

## ***ANALYTICAL MARKET TRADING 'a window into the future'***

*May 2003*

I want to begin with saying that the information within this book does not exist anywhere else in any other publication that I know of. It is years of experience and developing an understanding of how today's market operate under the influence of Price and TIME that has allowed me to put pen to paper.

This book looks extensively at derivative and equity markets using techniques that are easily applied and more importantly provide profitable set-ups based on statistical repetitive patterns.

Analytical Market Trading contains trading strategies that you will not find anywhere else. It has been developed using statistical patterns and components of Time that any long-term investor or any intra-day derivatives trader can use. This book will also introduce you to my day trading strategies called the 'Single Day Cycles' based on standard deviation patterns. These set-ups will swing the odds in our favour each and every day.

This book is for the serious professional trader looking for an edge using some of the most advanced trading techniques that allow 'a window into the future' using a simple mathematical equation that is easily applied, or for any person serious about expanding their knowledge of developing their own systems and ways of trading based on the knowledge that exists within the pages of this book.

AMT is all about the 'WHEN FACTOR', when the best time of entering, exiting, and investing in today's derivative and stock markets so we shift the odds into our favour and develop an understanding of Market Risk. AMT is all about trading today's dynamic markets, how we shift the odds in the trader's favour so we maximize the potential of any trade we undertake.

Traders need to have a better understanding of why TIME is the most important component of today's market, because Time is the only thing that we are able to forecast, once we are able to comprehend this then each trader will begin observing the statistical phenomena of the same patterns occurring over and over again. This book will help any trader develop a sense of pre-empting the probable moves before they occur using simple techniques that are easily applied.

## **Preface.**

### **My Story.**

My name is Frank Dileria and I'm a private trader, I run a commentary and coaching group for professional traders that are serious in maximising their true potential trading derivative and equities markets.

**AM-Trade Group** also provide coaching for any trader and any level of experience so that they can learn why the markets behave the way they do.

**AM-Trade Group** began in February 2003 and was started because a few traders wanted an email service and alerts whilst trading the Australian Index futures market (SPI). This small group of members has steadily grown from a few traders into many all with the same purpose; too make money!

Other traders noticed me when I provided the analysis for the bottom in the stock market in 2002 and subsequent rally. Over the following months of continually making 'trading calls' with high accuracy in stock market bulletin-boards, a few traders asked whether I could provide and coaching service and an analysis on our market and stocks.

When I started this service in February 2003, the 'new members' of AMTRADE Group benefited from my call of the exact bottom in our market, the day of reversal in March 2003 and the subsequent 3-month rally from 2680 to 3130; over 400 points, and then the continuation of the uptrend in the months and years thereafter, following a map of the higher timeframes and a simple math equation.

This group now has members in Europe, US, Asia and Australia, all from word of mouth. This small operation of providing alerts for traders has grown into a service where traders are provided with an in-depth analysis of 'market trading' and one of the most complete trading books available that provides the 'window into the future' that most traders seek.

**Analytical Market Trading (AMT)** *'a window into the future'* is based on technical analysis using components of 'Time', and in reality time governs the way we trade and the type of traders we are. I put traders into three categories because it simplifies the process and you will probably find yourself lurking within the boundaries of one no matter how you trade. My job is to put you in all three.

The long-term investor, the medium term cycle trader and lastly the one that is most desirable and glamorous, the intra-day leverage trader are those categories, but sadly the one we desire the most for many is also hardest to become, and statistics support this. I'm not the one making the rules and you can't be blinded into thinking you will become a successful short-term derivatives trader until you understand the Risk of each trade.

This book will take you those steps closer to becoming all three, because I don't want you to become 'just' a short-term trader, I want you to be able to maximise the potential of each category and the markets ability to generate wealth. I want you to succeed in all three and my job is to open your eyes using what's within the pages of this book and help fulfil your own potential and rewards that comes with the job. Those rewards are not only about money; it's about lifestyle and mapping our future.

In reality short-term trading is about as faraway as you going to get from creating wealth. Trading full time is a lifestyle choice and for most it's not exactly a financial one. And that's the reality! This book is about developing the skills, the systems, and the trading plans to give you the ability to make more money than working for someone else and creating wealth along the way. That is what every trader should seek and desire without question.

This book will simplify the theories of Fibonacci, Market Profile, Gann, Geometry and Elliot Waves to become the one and only methodology that is truly governed by Time, and not curved fitted after the event like most others.

I hope that this book will become an important reference in your trading and investing career and help you evolve within the three categories that I believe we should all succeed in.

## **The beginning.**

I want to start at the beginning because most of us have been down that path, or for others this could be just the beginning of a journey that can be very rewarding or at the same time soul destroying. Let me spell it out, trading is NOT easy, it can easily swallow you and spit you out, the market doesn't care how much knowledge or money you have, if you don't understand the game of numbers then you could be heading down the path that many venture, losing money!

I started trading futures markets in the early 1990's; actually I entered the market 3 months before the 1987 stock market collapse and lost most of my money. I learnt quickly the pains of the market but I also wanted to understand and develop a method so that pain would not occur again. This led me into the quagmire of technical analysis.

My first foray with technical analysis began with Market Profile. Over the following years I moved into wave analysis and Fibonacci trading techniques. What wasn't growing as quickly as the knowledge I was acquiring was my bank balance. I knew one thing though; the methods that exist in the market place fail to deliver because the trader in question fails to deliver. Trading is about psychology as much as it is about trading techniques, so I was as much to blame as any method I was using.

Over the years my methods developed into a hybrid of techniques that was suited to short term trading with a clear understanding of what was occurring in the higher timeframes. I also began to understand the concept of compounding, developing a system that was a path to wealth in latter years. I wanted to cover the short-term aspect of trading whilst knowing that my future was going to be catered for when I retire by investing smartly.

Successful short-term trading was still my desire, but there was something still missing in the puzzle of my trading experience, knowing the 'When'.

Why markets moved 'When' they moved, why they reversed 'When' they did, and why they consolidated 'When' they did. I didn't want to be a systematic trader using computer-generated alerts but someone who had a predefined profit objectives with every trade in a systematic fashion because of the 'When' factor'. I'm sure right now any trader or person reading this would argue that this 'when factor' could never be predetermined in the future, and I would agree if the markets were under the influence of human sentiment, but I don't believe this is the case anymore.

With the advent of trading moving from the floor to full automation, the market became more erratic in nature but the movements became more predictable. **Time** became more important than Price. My trading success took off after I had back-tested years of intra-day data of the index futures on the Australian market (SPI) and documented the statistical information of each price movement in the trading day. *(And to this day it is as valid and valuable now as it was then.)*

I noticed that the market moved in a precise manner and in optimum time periods with a high statistical probability. These moves were occurring in the same place and the same time. I began to realise that the random nature of traders entering and exiting the market based on their set-ups could not make these precise movements that were occurring all the time. I concluded that human sentiment had been replaced by computer-generated systems used by the large institutions and hedge funds that were the driving force in today's market behaviour. The documented statistical data based on the open of the trading day in relation to the past 5 days was the backbone of my trading as it provided myself with the 'When' factor or the 'Window into the future' that I was seeking. I developed a system called the **Single Day Cycle (SDC)** that allowed me predetermine the trading day before the open of the market. This was not a forgone conclusion, it only allowed me to trade the variables when the market was aligned with the data, but it did allow me to swing the odds in my favour each and every day.

Before I started this, I flicked through the many technical trading books I had bought in the early/mid nineties and found how most of them would find it hard surviving in derivative markets nowadays. Techniques need to evolve as markets evolve. The recurring themes in most of the books were, *'you don't need to know what is going to happen next to make money, anything can happen and every moment is unique'*. Either the trade works or it doesn't! I agree in principal but throughout this book there will be a strong argument why today's markets have evolved to a point of knowing 'where' the market is likely to go is advantageous. But let me clarify one thing, I'm not in the job of prediction and this book is not about predicting the market, I'll leave that job for a fool in paradise.

This book will cover my statistical probability information (SDC) that doesn't exist anywhere else. The book, the methodology and the theory all stems from the concept, that TIME is the most important thing in the market place and every trader needs to fully understand the importance of TIME so they can maximise the potential that exists when they are trading today's dynamic markets, and as importantly understand 'Market Risk'. Market risk and individual risk are completely separate things altogether.

Trading is about identifying the areas of Support and Resistance within the market structure, but as simply as it sounds the concept of static areas simply don't exist. The market is dynamic and so are the support and resistance zones. This book will help identify these zones with a simple mathematical calculation that is generic to all and not some haphazard model that is curved fitted to suit the author or developer.

## **Analytical Market Trading will take a detailed look at the following...**

- AMT will show you why TIME is the most important thing when trading and is the only thing that can provide the necessary data for probable future moves.
- AMT will show you the most advanced techniques when trading derivatives markets and help you identify Market Risk
- AMT will provide you with sequential data (SDC) that will help you pre-empt the next move and understand Risk using the standard deviation of Time.
- Understand why the beginning of the month is one of the most important TIME'S for trading any derivative or stock.
- Learn advanced dynamic timing techniques using one simple mathematical equation that provides you with a 'window into the future.'
- Learn advance swing techniques using Time.
- AMT will help you identify the next big move and help you understand the rhythm and cycles that are unique with each derivative or stock traded.
- AMT will show you why we picked the lows and subsequent rallies with precise accuracy in both 2002 and 2003, and then major rally.
- AMT will take a close look at incorporating the 'RANGE' bar and developing trading systems based on the movement of Price of a certain Range.
- AMT will also take a close look at generating wealth, how you can become RICH with the simple concept of compounding over time.

Don't be overwhelmed with the concept of Time; **time is a simple generic definition of a period**. A day in the week, a week within the month, the month, or even minutes within the daily structure all falls under the concept of Time. There are no percentages, no ratios, geometry, wave structures or any other haphazard variable used to confuse the reader.

**My job is to make this as simple as possible because trading should be a simple process.**

## **Introduction:**

There is a saying 'A picture paints a thousand words'. In terms of technical analysis, a chart paints a thousand interpretations. The numerous methods to analyse price action on a single chart are mind numbing. From the successful marketing of these techniques over the years, we are now confronted with choosing which one to use or the one that is going to guarantee the most success. Sadly, none can claim this! Most often, they fall into the flawed methodology of analysis.

Fibonacci, Gann, Murray Maths, Elliot wave, Astro-cycles, Market Profile, Geometry and most other obscure methods have a tendency of leaving the analysis open to interpretation. They fall into the category of 'trade and hope', or the classic quote, '*every moment in the market is unique*'. Statistically they have a 50% probability of working or not. Only tight money management techniques will keep you in the game. This, of course is correct! Without money management techniques the most robust methodology will fail in the long run.

The only trading methodology to claim any success is systematic trading based on systems with a positive expectancy of dollar reward. As long as the system has been back-tested over numerous years, along with the use of strict money management rules and the draw-downs don't wipe you out, then the system at years end should be in 'Profit'. And this is the crux to all trading and the goals we set; too 'profit' in the markets. Systematic traders don't necessarily care what the chart is saying or where the market is going; when their system generates a trigger, they trade it!

Systematic ideals towards trading are a lot different to what most discretionary traders believe guarantees success. Even though both types of traders believe success lies in strict money management, the psychology of the methodologies couldn't be more different. One is based on profit objectives using predictive forms of analysis, whilst the systematic traders believe any predictive form of analysis is doomed to failure. You will probably find most fund and institutional traders making most of those trading decisions based on the systematic approach, whereas the retail trader will favour the discretionary approach.

Most discretionary trading methodologies nowadays are hybrids of earlier methods used. The most famous ones are Elliot wave and the Dow theory. Some unique methods have come along and given a different perspective on market action, namely Peter Steidlmayer and his Market Profile theory. As the markets moved from the open cry pits to the computer age, so too have the methodologies.

These methods that have evolved have a high correlation of trying to predict the next market move. These new techniques are basically the trader's own observations of how the market behaves. Any robust methodology open to interpretation would be accompanied by trading set-ups that have high probability scenarios.

Traders that would fall into this category would be, Larry Williams, Joe Ross, and Joe DiNapoli. Whether, a trader who uses complex forms of Fibonacci numerology or a trading psychologist, their experiences and observations in the market place will be the backbone of their theories. If one has failed in trading terms trying to predict the direction of the next move, then his or her bias will be, that no one else can! If another trader successfully trades using Elliot wave, which revolves around the theory of the future direction of the next wave, then their view of 'probable prediction' will have a place in today's trading environment.

All the theories mentioned above and the many others that exist still have the 'unknown factor'. They still don't know when these high probable scenarios will occur. It's fine to say that .618 of the range is a major support area but buying at this area still becomes a 'trade and hope'. This book is not about 'trade and hope', its about knowing that this set-up will have a very high probable outcome before it actually occurs. If the markets have changed to the point of being solely driven by these computer-generated systems then the market should become a lot more predictable. As the book evolves and we move from the first chapter until the last, then all these probable scenarios and profit objectives should become a lot clearer. Market Interpretation should become irrelevant!

If that is the case, the random nature that existed many years ago and that is now saturated with computer-generated systems must have patterns in the market that are continually making precise movements. If the markets are dynamic and dynamics are determined by TIME, then we must find some way of calculating TIME so it will provide each and every trader including institutional traders an increased edge above their systems that already provide the positive expectancy that they operate under.

**I repeat; you increase the edge above the already profitable system that you are currently using.**

My trading has evolved from the combination of Market Profile Theory and the extended wave theory. The methodology is based on the use of the 'statistical correlation of Price over Time' and the 'extended movements of Price over Time'; **I've called it, 'Analytical Market Theory'**.

The **Core theory of AMT is the facilitation of Price over Time**, the rotation of price towards central zones as TIME moves forward. It is based on the concept of what Market Profile tries to theorize, statistically returning to the most traded area, however Market Profile is based on Price, something that has already occurred, and is inherently late.

When we use central points of Time and do the same thing then the market is actually evolving dynamically. **The Core theory of AMT and the facilitation of Price over Time** is actually the rotation of price towards central zones and the extension of Price as TIME moves forward. But we still need to find the calculation to do this.

Most traders view PRICE more importantly than TIME. Their entry will be determined by the price that they have identified as a part of the methodology that they use. If their trading decision is based on a Fibonacci retracement at a certain level, then Price will be defined by that ratio as an entry point. Because technical indicators are based on Price and hence something that has already happened, then the indicator is inherently late. Whether it is a trend following system or an oscillator-based system, the methodologies are derived purely on PRICE, price that has already occurred!

TIME on the other hand is the only thing we know that's exists in the now and will extend into the future. There will always be a new timeframe once the current timeframe ends. Time will have an affect on Price, whereas, Price has no effect on Time. What that basically means is that, the timing of the trade becomes more important than the price traded. The methodology is about understanding that TIME is the most important variable when it comes to trading because TIME is the only thing that we are able to forecast. If we can find some way of forecasting TIME using Math and Price then the odds will swing in our favour for each and every trade, as I will explain throughout this book.

If one adheres to the methodology of 'profit forecasting' and risk-reward strategies then TIME needs to be fully understood in its role of affecting Price. If one can find some factor in that Time is forecastable, then related matters on Price can become a model of expectations for high probability trading scenarios. It is the passage of Time that is the critical factor in markets changing from rotating to trending, when these times occur the 'probability accuracy' increases and the Risk-Reward becomes more clearly defined.

Understanding and learning about Analytical Market Trading and the role TIME plays in the market we must also have some form of understanding of the universally accepted methodologies that exist in the market place today. Fibonacci ratios, Market Profile and Elliot-Wave analysis are three methodologies that form the basis of most discretionary trading systems in the market place. Gann is another name that frequently appears but the myth and the person behind the concept has been blown so far out of proportion that nowadays Gann is mainly frowned upon. Those three methodologies over the following pages will morph into the AMT model and we will then begin to see how each of those methodologies will subsequently disappear and traders 'could' solely rely of the workings of AMT. We will then begin to understand how each of us will have a better advantage of using one single model to trade from, swinging the odds in our favour for each and every trade in any market we choose.

## The Three Methodologies:

The major problem with all the universally accepted methodologies that are sold to the public is that they are flawed in so many ways. The reason they are flawed is because they are promoted as stand alone systems to trade from, there is no positive expectancy that any of these models will work on any given trade.

Let me explain...

**Fibonacci** is a series of numbers that progress by dividing the preceding numbers by 1.618; the '*a~golden-ratio*'. Some traders believe Fibonacci ratios manifest themselves in the markets in a way price relate to each other in size and duration (time). Hence, traders use Fibonacci ratios to estimate the size of futures price moves by, either one in the opposite direction of the most recent trend move or the next leg of the existing move.

**Market profile** was developed by Peter Steidlmayer and involves the understanding that all competitive free markets continually search of those prices at which to conduct the greatest amount of business, or market logic terms-facilitates trade. When Peter Steidlmayer introduced the concept, many traders believed it to be a major breakthrough in market analysis and trading, since it offers a logical and organised set of price and volume data from which traders can base trading decisions. Market profile concept of trading is using the most traded area or *the value area* as an attraction and the standard deviation of the range as a guide. This concept is also based on visualisations. As Peter Steidlmayer the developer of Market profile once described his theory, '*three basic relationships hold the key to understanding the nature of markets. These relationships take us from the past to the present and into the future, thus giving us an insight to the markets.*'

**Elliot-Wave** is cycle analysis based on TIME; time spent moving in the direction of the previous move based on the natural law of nature and science. (Fibonacci). A series of waves and counts developed by Elliot and DOW are examples of cycles within the market place. Dow Cycle; the three basic movements in the market are defined by, the Primary trend, the Secondary Swing in the opposite direction and the Minor Trends, or the day-to-day fluctuations within the Secondary Trend.

The Primary Trend lasts at least one year but may last for several years and consists of a series of broad wave-like movements that are interrupted by secondary reactions. So long as each successive rally reaches a higher level than the one before and each Secondary reaction stops at a higher Price than the previous low point, then the Primary Trend is UP, most commonly known as a Bull Market. Secondary Reactions or intermediate trends are declines in the opposite direction of the Primary trend and these can last from several weeks to a few months following a strong advance. The Minor Trends are brief, usually less than two or three weeks of fluctuations.

All these three models fail in no uncertain terms is because all three do not have any positive expectancy, however they are all heavily promoted and sold to the public. Traders need to understand too succeed in the market they need to have a firm understanding of the 'NUMBERS GAMES'.

In My Opinion, the fundamental problem with these types of methodologies, Elliot Wave, Fibonacci Expansion and any other technique of labelling past price action is, we never know when each peak or trough will end, when Price will reverse back to .618 of the range or extend in the future using any of the fibonacci ratios. We don't have a 'Window into the Future'. Most 'forecasting' methodologies are based on Range of Price and fibonacci expansion techniques using a multitude of fibonacci ratios whether it's Elliot Wave, Gann or Geometry. These methodologies project any future 'expectation' and then try to explain that there is a 'Time' component as the driving force behind the theory, as in 'Time and Price', but in reality they are only curve fitting this component to suit their methodology. They will say... *'Time' between this Peak and Trough will project this future move*, but they have no idea when the peak or trough begins or ends until the market actually retraces a percentage fibonacci ratio and afterwards readjust their methodology to make the next their next 'model of expectation'. An approach that is very haphazard.

The trading edge of Market Profile was based on understanding market action but few traders became successful profile traders. It appears they expected too much, they wanted more of an edge; they wanted a model to trade. The problem with the theory was the understanding of the market for the day, the market didn't consist on one days trading; it consists of a number of days. Today's results are poor predictors of tomorrow's action. There was a missing link.

AMT doesn't curve fit, because my methodology is based on Time and 'only' afterwards the Range of Price. Whenever a 'new' timeframe begins a new dynamic range is defined, no matter what price action has occurred in the past. And this is important if you want to truly understand the 'structure', the 'cycles' and the 'dynamics' of today's market. I think the big difference between most forecasting techniques is that they are fixed on the price completion of targets based on the past before they can make another model of expectation. A static concept!

Some will argue it is dynamic but in my opinion they are not, because it based on the past, something that has already occurred. My methodology is based on TIME, something you forecast in the future, i.e. the beginning and end of each timeframe. Of course there is more to it but I hope this book gives you a better understanding of the cycles in the market of knowing when to trade, when to go CASH, when to take profits and as importantly when to take losses.

I want to say that all methodologies are just guides, nothing more and nothing less. I don't care about market interpretation or market expectation unless there is a statistical component behind the theory or trading system spoken about.

I personally spent many years with market-profile and many others but I didn't have much success in developing any working models using each as stand-alone methods because most are infatuated on 'Price' to make certain trading decisions. However market-profile did allow me to understand the concept of rotation within the market. The market's ability to rotate back towards the past and most traded areas is something that most traders need to grasp.

The relation between Price and TIME will become clearer as you continue with this book and you'll learn some techniques that take the Market Profile theory a step further, by projecting the past and providing 'value' areas in the future, something Market Profile wasn't able to do.

I don't want to get bogged down with this concept so early in the book about combining Market-profile and Fibonacci, this will become clearer as you continue with the book but I want to touch on this briefly. Both Fibonacci and Market Profile in my opinion fail as stand-alone methods. One hopes to predict the unpredictable and the latter has statistical price action without any idea of what will occur in the future. It is very difficult to auto-mise or develop any system based on these two theories alone. What would happen if we have a combination of the two? Taking what has occurred in the past and statistically providing probable moves into the future to designated zones based on Time, Range & Price. Statistics of science and mathematics does support the notion of this concept.

*How will it do that?*

Market Profile Theory statistically proves that price will return to the most traded area, 'the value area' or as some call it 'Point of Control' (POC). Fibonacci takes what has occurred in the past and through the science of mathematics projects extended movements into the future. The argument though, is that the market is non-linear, so any form of predictive analysis will fail. Whereas a non-linear market provides the perfect environment for Market Profile to flourish. A discretionary trader trading the smaller daily cycles or an intra-day timeframe essentially sells against all trends; short, medium or long. The reason why she trades against all trends is that, she expects prices to rotate back to some central point. If the market spends more time rotating within itself and making extended moves as time moves forward then combining the two concepts would provide a very robust methodology. The combination of the two has the potential to form a predictive model with high probability of success.

By combining the two forms of analysis to form one model based on TIME, we have the ability to know that past value areas of distribution will be projected forward and provide the 'profit objectives' we most seek. Most discretionary trading is based on the 'probability' outcome. The probable move theory based on the wave extensions of past

data along with the combination of the statistical outcome forms the backbone of trading any Organised Market.

This is why the book and the AMT model develop by myself will help provide the necessary tools in identifying the cycles in the market. From the Primary trends that Dow and Elliot spoke about, to the intra-day cycles that most short-term traders look for.

AMT provides an extensive look at **three ‘period-dynamic’ cycles**; this has to be one of the most powerful things for any trader to know. AMT takes a close look at Market profile but instead of using Price as the ‘value’ area, AMT uses TIME to provide the necessary information of Value so all traders can develop trading systems. AMT provides the perfect tools for the non-linear market environment and also shows why human sentiment that used to be the driving force behind the market is now replaced by computer generated systems that make today’s market far more predictable.

For each derivative trader; knowing when to trade the open or when to trade at the end of the trading day from the extreme of the Price-Range back towards the central point is as important as trading with any probable trend. In my opinion, **it’s the dynamic nature of the markets today along with the concept of TIME as the only tool that allows traders to do this accurately.**

*This book is dedicated to the many pioneers of the industry that have lead the way in developing new methodologies that have helped traders try and achieve what each individual desires. One of those pioneers is the late Robert Krausz.*

*The book now is the revised edition for 2006 with never before seen trading techniques and extra information that wasn’t part of the earlier versions.*

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