

The Dilernia Model (Market Dynamics)

The **Dilernia-Model** is a technical Model and Methodology of trading today's stock and commodity markets around the globe.

Because the market nowadays are saturated with market trading systems used by large hedge funds, there is now a robust predictability and a realistic expectation that traders can clearly define the dynamics of the Market.

By defining the 'Dynamics' of each index or commodity, traders can now clearly understand where support and resistance is, when the new trends begin and end, and importantly, where price is more than likely to go.

The trading model is based on the statistical nature of the markets acting the same over and over again. By using a simple mathematical equation we can clearly understand and define the trend of the market, and when the best time to enter and exit any trade.

It is such a simplistic view of the markets that it easily allows traders to look at the market from a different perspective than just concentrating on the daily charts. Most traders only look at the markets in a minute level and never at the highest level, so they rarely have an understanding of the bigger picture.

What we do is, every time the trading month ends, we apply the same math equation, and then have an expectation that price will follow the Dilernia model using a simple filter technique. Above the 50% level the market will move towards the extreme of the range, and below it does the exact same thing. Because each month moves dynamically forward, by using the same math equation the market tends to follow the same pattern. All traders have to do is, adjust to the market for each trading month.

Once we have an understanding of Market Dynamics using the **Dilernia** model, traders will have the ability of understanding the Market RISK, the Structure and the Cycles of the Market. We can clearly define support and resistance, and when the best time to enter a trade and how long to hold that trade for.

Let me explain...

The Markets aren't static and never remain still; they are constantly evolving and moving forward. If we are trying to make a profit in the markets then we need to trade this phenomena using a dynamic model. Sadly, most technical analysis techniques are static because they solely rely on Price to make decisions. Price that has already occurred in the past, therefore it can't be dynamic and you can't make conclusions that certain things will happen in the future.

The only thing Dynamic in the markets is TIME, because Time is the only thing that moves forward. We know that tomorrow, the next week, and the next month is constantly moving forward, and therefore it's the only thing we can clearly predict. We all know that next week begins a new week, however we don't know what Price will be next week. So we have to incorporate both and define both with Math. This simple math equation will provide enough information that will give us an expectation that prices will act in a certain way, because it's acted the same way in the past.

Of course nothing is ever guaranteed to act in a certain way, but traders simply adjust to the markets using money management techniques, or stop-loss rules using systems that have a robust expectancy.

Let's begin with the 50% level...

You will notice that the 50% (green dotted line) level moves from 6.80 to 7.28 on the first of April. From the first of April, price has gone from above the 50% level to below the 50% level. The Trend has suddenly changed as the timeframe has dynamically moved forward at the start of the new month.



On the first of July, 3 months later, the 50% level has dropped from 7.28 to 6.64.

All of a sudden the trend becomes our friend once price moves back above the 50% level. We form a view that price will then become a support zone and move to the extreme of the upper range. Once again the trend has changed as the new timeframe has dynamically moved forward, and traders adjust to the ever-changing markets.



We apply the same math equation because we have an expectation that price will move towards from the 50% level to the extreme of the monthly period.

And once again the 50% level dynamically moves higher in October when the new 'timeframe' begins, our support level has shifted higher. The thing you also notice that the extreme of the upper range has also moved higher, so instead of being 7.60 previously, we have an expectation that price is going to move much higher in this monthly period towards 8.22.

Most other traders would need to see to price move above the recent highs for them to say a breakout has occurred, however using the Dilemia model, we already have an expectation that price will be moving higher, way before most other analysts.

And the same applies for stock markets, whether it's the DOW or the SPI. We have an expectation until the opposite occurs using a 3-day filter, as I will explain shortly.

We can see how the monthly 50% level supports the market as it rises with each new timeframe, once it gets to the extreme of the range, we can see the phenomena of the market providing support or resistance in this case.

Below is the weekly charts of the DOW, once the market is supported at the monthly dynamic lows and price breaks back above the 50% level, the rest of the trend is then defined by the 50% level and the upper channels. Each new month give new channels that will define price probability and price direction



What support and resistance there is in one monthly period, doesn't necessarily mean it will be in the next monthly period, because it has shifted at the start of the month. This is a trap that many traders find themselves, and why many end up selling the bottoms and buying the tops, only to find the markets reversing.

Traders need to trade the 50% levels, with the expectation of the market moving towards the extremes, and trading the extremes back to the central zones.

How do we trade the extremes back to central zones?

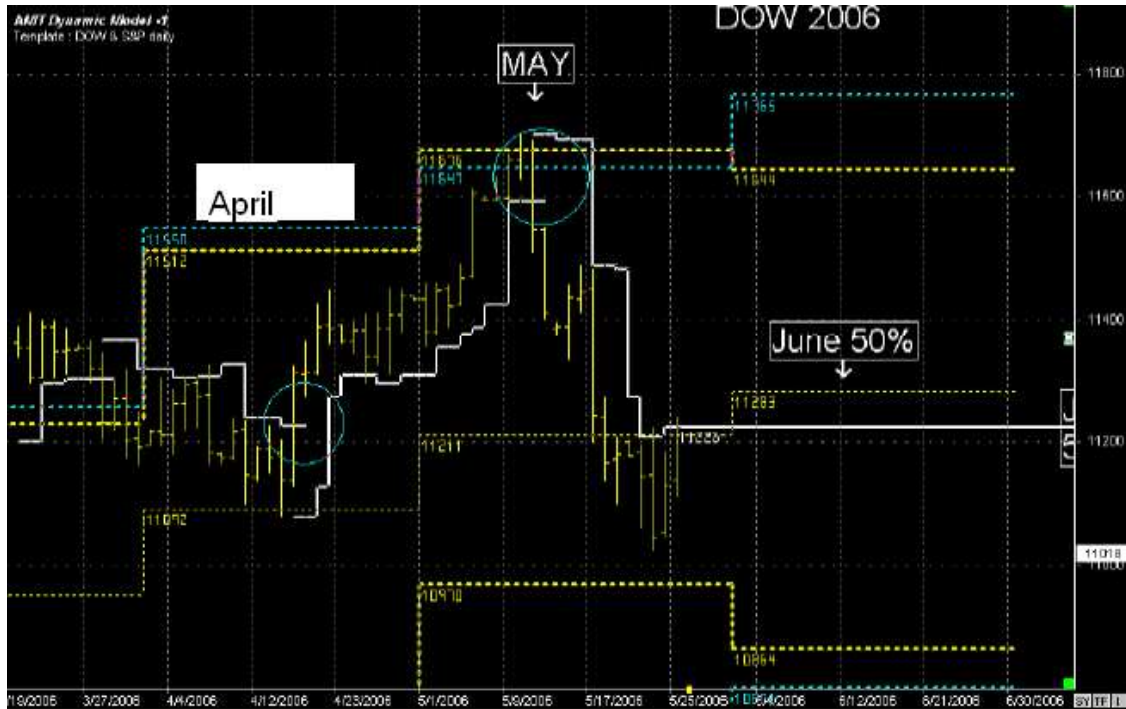
We simply use a 3-day filter.

The 3-day filter is a break of the past 3-day highs or Lows, once it breaks and closes outside, then we have the expectation the price will move and travel those paths as previously described.

And the trend continues until the exact opposite occurs.

And the 3-day cycle (white step) confirms the strength of the trend, and confirms the reversal after it has bounced off support or reversed from resistance levels.

Below is the daily chart of the DOW using the same monthly channels, price is rising from the April 50% level and into the May highs before being sold off back into the May 50% level.



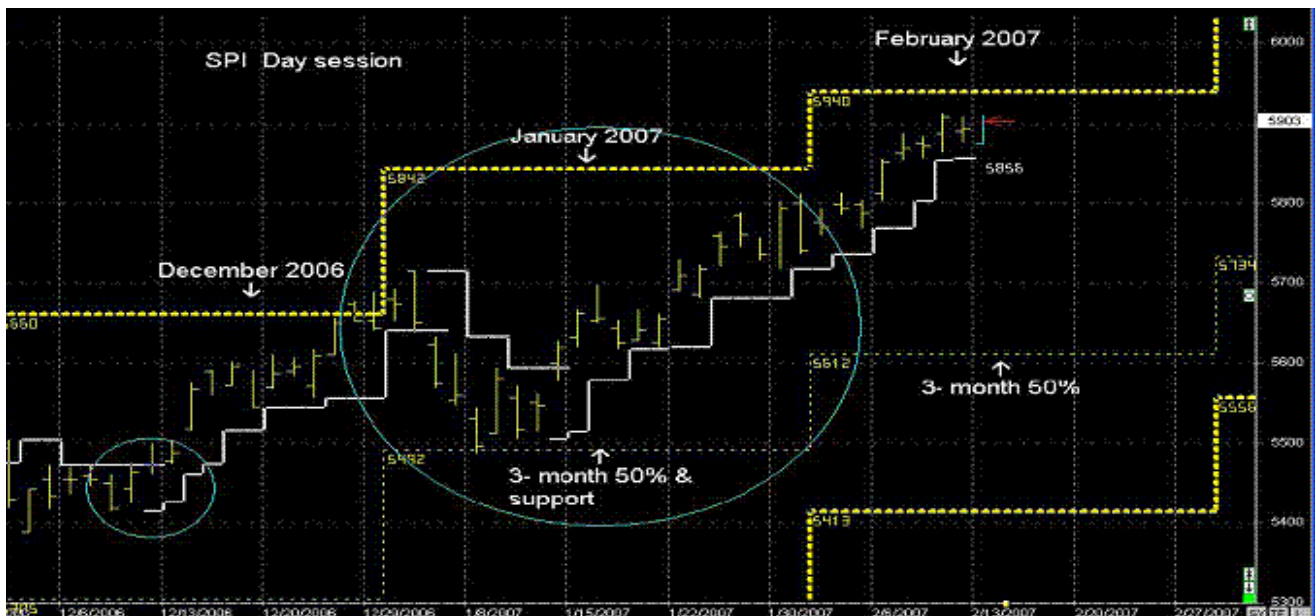
The important part of the entire move from March into the April 50% level and then the rally, were the 3-day cycles, the cycles defined the change of short-term trends from one monthly level into the next.

When it comes to technical analysis the first plan is to always determine the Primary Trend and then consider the multiple higher timeframes. Without an understanding of this you will struggle. Without the concept of 'Direction' and 'Time' you are guaranteed to fail, because Time effectively defines the dynamics of the market and allows us to have a better understanding of where Price is likely to go. Time is the only predictive element of technical analysis; it's the only thing we know in advance. The Dilernia model is a perfect non-subjective global market-trading model that is able to clearly define Trends, the Market structure and has a robust predictability of where price is more than likely to go.

Next part of the plan is combining both Time and Price, because with all trends price has a natural flow that rotates between central zones and extends onward as Time moves forward. This relationship forms levels in the market that hinders Price from moving in straight lines, it moves between support and resistance. As Time moves forward support and resistance moves along with it. Knowing where support and resistance zones lie is a critical cog in the wheel of trading, because it's these levels that become part of our trading plan. The levels are now 'probability patterns' with a realistic expectation that the same pattern will repeat and provide a realistic probability target that will far outweigh any stop in the market.

The Australian Market (SPI)

Looking the daily chart of the SPI we can see the market clearly defined by the Dileria model as it heads towards the 3-monthly dynamic extremes as it follows the Dileria Time and Price model. Whilst price remains above the 3-period timeframe 50% levels, then the expectation is for the market to follow the 3-period dynamic extremes on all timeframes.



The **Dileria model** is such a simple tool to use that is not subjective compared to other wave and predictive analytical tools, such as Elliot wave and geometry. Whilst price is supported using the dynamic 50%, then the expectation is for price following the dynamic levels for each month. It's the most simple and robust Price and Time analytical Model there is for trend trading.

DOW...

Let's look at price patterns back in May 2006 and compare it now, below we can see the break of the 3-week lows in May 2006, and once June started the new 3-month 50% level, prices pushed the lower into the June lows and then into the August lows from the exact same 50% levels, before the market broke higher in September 2006.

Once it breaks higher the expectation that there isn't any resistance until May highs @ 11708.



When markets are testing their 3-month dynamic lows, this is the time when traders should be moving into stocks and taking medium to long-term positions. Traders can enter 50% holdings and move into 100% holdings once the 50% level are confirmed using the 3-day cycles as a guide on the short-term strength of the market.

The **Dilernia model** is based on monthly wave patterns, the expectation is that once a 50% level is broken the expectation is that price will move into a 2-month dynamic wave pattern into the extremes of the forward month. The May highs and reversal pattern would have an expectation that price is moving to the June lows.

A break of the September 50% level and the pattern is a move to the October highs.
ES...

Below is the monthly **Dilernia model** on ES-minis, we can see the 2-month wave pattern down into February 2007 and then a continuation down into March lows. This has now completed a 2-month wave pattern into support zones.

There was a couple of weeks consolidation before the break of the 3-day cycles and a rally into the March highs....

So what is the Dilernia model expectation now...????



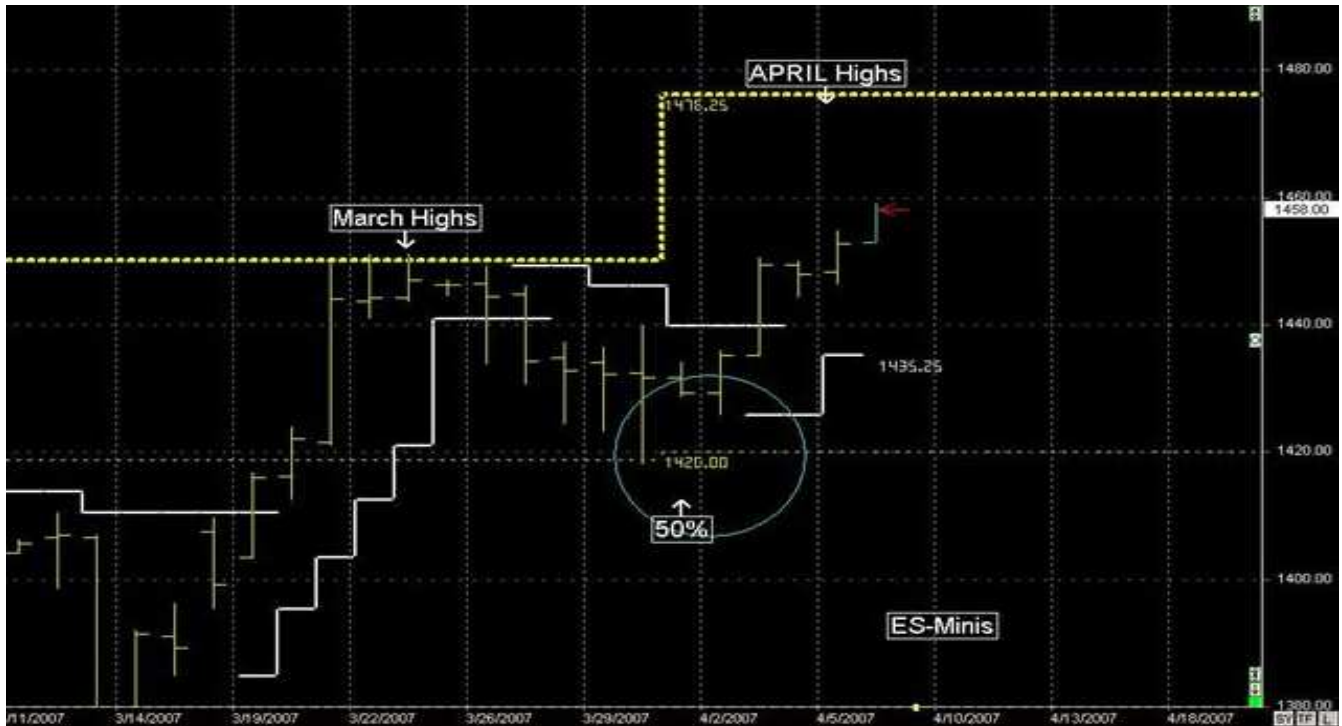
Expectation is that this rally needs to continue upwards for another month.

Even though March highs can form resistance, the 50% level is a support zone, and once the new monthly timeframe starts in April, the trader now has a new dynamic timeframe to trade from.

The expectation is price will travel the distance based on Market dynamics in the following month.

What happens..?

Price rotates down into the 50% level support zone and rallies toward the April highs once the new timeframe begins.



The Dilernia Model doesn't curve fit, because the methodology and model is based on Time and 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.

In a nutshell, **the Dilernia model** is a mathematical model applied to all stocks and derivatives. It's core theory is the rotation of price towards central zones (50%) and the extension of price as Time moves forward.

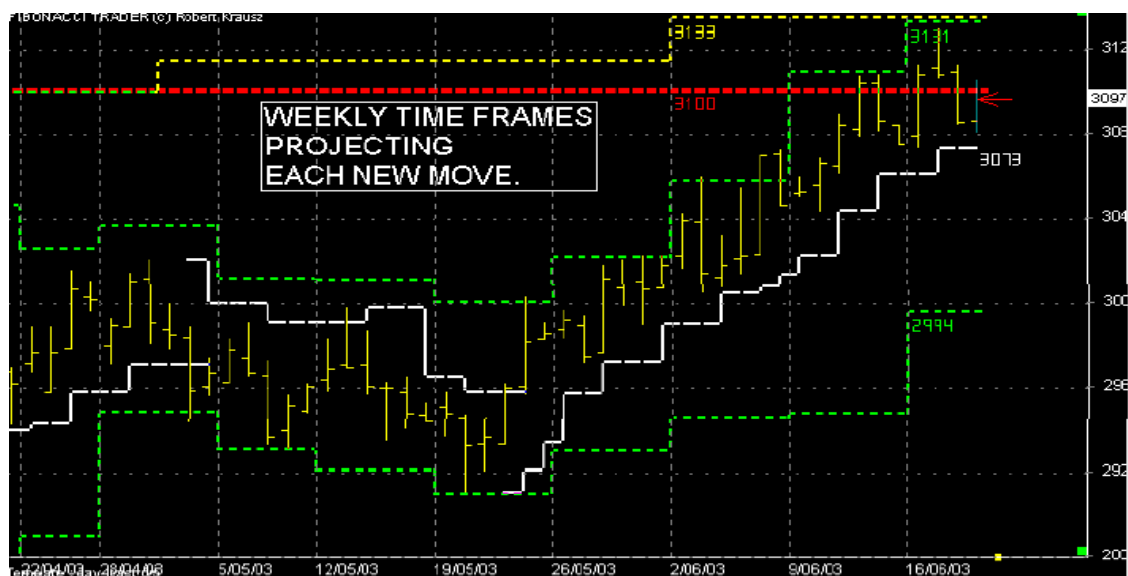
This model is designed to define probable 'market paths' and Market Risk by simply using a 'model of expectation' that whilst price is above or below the 50% there is a expectant path that price will follow based on 'time'.

Don't be overwhelmed with the concept of Time; **time is a simple generic definition of a period.** The Day, the Week, the Month, the Quarter, and lastly the Year all fall under the concept of Time. The methodology and the theory all stems from the concept that TIME is the most important thing in the market because it is the only thing that is dynamic, it's the only thing that moves forward. Time can't go backwards. 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 'expectations' with high probability trading scenarios. It is the passage of TIME that is the critical factor in the markets changing from rotating to trending, when these times occur, the probability-accuracy increases and the 'risk-reward' becomes more clearly defined.

Trading is about identifying the areas of Support and Resistance within the market structure using a number of different timeframes with the expectation that the market will move away. A bounce off a monthly support zone and the expectation is that price will continue until the month completes, and the same applies for the weekly timeframe and so on.

Support and resistance moves with each new timeframe, what exists in one timeframe will not exist in the next. Support and resistance as per defined by the trading model is dynamic not static.

When we apply the same techniques using the Weekly timeframe and not the Monthly timeframe, we can see it gives us an idea of where the market is mostly likely to travel, stall, and reverse for that weekly period in question. We can see how precise the market can be, as each new weekly timeframe gives each and everyone of us a clear model of where the market maybe traveling defined by the 3-day cycle and the higher timeframe dynamics.



What the Dileria model has done is allowed traders to have an expectation of where the market is moving within the Primary and secondary timeframes whilst defining the market using lower timeframes. The trader doesn't have to haphazardly guess the market, when it meets certain criteria the trader now has a long term forecasting trading model.

Each test of the 3-month 50% level is preceded by a 2-month rally into the next higher timeframe dynamic highs, as has happened in April 2007.

The beginning of the following month there is an expectation that price will go and re-test those levels within the month of MAY 2007.

A strong market will bounce off those levels and continue with another 2-month wave upwards towards primary highs in 2007.



SPI Weekly charts

Green channel Quarterly

Yellow Channel Yearly

Probable Primary highs will be reach in the next Quarter (April-June) before major resistance aligns with 2007 highs

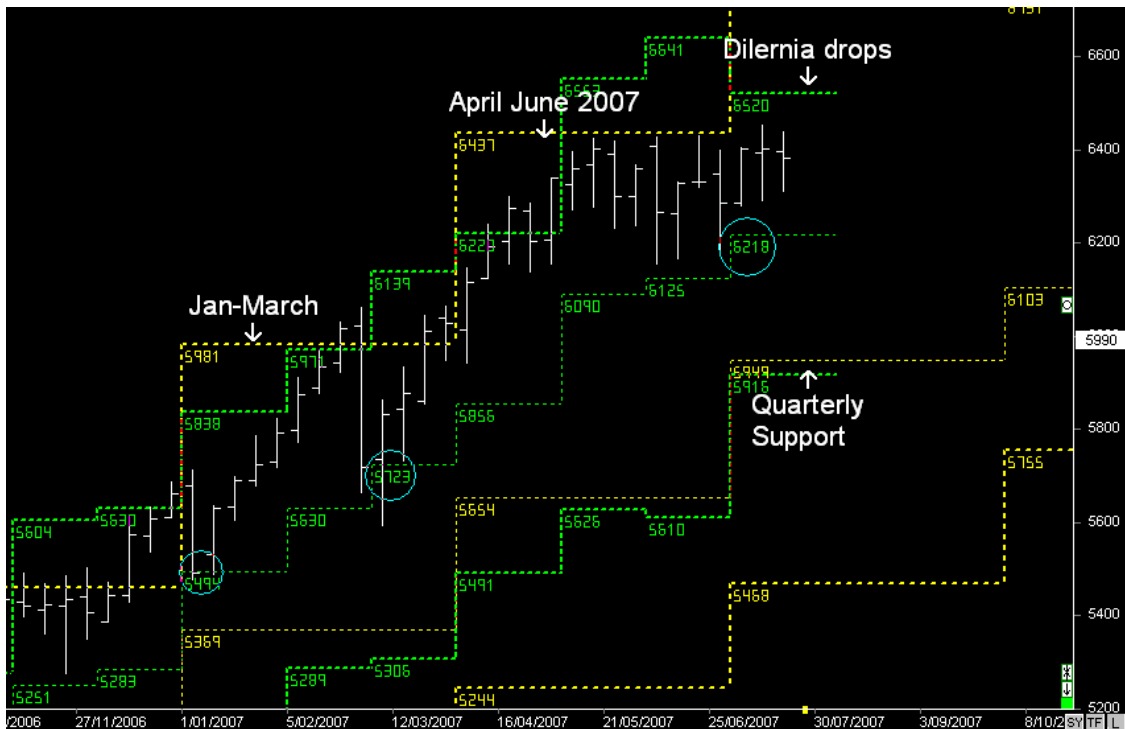
Secondary Timeframes

The starting point of technical analysis begins with the highest timeframe; the highest timeframe defines the Primary trends of the market. Within the Primary trend exists lesser trends based on secondary and intermediate timeframes; lastly the Weekly timeframe makes up the lesser trend.

- Primary Trend = Yearly Timeframe.
- Secondary Trend = Quarterly Timeframe
- Intermediate Trend = Monthly Timeframe
- Lesser Trend = Weekly Timeframe

The trader now has four different timeframes that will provide numerous levels of support and resistance. It is the combination of the highs and lows (Price) and the timeframe that will define market dynamics, give clarity to trends, and provide robust support and resistance levels.

The secondary timeframe is the Quarterly timeframe, and the same model operates using this timeframe. There is an expectation that support off a 3-quarterly 50% level and the market will move in a 2-quarterly wave extension, that is a 6-9 month trend.



Green channels are monthly timeframes.

Yellow channels are Quarterly timeframes

When the trader uses the 3-month 50% level (green), we can see a two month wave extension from January 50% level into February highs, which also aligns with the Quarterly highs.

There is a rotation back down and a test of the March 50% level and bounce, so there is now an expectation that there will be a two month wave extension into April highs, and then a continuation into Primary highs.

At the start of April, this begins a new Quarter, which is now dynamically projected higher, so even though April highs were the original price target, the secondary timeframe is projecting higher prices within this 3-month period. The resistance that existed in the previous quarter doesn't exist in the current quarter because it has dynamically moved forward.

Between April and June there has been a major resistance zone....

Frank Dilernia

Australia
633 Posts

Posted - 21/07/2007: 10:05am

*The **AMT model (Dilernia Model)** gives traders an idea about market dynamics and probable market paths into the future; it's about looking into the future to provide an idea about the present.*

I've called it '**Dilernia-Drops**', because it is forewarning that there could be a drop just around the corner into the end of this Quarter. It doesn't favour higher moves. **We use the Dilernia Model of looking into the future that might give a forewarning of the Present.**

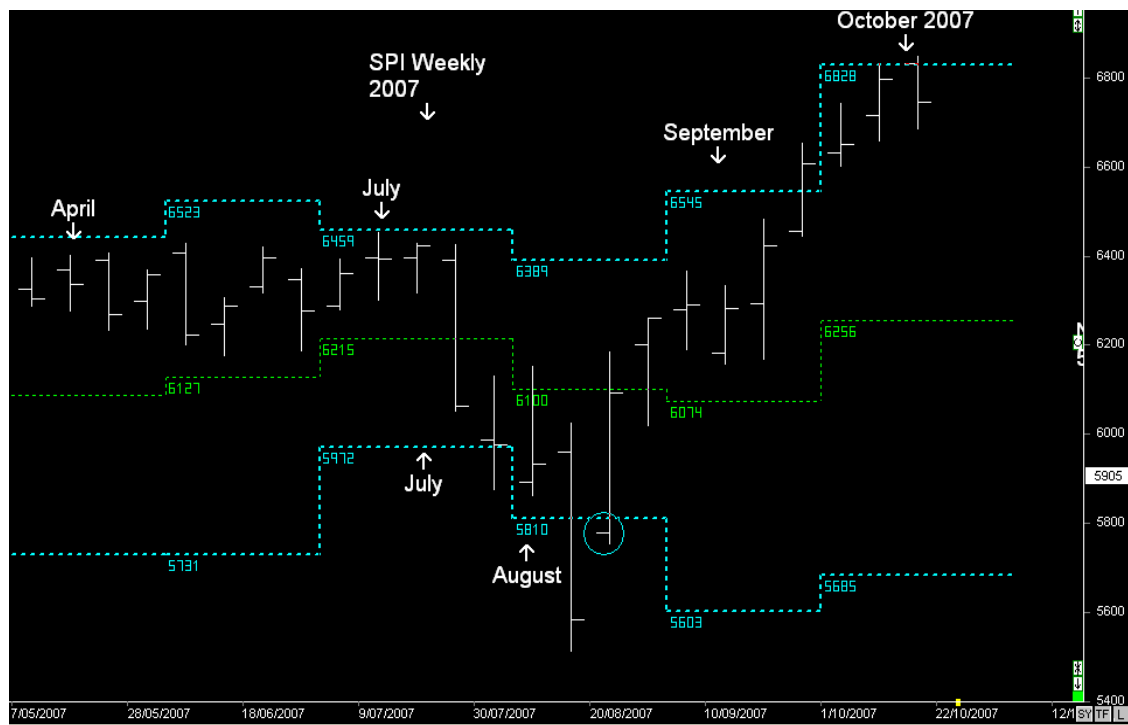
A 'Dilernia-Drop' is for the current Quarter and into the end of the timeframe, we have seen these 'drops' forewarning reversals in the markets in forward monthly timeframes, with **two monthly Dilernia-Drops this year providing the timing for the two biggest drops this year**, and just this week in US markets on the weekly timeframe.

Pullback to secondary support the Quarterly 50% 5949

Frank Dilernia.

2 days later the market collapsed....

Dilernia Principles: Break of the 3-monthly 50% level and market moves in a 2-month timeframe wave pattern as it chases the forward timeframes. In this case down July and into August lows, and once back above the 3-month 50% level 6049, then the expectation is that it will move in a 2-month wave pattern towards August highs, and then the projected highs into September.



This article is a quick overview of the **Dilernia Time and Price model**.
For more information please email me directly.

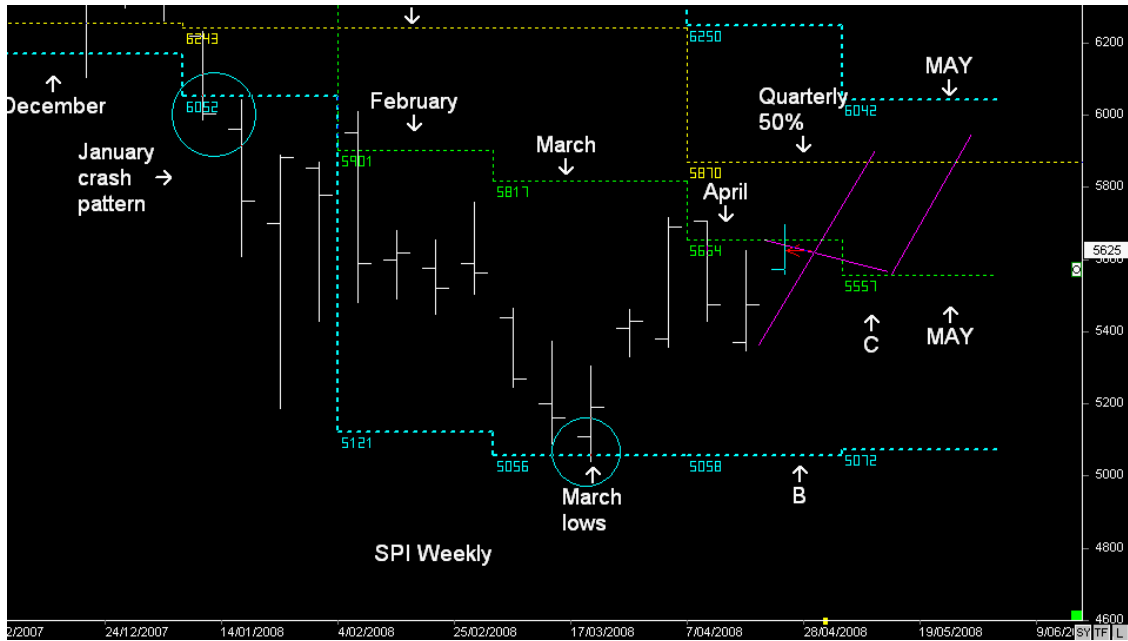
Frank Dilernia

The Analytical Market Trading model (Dilernia Model) was developed by Frank Dilernia, author of **Analytical Market Trading** 'a window into the future' and **'The Trader Trading'** 'Principles of Successful trading'

He is the developer of the statistical Time and Price Model that clearly defines Market Dynamics, Market cycles & Market Risk using statistical ranges.

The Dilernia Model has gained respect from market traders and analyst's applying it to indices around the globe.

2002-2008 Dilernia Model, Methodology and Systems © Frank Dilernia 1967 –



January Crash pattern breakout: - 2 monthly timeframe down into the MARCH lows and reversal pattern back towards the April 50% level.

Rejection pattern downward confirmed from the February 50% level downward.

Continuation upward will be verified in MAY from the 50% level UPWARD...

As the entire market follows the Dilernia Model and Principles © of Support/Resistance/Rotate/ and Extend