

## AMT Report

**1<sup>st</sup> January 2007**

What a spectacular year for stock markets around the globe....

Analytical market trading 2<sup>nd</sup> edition released late 2005....

***"Think back over 10 years when CBA was \$5.00, now imagine you bought and held the stock until this day. You would be pretty chuffed now with the stock trading over \$37.00 and a dividend yield of 5.5%. Now imagine you bought CBA every year since and held" (chapter 11)***

At the end of 2006, 1 year later and CBA is hitting \$49 and with an increased dividend of over 12% more than the preceding year as an added bonus. If there was one thing you got from the book it was this.... *This is the ticket to financial freedom and you must begin as soon as possible. I'm making another suggestion; once you complete this book start the plan immediately*

I hope the majority of traders took my words and applied them immediately to long term investing, because this is one sure way of making money in the markets without doing too much.

There is a lot of money floating around the globe at the moment and this is underpinning the markets and pushing markets to new highs. When we look at 10-year cyclical patterns this normally provides some of the best trending periods for these growth patterns for many stocks. With the amount of money around, global markets will go higher in 2007, all trader's need to do is keep an eye on the AMT model to define the market structure and use this as a guide of where markets are likely to go in 2007.

I'll get to the AMT model shortly in this report, but what concerns me in 2007 are a few factors. Years ending in 7 are notorious for experiencing some of the heaviest selling because of some outside influence that has spooked the markets. I've never been a 'market-bear' and never will be a 'bear' because I think any selling in the markets is just an opportunity to buy at cheaper prices, but in 2007 I think that once we move up into the higher quarterly extensions in either Jan-March 2007, or July-October 2007 then I'll be looking for any hint of sustained

weakness with confirming change of 3-period cycles. Most of any selling comes around the same cyclical patterns in the trading year. From past experiences and if we subscribe to the markets often repeating themselves then those patterns are around extended highs in the first or the 3<sup>rd</sup> Quarter of the year.

Think back to 1997 and the Asian currency crisis, 87 and market crash, 1977 and 1 year reversal and so on... This is the only thing on the horizon that I can see slowing the 3 year bull market down, it's normally a cyclical pattern within the decade that puts the breaks on before the markets steady themselves climbing higher in the preceding years. Statistically years ending in 7 experience down patterns into 8's before the market bottoms and then heads higher into the end of the decade.





When we look at the fundamental events around the globe in 2006 that could affect stock markets negatively not one could do damage to the rising trends on global markets; not sky-high Oil prices, rising interest rates or the falling US dollar had much effect. There is too much cheap borrowed money washing around, and with the help of the emerging powerhouses of China and India this can easily keep the trend going higher into the end of the decade. Any weakness in 2007 will probably be just be a minor hiccup within the decade bull trend, just like May 2006 when markets tumbled before heading higher into the end of the year.

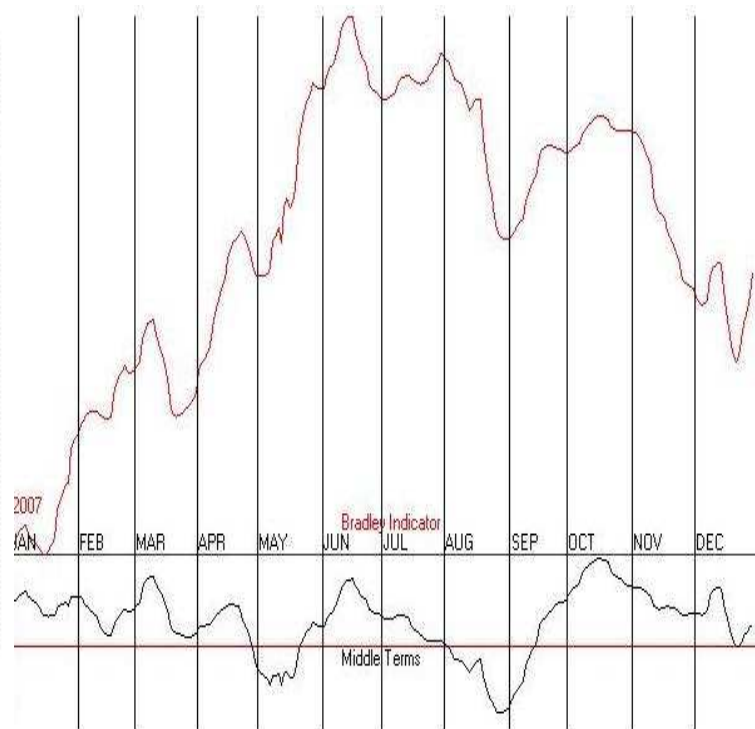
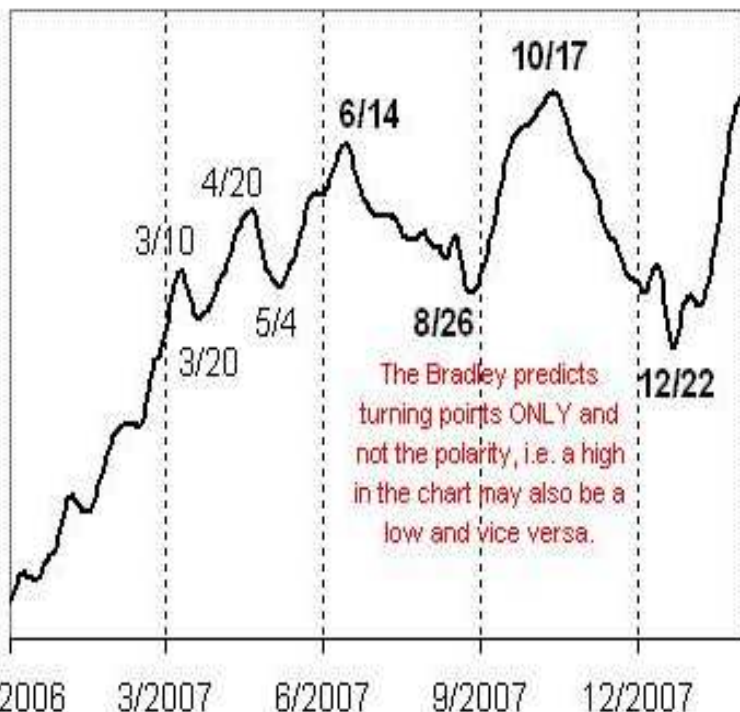
If there is a hiccup in 2007 then there will be a scapegoat or something to blame, but just as I'm painting a bearish picture for this year, it also allows us the potential too enter the market at cheaper prices. It seems a contradiction, but falling markets helps to increase our wealth because it gives us to opportunity to buy at cheaper prices, i.e. Chapter 11. And years ending in 8 are the perfect time for markets to stabilise and head higher.

The model of expectation in the mean time is for markets to head higher into Quarterly tops in 2007 using the AMT model.

### Bradley timing...

Looking at the Bradley dates for 2007 and we can see a continuation of the trends into the first dates around March, with a major swing dates in June, late August and October.

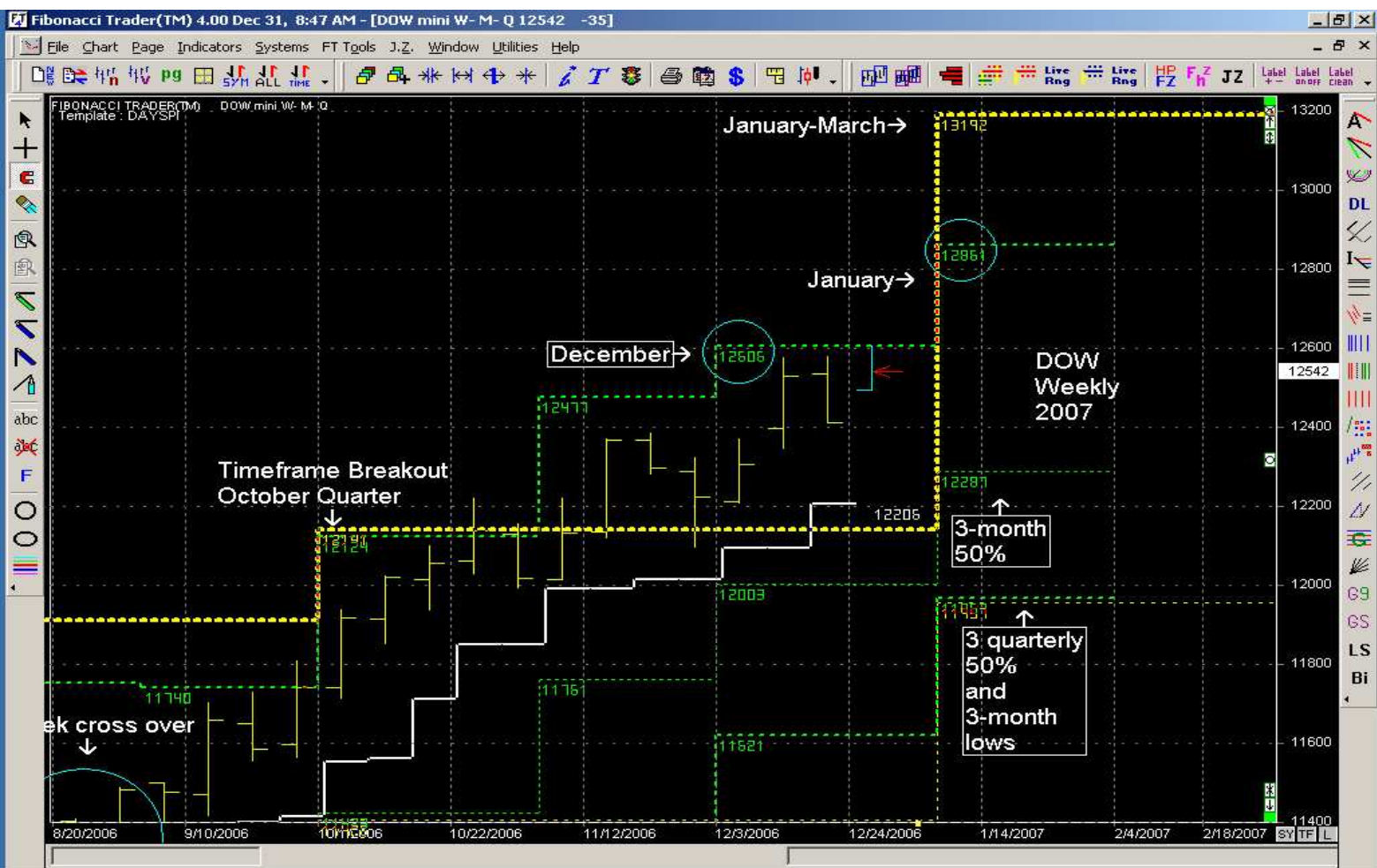
The Bradley line doesn't necessarily mean the trend of the market, only the dates in advance, however those first dates around March 2007 go in line with my view of the market heading towards the upper extended levels in the first quarter in 2007.



When we look at the monthly charts of most markets, you'll see that the 3-quarterly 50% levels has been a perfect guide and support, so any weakness in the markets and these trailing 50% levels are first going to provide the expectation of reversal zones and also levels of support.

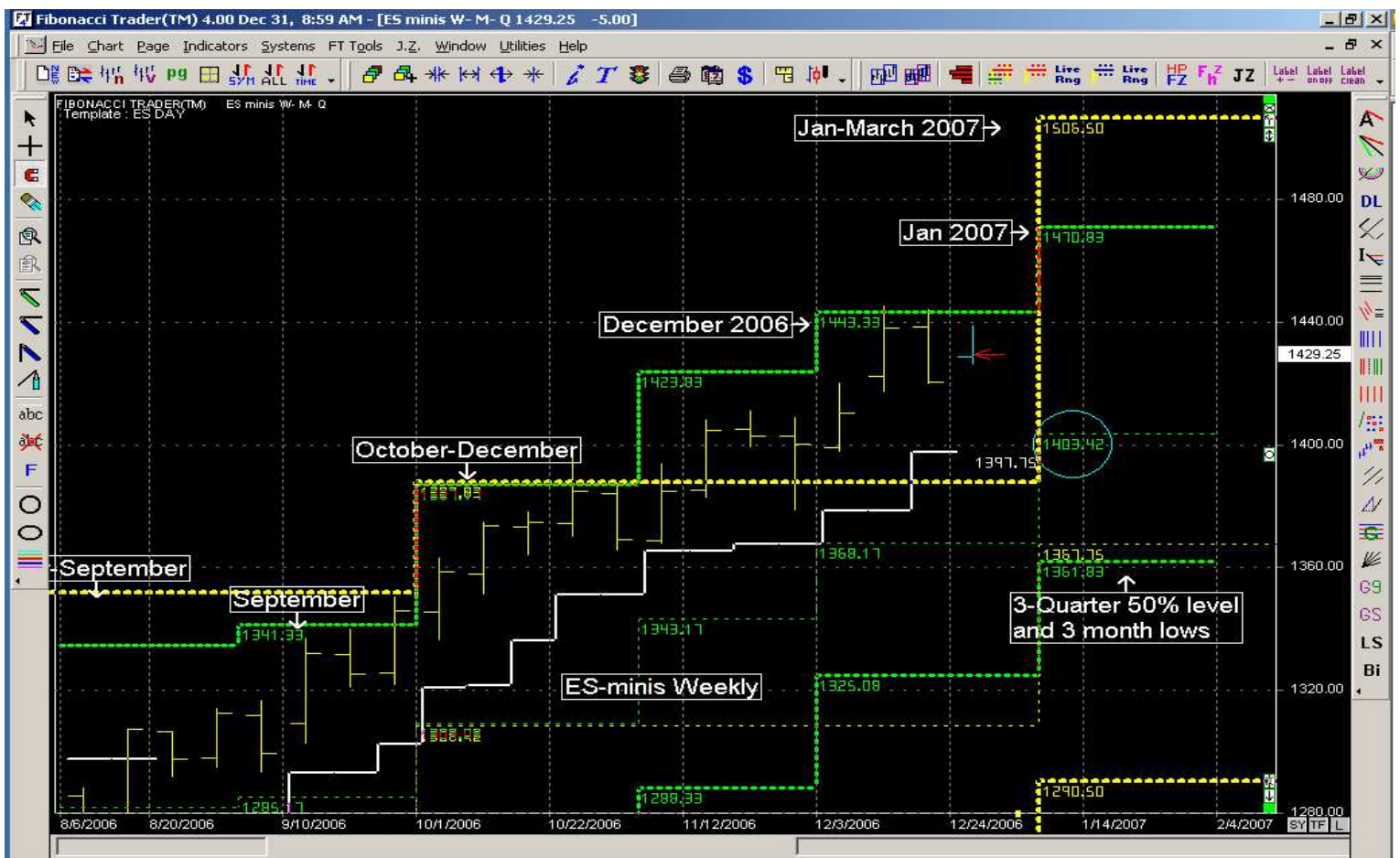
When markets breakout of 'time' then the expectation is price will advance to the next 'time' level. With the DOW breaking out of the Quarterly timeframe (Oct-Dec) then the expectation over the next 3 months is price will 'try' and make its way towards the next extended time in the next Quarter, that being 13192 on the DOW.

We can see the AMT model for December is not only the market path but its also the resistance, and we would have the same expectation that January 2007 will be the market path and resistance.



The ES is exactly the same, timeframe breakout into December highs where those AMT levels provided resistance, however those resistance levels will disappear in 2007 and the market has a greater chance of moving higher in January.

We also see those trailing 3 month lows and 3-Quarterly 50% zone as a probably target for any weakness in 2007, and it will also provide a perfect 'BUY' zone for most global markets.



So there is an expectation in next quarter that markets will continue to rise and any reversal will be from and higher AMT level, and any reversal will be towards those dynamic timeframe lows and 50% levels that are trailing the markets. When we look at the Bradley dates then our expectation is that any reversal will be around March 2007.

## **New Trading:**

In 2006 I introduced OTD trading, using the ranges within each market to provide areas of Market risk. These areas often provided defined levels within the market that traders could use as either Market support or resistance with the expectation that price will repel away from OTD.

As the markets continued to rise into December the ranges became smaller and volatility dried up. Without downside volatility then there isn't large ranges in the day session to provide as much reward. Trading short term derivatives is a hard task to master, but at least there are enough large trending days within each weekly timeframe that traders can hopefully make some profits to offset the smaller days. However from November into December these trending days became far less as average true ranges dropped.

The overall market bias has been upwards into December and beyond....

*"I haven't change my view, the market bias is to rise higher into 2007 and my expectation is that the market will go through the usual 1-2 day reversals before it gets propped up once again... the trading strategy should be geared towards regressive swing trading once again with the an up bias. Personally I would rather trade and focus on trading more contracts on the long side unless there is a much higher open, and then confirmed with a sell-down from higher OTD." ( 1<sup>st</sup> December AMT report)*

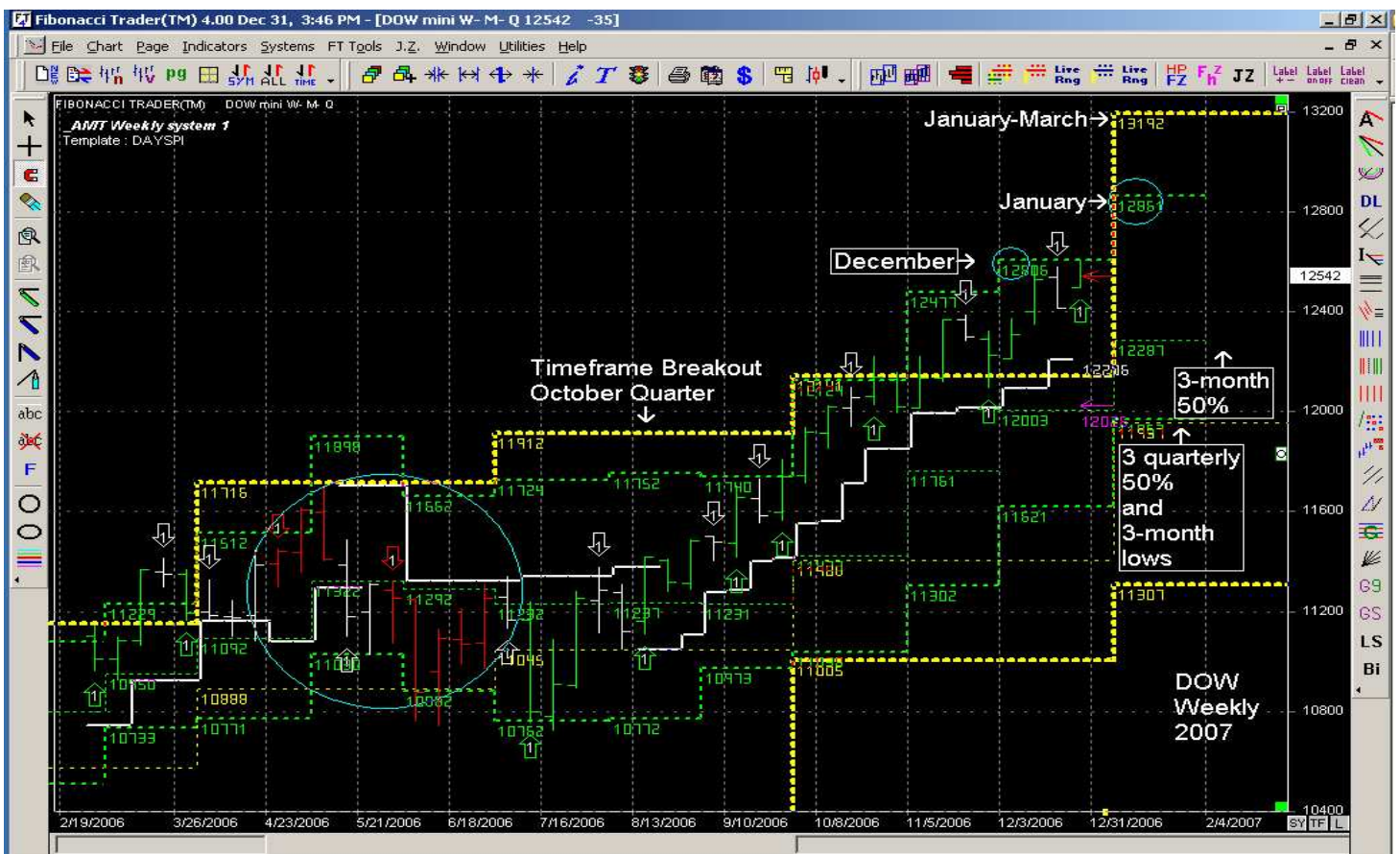
My opinion in the AMT report back then pretty much played out December precisely, any time the market came down it was bought up swiftly and that was due in part to the breakout of the Quarterly timeframe in November, and now at the start of this quarter we are back inside the timeframe so the trading strategy will change slightly and hopefully the ranges will begin to increase once again.

The up bias normally came from lower opens within the 5 day pattern and also from late afternoon swings as buyers came in, and I think in the short term this will continue. But we will also look for Weekly Friday closes and then look for Monday or Tuesday Reversals back into trailing 3 day cycles also in January using the same OTD levels to define Market Risk.

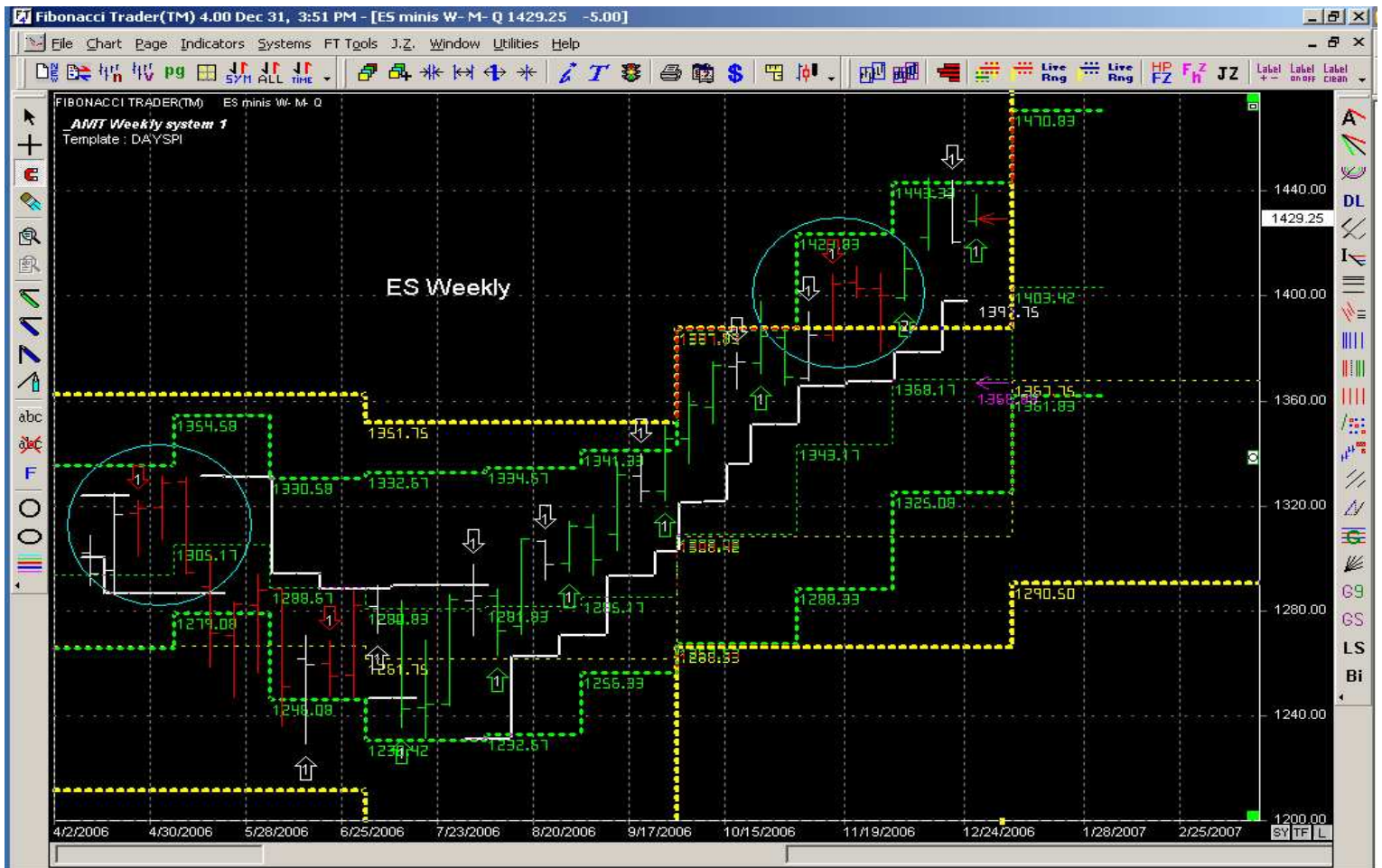
In 2007 I'll also be looking at Weekly systems, these weekly systems will give us a bias on how to trade that week. For example if the weekly system is either Short or long then the bias for that week is to hold the last contract into the next day.

The past 2 months hasn't been ideal for this because markets haven't really come down far enough and often enough for buyers to constantly get into buying and holding positions, basically this past month has seen more rotation than trending periods, but what I would like to see are these weekly systems triggering shorts, because when they do then the expectation is for market to start to get into larger ranges and more trending days. Late afternoon buying will become less.

The last time the systems were triggering shorts were back in May-June during the sell-off, and now we have been long ever since into this trending period into December and beyond. That is why I've have been recommending trading the long side.



We recently saw the ES mini weekly systems shorting and the market consolidated before heading higher once again, so I'd need to see the weekly systems trigger shorts once again near AMT extreme levels for any reversals.



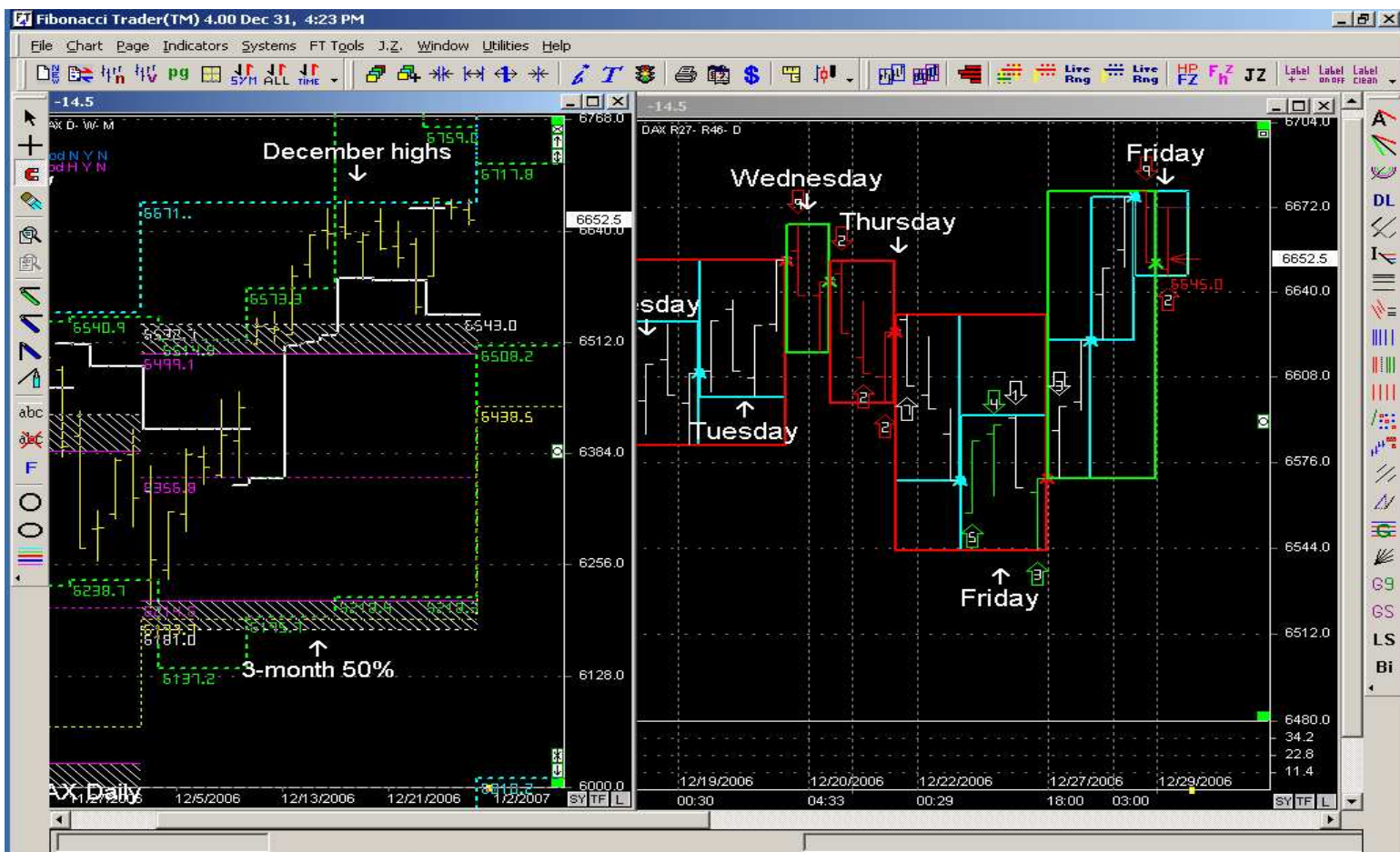
Once these systems start triggering shorts on the DOW I'd be looking for market rotation back into trailing support zones, and this is when traders begin to start and hold the last contract into the close of the trading day using higher OTD levels as resistance levels, with the preferred option of holding into next day OTD levels.

At this stage I don't think there is going to be much change in how the markets are going to trade, because the expectation is that the market will try and makes it's way towards the new monthly highs in the first 5 days of trading, and any weakness in the markets I would continue to think that it will last 1-2 days before the markets gets bought up once again.

## DAX...

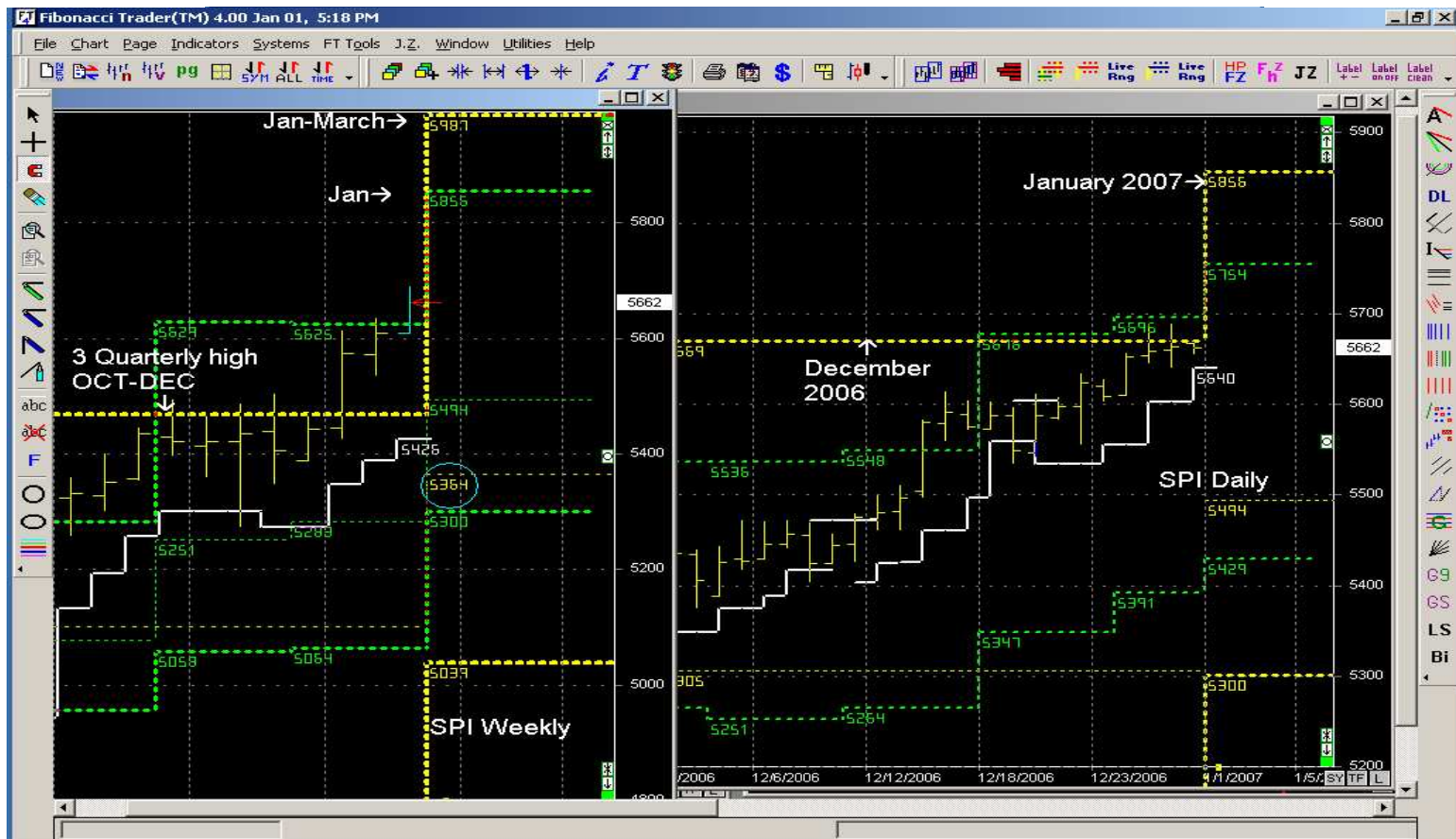
The DAX was similar to most other markets, hitting the December resistance levels and most of the time the rotation was precise using the OTD levels.

December is now over and so are those resistance levels as they now extend in January.



## SPI...

The SPI was like most other markets, breaking out of the 3-Quarterly highs then heading towards the December highs, and any further advancement in January and the expectation is to head towards 5856.



In the short term, trading the SPI is going to be similar until we get towards those upper levels, and once we get to those higher AMT levels in 2007 we are going to be changing our trading strategy. One change is holding a 'short' contract/s overnight especially when trading with 3-day sell cycles. For 2006 the emphasis has been to trade on the long side, in 2007 this is still the case at the start of the month but will change once those upper levels are reached.

## In Conclusion:

**In the short term** the market bias is to head towards the new single monthly pivots in January. Most markets are now in 3-day BUY cycles and we could see an early rise upwards in the first week as December resistance disappears. However most AMT systems are shorting around the higher OTD levels **so ideally we need to see the markets rotate down 1-2 days for the AMT systems too trigger longs for the next rise upwards, if not then traders will have to trade the short side from higher OTD levels.**

**In the medium term** my expectation is that the markets will go higher towards the new Quarterly highs in Jan-March, this is because we have had a break in the previous quarter so the expectation is to advance into the next.

However, for 2007 I'm looking for market rotation back into support zones, the higher the market moves before this happens the greater the downside drop. **Things I'll be looking for are those weekly systems shorting and hitting upper monthly resistance levels at the same time along with those Bradley dates.**

Now I could be totally wrong, the market could actually drift back into support zones and those March dates could actually be around the lows and support zones and we end up 2007 like 1927 & 1997 and the markets continue higher.

**Regardless of which direction the markets go, OTD trading and understanding the Market risk associated when trading against OTD will help short-term traders survive. Trading with OTD and understanding what the chart is saying is going to make a big difference for any trader's account.**

**Frank Dilernia.**

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