday November 19 1994
IFTA Conference Day 4

Sunday November 20 1994
Newsletter Publication
IFTA Conference Day 5

A Place To Trade

Interested in an investors/fund managers facility adjacent to the SFE?

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You Can't Fool Mother Nature

Growing up in St Louis, certain things and places you experience over the years become taken for granted. As a young man, visiting one particular landmark sticks out prominently in my mind: A restaurant in West St Louis county called the "Smoke House". As the name may imply, upon your visit you would partake of some of the best slow hickory smoked delicacies around. From smoked trout to ham, it was always a memorable experience. The establishment sits at the eastern edge of the Chesterfield Valley, about seven miles from the Daniel Boone Bridge and the Missouri River. That seven mile stretch along Highway 40 is the daily track home for some 150,000 people and cuts through the middle of the Chesterfield Valley, an area of about seventy square miles. Over the years, farm land became industrialised, with everything from an airport to a car dealership, but the valley over the years is "just that last flat stretch of highway" before you get home and it has always been there. At least it was, until the great flood of '93, when modern day technology met up with the force of mother nature.

It was quite a humbling experience to watch live coverage of the flood when the Monarch levee broke. To see the force and rate of the river as it filled up the valley and swept landmarks away was incredible, but I am sure it was a much more humbling experience for the engineers who built the levees and pronounced that they would hold.

Our society is one that is dependent on technology. It is the engine of our standard of living. It is our means of controlling "random events". We base things on history. The levee

system in the Midwest was based on the measures of the 100 year flood, the highest crest in history.

The investing public has obviously taken for granted that "last stretch of highway" which has always gotten them home. Given the extent of their purchases of mutual funds and the frenzied flow of funds into media stocks, they must believe that the bull market that has been engineered since 1990 is not at risk relative to bank CDs and that safeguards which have been put in place over the years will hold the flood water back. What adds to the "No Fear" attitude of the public is that this storm of money that has poured itself into the market is being carried out in the face of what the media is calling the "most widely forecast market top in history". Which is not the case: Twice in recent history, 1969 and 1980, there was a near majority of investment advisers in the bearish camp when the market made a cyclical top. With advisory sentiment becoming more and more bearish, we doubt they are taking too much for granted.

Jack C Cahn GMT Reprinted from the October 1993 MTA Newsletter, with the permission of the author.

Also from the October 1993 MTA Newsletter:

"In general, people do not become interested in technical market analysis until they have spent at least 30 years failing to make money by using the standard fundamental and economic methods of analysis."

George A Chestnut Jr
American Investors Service

Technical Analysis Bibliography

At the AGM in Sydney in November 1993, it was suggested that we assemble a bibliography of books on technical analysis. Here is a start to the project by Colin Nicholson.

It was interesting to hear David Fuller say earlier this year that when he started in the markets, there were only five books that had been written on the subject. He did not say what they were. In fact, I think that he was underestimating the available literature.

However, there is no denying that there has been an explosion of books on technical analysis in more recent times. This is not to mention the vast number of magazine, newsletter and newspaper articles that have been published and the plethora of papers that have been presented, only a few of which have been widely distributed in print. I have decided to restrict the bibliography to books, as this was the original request from members.

The serious collector of books on technical analysis will be interested in books that are both currently in print and also many that are no longer in print and can only be acquired second hand. Accordingly, I will include both in the bibliography.

If the bibliography is to be of use to members, they must know where they can purchase books. While some are available in Australia, a great number are not available here and must be acquired from overseas sources, most particularly from the USA.

I therefore thought that I should start off by outlining where books can be purchased. This is based on my experience over a number of

years, but I am sure there will be suppliers of which I am unaware. If members would like to let me know of others, I will include them in subsequent issues.

Australian Sources

Australian Stock Exchange Bookshop (ASX). 20 Bond Street Sydney. Also in other states.

Sydney Futures Exchange Bookshop (SFE). 30-32 Grosvenor Street Sydney.

Australian Technical Analysts Association Bookshop (ATAA). Members only. Mail order only. Catalogue and order form sent to all members periodically.

Dymocks Technical Bookshop (DT). 350 George Street Sydney.

Research Technology (RT). Level 7 4 O'Connell Street, Sydney

Overseas Sources

If you are travelling overseas, the best place to find them is in the vicinity of the exchanges. However, as most of our members are looking to buy books without travelling overseas to get them, I have restricted the list to mail order outlets.

Financial Trading Seminars Inc (FTS). PO Box 20555 Columbus Circle Station New York NY 10023 USA Fax: 718 639 8889

Fraser Publishing Company (FPC). Box 494 Burlington VT 05402 USA Fax: 802 658 0260

Traders Library (TL). PO Box 2466 Ellicott City MD 21041 USA Fax: 410 964 1127

Traders Press (TP) Inc. PO Box
6206 Greenville SC 29606 USA
Fax: 803 298 0221

All of these sources sell new books. FPC also sell secondhand and out of print books. They will try to find out of print books that you want, on request.

Request catalogues from FTS, FPCT, TL and TP, so you know costs of their books and mail charges. All three accept credit cards, which is the simplest way to order books from overseas.

ASX and RT used to publish catalogues, but neither has sent one to me for some time.

Where a book is shown in a catalogue that is available to me, I have indicated the supplier and the price in the catalogue. Needless to say the price I quote is an indication only and you must verify the current price for yourself as they are subject to change without notice.

The Classics

What I thought we could start with are some of the "classics" of technical analysis. Many of these are essential reading for the serious student of technical analysis. The classification "classics" is inevitably subjective. However, I have tried to select those books which broke new ground and are the original references for much of today's text books. I am sure that I will have missed some and will include them in the next issue if members will make me aware of them.

Charles Mackay: "Extraordinary Delusions and the Madness of Crowds". Originally published in 1841 by Richard Bentley London. FPC: \$US11.00 FTS: \$US20.00 TL: \$US19.95.

Rollo Tape (Richard D Wyckoff): "Studies in Tape Reading". Originally published 1910. Reprinted 1982 by FPC. FPC: \$US12.00 TP: \$US13.00.

William Peter Hamilton: "The Stock Market Barometer". Originally published in 1922 by Harper and Brothers. Reprinted 1993 by FPC. \$US18.00.

William D Gann: "Truth of the Stock Tape". Originally published in 1923 by WDC. Reprinted 1976 by Lambert-Gann Publishing Co. FPC: \$US35 TL and TP: \$US30.00.

Edwin Lefevre: "Reminiscences of a Stock Operator". Originally published in 1923 by George H Doran Co. Reprinted 1981 by FPC (and later by others?) FPC: \$US14.00 (SC) \$US22.00 (HC), FTS \$US35.00 (HC?) TL: \$US19.95 (SC) TP: \$US14.95 (SC) \$US21.95 (HC).

Richard D Wyckoff: "How I Trade in Stocks and Bonds". Originally Published in 1924 by The Magazine of Wall Street. Reprinted 1983 by FPC. \$US12.00.

Richard D Wyckoff: "Wall Street Ventures and Adventures Through Forty Years". Originally published in 1930 by RDW. Reprinted 1985 by FPC. FPC: \$US18.00 TP: \$US 19.95.

Humphrey B Neill: "Tape Reading and Market Tactics". Originally published in 1931 by B C Forbes Publishing Co. Reprinted 1970 by FPC. \$US14.00.

Richard D Wyckoff: "Stock Market Technique Number One". Originally published in 1933 by RDW. Reprinted 1984 by FPC. \$US9.00.

Victor de Villiers: "The Point and Figure Method". Originally printed in 1933. Reprinted 1973 by FPC. FPC: \$US15.00 TP: \$US19.95.

Robert Rhea: "The Dow Theory"
Originally published in 1932 by
Barrons. Reprinted 1993 by FPC.
\$US14.00.

Richard D Wyckoff: "Stock Market
Technique Number Two". Originally
published in 1934 by RDW.
Reprinted 1989 by FPC. \$US14.00.

R W Schabacker: "Stock Market
Profits". Originally published in
1934 by B C Forbes Publishing
Company New York. Reprinted 1967
and 1970 by FPC. \$US16.00.

H M Gartley: "Profits in the Stock
Market". Originally published in
1935 or 1937. FPC, TL and TP:
\$US90.00.

Jesse L Livermore: "How to Trade
in Stocks". Originally published
in 1939 or 1940. Reprinted in
1966 by Investors Press Inc. in
hard cover. Reprinted 1991 in
soft cover. FPC and TP: \$US19.95
(SC).

William D Gann: "How to Make
Profits in Commodities".
Originally published in 1942.
Reprinted 1976 by Library of Gann
Publishing Co Inc. FPC, FTS, TL
and TP: \$US35.00.

Robert D Edwards and John Magee:
"Technical Analysis of Stock
Trends". Originally published in
1948 by John Magee Inc Boston
Massachusetts. Now in its Sixth
Edition 1992. FPC and TL:
\$US59.95 FTS: \$US59.00 TP:
\$US60.00.

Burton H Pugh: "A Better Way to
Make Money". Originally published
in 1948 by Lambert-Gann Publishing
Co Inc. Reprinted 1956. FPC:
\$US25.00.

William D Gann: "Forty Five Years
in Wall Street". Originally
printed in 1949. Reprinted 1976
by Lambert-Gann Publishing Co Inc.
FPC, TL and TP: \$US30.00.

Alexander H Wheelan: "Study Helps
in Point and Figure Technique".
Originally published in 1954 by
Morgan Rogers & Roberts Inc New
York. Reprinted 1989 by FPC. FPC:
\$US 16.00 TL: \$US17.95 TP:
\$US19.95.

Garfield A Drew: "New Methods for
Profit in the Stock Market".
Originally published in 1955 by
GAD. Reprinted 1966 by FPC.
\$US18.00.

E S C Coppock: "Practical Relative
Strength Charting". Published in
1957 by Trendex Research Group.
Out of print. Try FPC for second
hand.

William L Jiler: "How Charts Can
Help You in the Stock Market".
Originally published in 1962 by
Commodity Research Publications
Corp. TL: \$US19.95 (SC).

John W. Schultz: "The Intelligent
Chartist". 1962 WRSM Financial
Service Corp. Out of print. Try
FPC for second hand.

M D Garretty & Associates:
"Forecasting Australian Stock
Prices with Trendex". Originally
published in 1963 by the authors.
Try local second hand shops.

E S C Coppock: "Realistic Stock
Market Speculation". Monograph
published circa 1967. Try FPC for
second hand.

Philip Rennie: "Share Price
Charting" (Point and Figure).
Originally published in 1967 by
Rydge's Business Journal. Try
local second hand shops.

A W Cohen: "How to Use the Three
Point Reversal Method of Point and
Figure Stock Market Trading".
Originally published in 1968 by
Chartcraft Inc. Seems to be out
of print. Current title seems to
be Michael L Burke: "The All-New
Guide to the Three point Reversal

Method of Point and Figure Construction and Formations". 1990 by Chartcraft and Investors Intelligence. FPC: \$US9.95 TL: \$US 14.95.

Robert A Levy: "The Relative Strength Concept of Common Stock Price Forecasting". 1968 Investors Intelligence. Seems to be out of print. Try FPC for second hand.

J M Hurst: "The Profit Magic of Stock Transaction Timing". Originally published in 1970 by Prentice-Hall. FPC: \$US15.95 TL and TP: \$US 19.95

Alexander P Paris: "A Complete Guide to Trading Profits". 1970 by Traders Press Inc. FPC and TP: \$US19.95.

James Dines: "How the Average Investor Can Use Technical Analysis for Stock Profits". 1972 by Dines Chart Corp. Out of print. Try FPC for second hand.

Joseph E Granville: "Granville's New Strategy of Daily Stock Market Timing for Maximum Profit". Originally published in 1976 by Prentice-Hall. Out of print. Try FPC for second hand.

Alfred J Frost and Robert R Prechter Jr: "Elliott Wave Principle". Originally Published in 1978 by New Classics Library.

FPC: \$US21.00 TL: \$US29.95 (Expanded Edition) TP: \$US27.50.

J Welles Wilder Jr: "New Concepts in Technical Trading Systems". Originally published in 1978 by Trend Research. TL and TP: \$US65.00.

Robert R Prechter Jr (Ed): "The Major Works of R N Elliott". Originally published in 1980 by New Classics Library. FPC: \$US34.00 TL: \$US37.95 TP: \$US39.95.

Gerald Appel: "MACD: The Moving Average Convergence-Divergence Trading Method". Originally published ? TP: \$US25.00.

J Peter Steidlmayer and Kevin Koy: "Markets and Market Logic". 1986 Porcupine Press. Seems to be out of print. Currently in print is J Peter Steidlmayer: "Steidlmayer on Markets: A New Approach to Trading". TL and TP: \$US34.95.

Steve Nison: "Japanese Candlestick Charting Techniques". 1991 New York Institute of Finance. FPC, TL and TP: \$US65.00 FTS: \$US49.00.

In the next Newsletter I will publish a bibliography of more recent books. Members are welcome to submit lists of titles for inclusion, especially on specialist topics.

There is a tide in the affairs of men,
Which, taken at the flood, leads on to fortune;
Omitted, all the voyage of their life
Is bound in shallows and in miseries.

William Shakespeare
Julius Caesar

How to Pick Winners

In the June 1993 edition of the National Australia Bank's "Quarterly Summary", Andrew Quinn (Strategist in National Australia Financial Management's Investment Division) reported on some recent research in the USA by two academics, Eugene Fama and Kenneth French. This addresses one of the problems faced by technical analysts in the stock market: finding the right stocks to chart. This report on the article is by Colin Nicholson.

The study particularly looked at whether small companies gave better returns than large companies. It concluded that ".....while small companies had higher average returns than big companies, the actual 'size effect' was not especially strong. On average, it added about 0.27% to monthly returns...."

The research study examined a number of variables that were thought to be indicators of stock market performance.

When looking at gearing, the authors found that the stock market over penalises companies with poor growth prospects. This suggested that a successful strategy is to go against the crowd and buy undervalued low growth companies and wait for the market to rectify the under valuation, which was expressed as the variance between market equity and book equity. The study concluded that this strategy seems to work in a most markets.

Next, the researchers looked at Price to Earnings (P/E) ratios as an indicator. They found that, over the 1963 to 1990 period, a strategy of buying low P/E companies added about 0.72% per month to results. This does not

sound much, but really accumulates over time. They found that the price to cashflow ratio seemed to work even better.

If the stocks are selected on the basis of high dividend yield, then similar results are obtained. The high dividend strategy increased average monthly return by 0.48%.

The indicator that came out as the best for forecasting superior returns was the book to market equity ratio. The researchers found that high BE/ME ratio (NTA per share/price per share) companies tend to have high average returns, when compared to low BE/ME ratio companies, adding about 0.40% to monthly performance.

Quinn points out that "Though it is hard to generalise, large companies tend to have lower BE/ME ratios than small companies.This gives an inkling as to why small stocks seem to be such winners: often it's not because they are small, it's because they have high BE/ME ratios."

Quinn points out that it is fairly well established that earnings drive share prices. However, he asserts that whether powerful earnings growth companies give better results than low earnings growth companies depends entirely on how much the investor pays for them. He concludes that: "There is overwhelming evidence in nearly every country that investing in unpopular, high value stocks is a superior strategy to buying popular, high growth companies."

There is nothing new about this approach, which has been well documented by Benjamin Graham and his disciples.

Fuller Advice

On 7.2.94 David Fuller addressed a meeting in Sydney hosted by Ord Minnett Jardine Fleming Futures Limited. The following are the key introductory points he made concerning markets:

Think of the markets as man made resources for us to harvest when the time is ripe.

Market analysis is not an intellectually complicated subject.

Market trends are essentially determined by money and people, that is by liquidity and sentiment.

The best investment advice is to buy low and sell high. Human nature makes this very difficult. There is an overwhelming tendency to hang back and end up buying high.

Steps to improve your investment or trading performance:

- a. Research (ideas)
- b. Monitor global markets
- c. Learn to read charts
- d. Think about tactics
- e. Be disciplined
- f. Don't over leverage
- g. Practice contrarian thinking
- h. Be an amateur psychologist

Good for relationships, but bad for investments:

- a. Friendship
- b. Loyalty
- c. Fidelity
- d. Charity (someone else is getting the profit)
- e. Communitarian spirit
- f. Trust
- g. True love (giving without asking anything in return)
- h. Forgiveness

i. The golden rule

Conclusion: You do not want to have a relationship with your portfolio.

Good for investments, but bad for relationships:

- a. Opportunistic
- b. Exploitative
- c. Promiscuity
- d. Mercenary
- e. Predatory
- f. Cynicism
- g. Romantic love
- h. Unforgiving
- i. Never give a sucker an even break

You also need these in games of chance. Investing also has an element of chance, but the odds are largely up to you.

Background factors necessary for a "crash":

- a. High valuations (but it is not a timing indicator)
- b. STRONGLY rising interest rates (more important than a.)

The best time to enter stock markets is at the nadir of the economy. This is when there are the easiest and best price rises (ie 1993).

1994 is not going to be as good or as easy. Valuations are now high and buyers are looking to future earnings growth. News is volatile, so markets are volatile.

1994 will be an up year on balance, but not in a straight line. No crash, but several shakeouts.

The strategy in volatile markets is to trade a bit more. Sell into surges, but do not chase prices.

Buy into shakeouts. The last thing you should do is to bail out of shakeouts: they will be buying opportunities. Buy low and sell high, but WITHIN THE TREND.

Japan is the best market for 1994, as it is just starting its bull run and there is liquidity in postal deposits.

David went on from this to discuss opportunities for 1994 in detail. If you would like to see and hear his views, you can borrow the videotape of his presentation to

institutional clients of Ord Minnett Jardine Fleming Futures Limited from our videotape library. See the article on the videotape library below.

David Fuller is chairman of Chart Analysis Limited. His views can be read each month in his newsletter "Fuller Money". Subscription is \$US340 per year. Contact Chart Analysis Limited at 7 Swallow Street London W1R 7HD United Kingdom. Telephone 071 439 4961 or Fax 071 439 4966.

Can you help?

We need a member with a videotape camera who could tape our Sydney meetings. Tapes could then be available for viewing by groups of members in states that do not yet have enough members to stage regular meetings. Tapes would also be available for loan to individual members through the videotape library. If you could help with this project, please contact Charles Balas on 522 5220.

VIDEOTAPE LIBRARY

The ATAA has established a collection of videotapes that members may borrow. Currently eleven tapes are available:

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

"Technical Analysis in Just 52 Minutes" by Dr Alexander Elder, a professional trader, teacher of technical analysis and practising psychologist. The tape provides a broad introduction to technical analysis. It includes basic chart

patterns, trendlines, support and resistance, computerised analysis, trend following indicators (focus on moving averages) and much more. The tape was reviewed in our September 1993 Newsletter on page 28.

"MACD and MACD-Histogram" by Dr Alexander Elder. 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.

"Relative Strength Index (RSI)" by Dr Alexander Elder. 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 and hear comments by professional traders.

"Day Trading with Gerald Appel"

Gerald Appel shows how he trades S&P500 futures, but stresses that his methods do not apply to other markets and longer time frames. His technique is based on channels, tick volume, spreads between S&P futures and cash and other factors.

"Directional System" by Dr

Alexander Elder. This system answers two essential questions: Is the market in an uptrend, a downtrend or a trading range? If it is in a trend, is it moving fast enough to warrant using a trend following method? Directional also helps you catch very young bull markets.

"Triple Screen Trading System" by

Dr Alexander Elder. How to combine oscillators with trend following indicators, so that their negative features cancel each other out, while their positive features remain undisturbed. How to analyse markets in more than one time frame and find better trades. This is Dr Elder's own trading method.

"Elder Ray" by Dr Alexander

Elder. This new indicator shows whether bulls or bears are in control and whether they are becoming stronger or weaker. You can use Elder Ray as a stand alone system, or as a pin point entry technique with many other systems.

"Stochastic" by Dr Alexander

Elder. 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.

"Williams %R" by Dr Alexander Elder. This simple, but powerful indicator measures the power of bulls and bears to close prices near their edge of the daily range. It helps you decide when to pyramid winning positions.

"Market Opportunities '94" by

David Fuller. This is a video tape of a presentation to institutional clients of Ord Minnett Jardine Fleming Futures Limited when David Fuller was in Sydney in February 1994.

"Psychology of Trading" by Dr

Alexander Elder. This is a studio performance of the material Dr Elder presents at his popular seminars. He deals with the essential principles of individual and mass psychology of the financial markets. You learn to set realistic goals, control self destructiveness and develop correct attitudes towards handling risk.

"Forecasting Financial Markets" by

Tony Plummer, who is a senior trader for a UK bank. This is an edited 3 hour tape from a day long seminar given in New York. In it, he provides unique insights into mass psychology, teaches how to forecast trend reversals using Fibonacci and shows a simplified Elliott Wave theory that he uses for his own trading. Much of the material comes from his book of the same name, which has been an underground best-seller.

How to Borrow Tapes

These videotapes are in VHS format and are available for loan to ATAA members free of charge. You are only asked to pay the postage (cheapest seems to be the medium size Prepaid Postbag which costs \$2.70 from Post Offices) to return them promptly when you have finished watching them.

In order that the maximum number of members may take advantage of the library, you are asked to view the video tape and return it within one week. Members consistently taking too long to return video tapes may be dropped from the waiting list for further borrowings.

We lend these videos on a type of first-come-first-served basis and maintain a waiting list. While we will place you on the waiting list for more than one video tape, you will only ever be sent one at a time. Members who have not received a videotape before are placed at the top of the list and will receive the next video that is returned to the library and was ordered by them. That member's name then drops to the bottom of the list and he/she will not be sent another video until his/her name works its way to the top of

the list again. This system ensures that all members experience a similar waiting period between videos, depending upon the demand. However, it also means that the order in which members receive their selections will be random, depending upon which video next comes back when their name is at the top of the list. Due to the administrative complexity involved, it is not possible to specify orders of preference when asking to be placed on the waiting list for several videos.

If you would like to borrow any of the videotapes, contact Colin Nicholson to be placed on the waiting list. There are two ways to do this: Telephone Colin on (02) 436 1610 or photocopy, complete and send the following order form:

ATAA Video Tape Library Order Form

Mail to: Colin Nicholson Fax to: Colin Nicholson
3 Eastview Street G\ - Christopher Carr
Greenwich NSW 2065 (02) 901 4468

Name:

Address:

..... Post Code:

Phone: Day Evening: Fax:

Please place me on the waiting list for the following videotapes (tick boxes):

- Schwager: What it Takes to be a Great Trader
- Elder: Technical Analysis in Just 52 Minutes
- Elder: MACD and MACD-Histogram
- Elder: Relative Strength Index (RSI)
- Appel: Day Trading with Gerald Appel
- Elder: Directional System
- Elder: Triple Screen Trading System
- Elder: Elder Ray
- Elder: Stochastic
- Elder: Williams %R
- Fuller: Market Opportunities '94
- Elder: Psychology of Trading
- Plummer: Forecasting Financial Markets

ATAA Bookshop

ATAA members may order books from the McGraw-Hill Investment Books catalogue through the Association at less than retail prices. The books currently available are listed below. A flyer describing them has recently been sent to all members and is sent to new members when they join.

The prices shown are on the basis that you collect the book at a Sydney meeting of the Association. If you are unable to do this, the book can be mailed to you at the following additional cost:

To a NSW address \$ 5.00 per book

To an address outside NSW \$ 6.80 per book

Even allowing for postage, there is a worthwhile saving on the retail price. If you order more than one book, or if you order the soft cover books, we may be able to reduce the postage charge. If so, the amount saved will be refunded.

Allow 21 days for delivery. Send your payment with your order to the ATAA Bookshop GPO Box 2774 Sydney 2001. Make cheques payable to the Australian Technical Analysts Association.

For further information, contact Colin Nicholson (02) 436 1610.

Price	Emerging Stock Markets	\$ 71.96
Krastins	Listen to the Market	\$ 71.20
Good	Active Asset Allocation	\$ 84.00
Costales	Understanding Financial Statements	\$ 23.96
O'Shaughnessy	Invest Like the Best	\$ 63.96
Coghlan	Strategic Cycle Investing	\$ 112.00
Herzfeld	High Return, Low Risk Investing	\$ 47.96
Pring	Technical Analysis Explained	\$ 92.00
O'Neil	How to Make Money in Stocks h/c	\$ 43.16
O'Neil	How to Make Money in Stocks s/c	\$ 22.36
Brown	Panic Profits	\$ 27.96
Schilit	Financial Shenanigans	\$ 39.96
Cottle	Security Analysis	\$ 128.00
Gipson	Winning the Investment Game	\$ 15.96

Order Form:

Name			
Address			
	State	Postcode	

No	Author	Title	Price
Postage and Packing (If Applicable)			
Total amount enclosed			

Welcome to New Members

Since our last Newsletter, we welcome the following new members:

Mr John R Williams	Roseville	NSW
Mr Peter W Morgan	Merewether	NSW
Mr Stuart Palmer	Windsor	VIC
Mr R Scott Clements	Hambros Australia	NSW
Mr David A Roberts	Hambros Australia	NSW
Mr Eric Boaro	Winnellie	NT
Mr Tony Remington	Upper Beaconsfield	VIC
Mr Joe Cho	Falkiners	VIC
Mr Chris Harris	Castle Hill	NSW
Mr Joe Venables	Cairns	QLD
Mr Tom Scollon	Mosman	NSW
Mr Selwyn Herberg	Doncaster East	VIC
Mr Wayne Browne	Middle Park	VIC
Mr Bill Ward	Vermont South	VIC
Mr James Millers	Glen Waverley	VIC
Mr Timothy Chiou	Connells Point	NSW
Mr Arthur Johnson	Ashbury	NSW
Mr Damon Wells	Glenorie	NSW
Mr Ben Waldrom	Singleton Heights	NSW
Mr Peter Cropley	Hurstville	NSW
Mr William Atkins	Bateau Bay	NSW
Mr Chris Maxworthy	Neutral Bay	NSW
Mr Bernhard Liedtke	Balwyn North	VIC
Mr Paul Fraser	West Heidelberg	VIC
Mr Mark Gurney	Carrum Downs	VIC
Mr Grant Schultz	Balmain	NSW
Mr Alan Tremolada	Avalon	NSW
Mr Barry Webber	Healesville	VIC
Mr Bruce Rudeforth	Albany	WA
Mr Robert Wallace	Lakemba	NSW
Mr Tony Stain	Lilyfield	NSW
Mr Anthony C Reeves	Kaplin Reeves & Co	NSW
Mr Robert Cottee	Beecroft	NSW
Mr Greg Giampiccolo	Narre Warren North	VIC
Mr Bob Laidlaw	Fawkner	VIC

This brings our national membership up to 230 members.

Data Vendors Survey

In the March Newsletter, we published our survey of vendors of electronic data and information. We have reprinted this article and any member who joined after the March Newsletter was distributed, may obtain a copy by telephoning Colin Nicholson on 02 436 1610.

Colin is also building a listing of Australian Software distributors, which is available to members on request.

Members are encouraged to invite acquaintances who are prospective members to contact Colin for a copy of either of these documents.

MEMBERSHIP APPLICATION FORM

AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION

Name : _____

Company(If membership paid by a Company): _____

Address : _____

Suburb : _____ State: _____ Postcode: _____

Phone: _____

Bus.Hours: _____ Evening: _____ Fascimile: _____

Please describe your use of Technical Analysis:

For our records, how did you first hear about the ATAA?

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

There are special concessions for new members joining part way through a year.

If they join between July 1 and December, 31, they receive copies of all newsletters published to date in the year.

If they join after December 31, the initial \$100 fee will in effect, relate to the NEXT year.

For more information call the President, Charles Balas on (02) 522 5220; the Secretary, Colin Nicholson on (02) 436 161; or the Victorian Chairman Paul Simmons (03) 497 3551.

Please Mail Application Form with \$100 cheque to

The Secretary

ATAA

GPO Box 2774

Sydney NSW 2001

PLEASE MAKE ALL CHEQUES PAYABLE TO ATAA.

THE AUSTRALIAN TECHNICAL ANALYSTS ASSOCIATION

The aims of the Australian Technical Analysts Association (ATAA) are:

To establish personal contacts between analysts both inside and outside of Australia with a view to promoting the theory and practice of technical analysis,

To help raise the level of community awareness and respect for technical analysis.

To provide meetings and encourage the interchange of materials, ideas and information for the purpose of adding to the knowledge of its members.

To encourage the highest standards of professional ethics and competence among its technical analysts.

The ATAA is affiliated with the International Federation of Technical Analysts helping us to keep abreast of international markets and techniques.

Founded by a small group of technical analysts that met on a regular basis, the association was officially launched on 26 April 1990.

Membership is varied in employment, geography, market interest and approaches to the markets. Current members include corporate treasurers, fund managers, bank analysts and traders, stockbrokers, financial planners, private and local traders and investors. The members will be professional Technical Analysts, or people using Technical Analysis for private investing or trading.

Benefits include: monthly meetings and a bi monthly newsletter providing a forum for discussion and new ideas to improve the level of knowledge of technical analysis. In addition, members have access to a video tape library and discounts on various technical, psychology and trading courses and books.

Meetings are held each month except December and January. In Sydney, meetings are usually held on the third Monday of each month at 6.00pm at the State Library of New South Wales, Macquarie Street Sydney. In Melbourne, meetings are usually held on the third Wednesday of each month at various venues. All meetings are advised in advance by mail. Alternatively, contact the President, or Secretary in Sydney, or Paul Simmons in Melbourne. Informal meetings are held in other states at various times.

Subscription can be obtained by filling in the membership application form on the reverse side and mailing it to;

**The Secretary
ATAA
GPO Box 2774
Sydney NSW 2001.**

For further information call the President, Charles Balas on (02) 522 5220, the Secretary, Colin Nicholson on (02) 436 1610, or the Victorian Chairman, Paul Simmons (03) 497 3551.