

Tips for Traders | 5/18/2009 11:01:00 AM

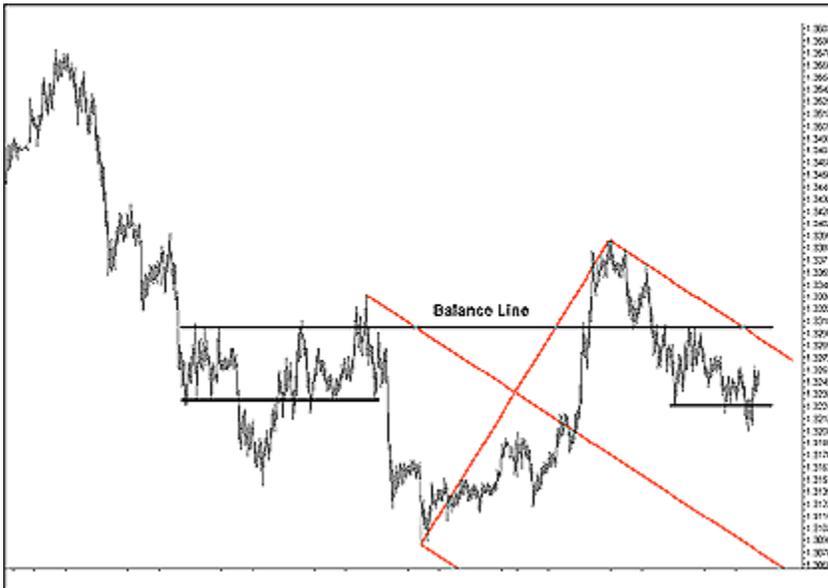
## Forecasting Market Direction with “The Balance Line”

The market moves; the market rests. The market trends; the market trades in a range. There are times when the market pauses, poised, ready to make a move, and then makes a countermove. If we are skilled enough as traders, we can read the trends changing into ranges and feel the pauses between the moves and countermoves.

Trending markets can be likened to large pendulums, swinging with increasing velocity until they begin to reach the end of their arc, the area where they naturally run out of energy, and then, a slowing and a pause is inevitable. Are we talented enough to see these shifts in energy states? Can we read the shadow left by the pendulum as it swings through its arc and anticipate the pause before the countermove back down the arc?

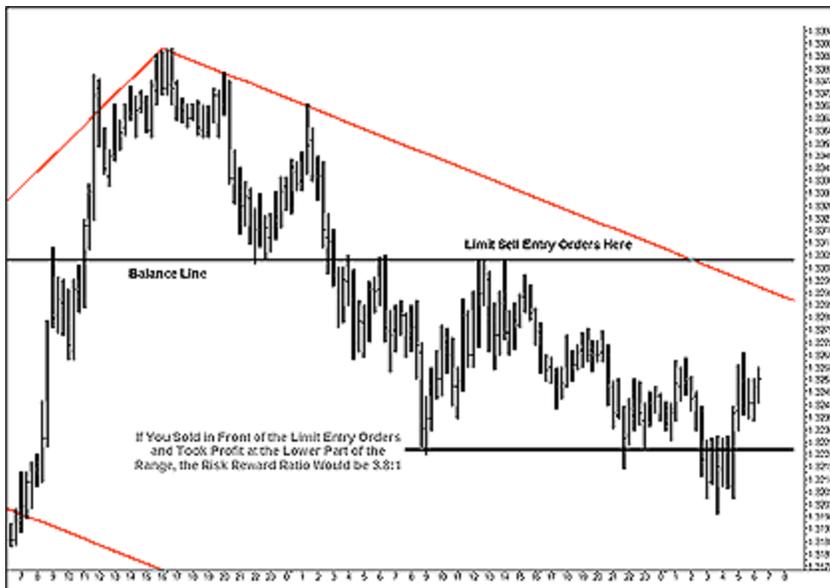
There is a tiny moment in time—a near-zero state of time—when price stops, price pauses, price turns inward and gathers itself, and then it is off again, racing down the arc of a new trend. Can we find the tracks time leaves when it reaches these near-zero pause states?

Let's look at a chart. It happens to be a 20-minute bar chart of the cash euro FX against the US dollar, but since we are looking for shadows on the far side of time and price, any chart would work:



There is a line here, the Balance Line, that is the shadow of the arc price is making, moving between action and inaction, between trending and ranging, between movement and countermovement.

If we can see it, if we can draw it, if we can stalk it like a hunter stalks the tracks of a huge beast running full out and then pausing for breath, can we trade it? If we can identify this Balance Line, this glimpse into the energy that fuels both the cycle of movement and the cycle of rest in the markets, will it give us an edge?



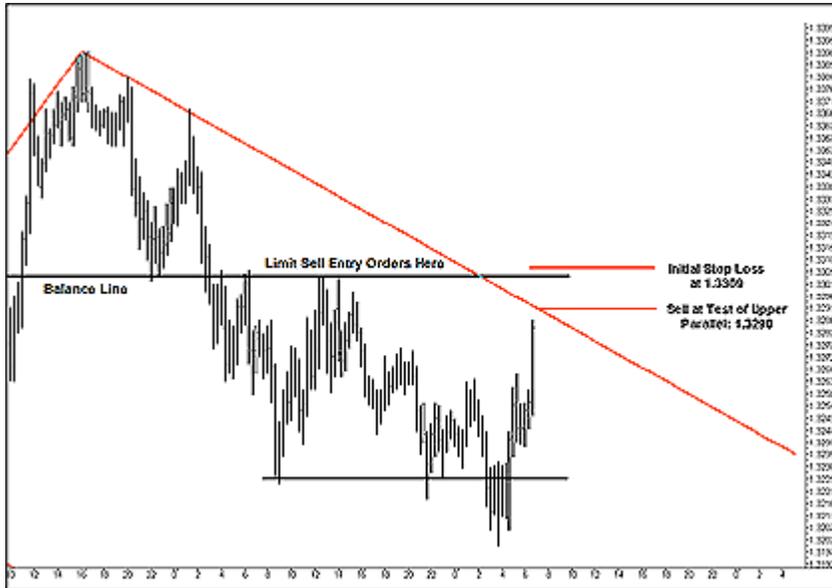
The shadow of the arc above paints the area where time and price will pause before resuming activity. This is a road widely traveled and clearly marked, and most hunters will see the tracks above that create the Balance Line and be ready.

Traders with any eye at all will be ready to catch price as it slows in its upward arc and then pauses along the Balance Line. The path above is clearly marked. The brief break below the trading range tells us that the true move to come after the pause in the arc will be a strong move down.

Is there money to be made in the travel of this pendulum from action, to pause, and then to reaction? If we sell the pause at the obvious horizontal Balance Line above, is there room to capture substantial profits once the pendulum completes a natural swing to the lower end of the trading range and make the hunt worthwhile?

Simple mathematics tell me that the swing from one mark of the pendulum's swing to the least possible mark below would net me nearly four times what I would risk. If I stalked this beast between the pause and the reaction lower, that would be a worthy trophy, indeed.

Knowing I can read the tracks and see the shadow, do I have an edge I can exploit, or am I left with the crowd to poke at the shadow of the pendulum, hoping to catch the great arc as it slows and pauses?



The universe moves, the world moves, we move, and the market moves. The universe moves in four dimensions: the three dimensions of space and at least one more that we recognize, the measurement of time. The universe may move in many more dimensions, but we know it moves in four dimensions. The universe moves, the world moves, we move, and the market moves.

So, in how many dimensions does the market move?

I can read the tracks and see the shadow. If I can recognize and exploit the movement of the pendulum in more than the traditional dimensions that most traders track, I *do* have an edge I can exploit and I *won't* be left with the crowd to poke at the shadow of the pendulum, hoping to catch the great arc as it slows and pauses.

If I can walk between the three dimensions of space and the dimension of time, and slip between the cracks that most traders travel, I can stand ready for the pause in the arc of the pendulum well before they sense it. Sometimes, I can find the pause and change in movement before they find it. And sometimes, I find the pause when it falls short of where they expected it to happen, because of the extra dimensions I travel, the measurements of the arc and its pause are oh so precise.

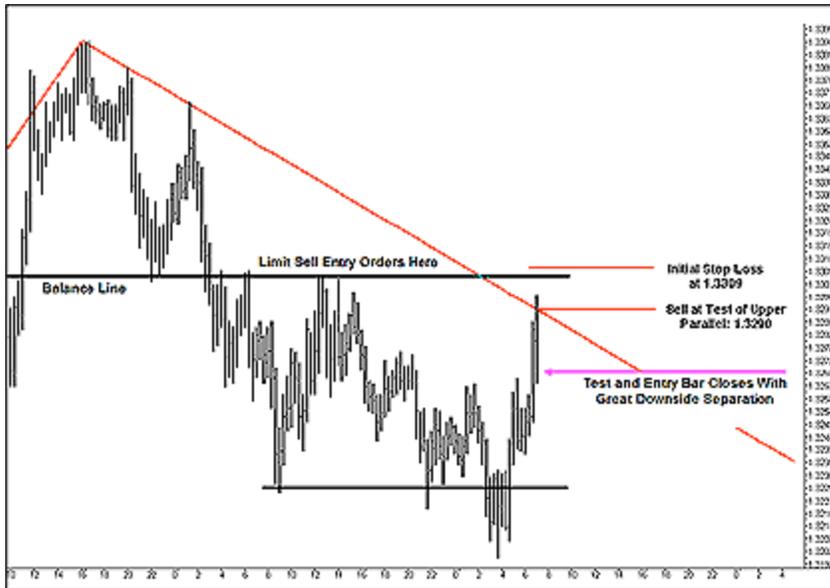
In the very long run, the arc seems to be on a constant, repeatable path. But when I view it in multiple dimensions, I see the swirling eddies in its path. I see the small variations from the easily spotted, long-term horizontal path of the Balance Line. I can move between the traditional dimensions to meet the pendulum at the occasional pauses that fall outside its normal horizontal path.

Most traders will be entering their orders to sell this market at the trend line, the long horizontal Balance Line, where price has stopped so many times. This line marks the most likely location where price will pause before changing direction. Selling at this level is popular among traders, and over time, it pays off because price does often pause and change directions at this line.

But looking at the horizontal Balance Line, I see that there are times when price pauses and changes direction before and after the horizontal Balance Line. These are the swirling eddies in its path, the small variations from the easily spotted, long-term horizontal path.

I marked a multi-dimensional line in red on the chart above. This line has caught several of these pauses that occurred away from the obvious horizontal Balance Line. Looking at the current path of price, I see that I can stand on the red multi-dimensional line and perhaps catch a pause and change in direction of the large pendulum of price *before* it reaches the horizontal Balance Line.

If the pendulum pauses and stops before the horizontal Balance Line, where most traders are trying to enter short positions, what edge will I have?

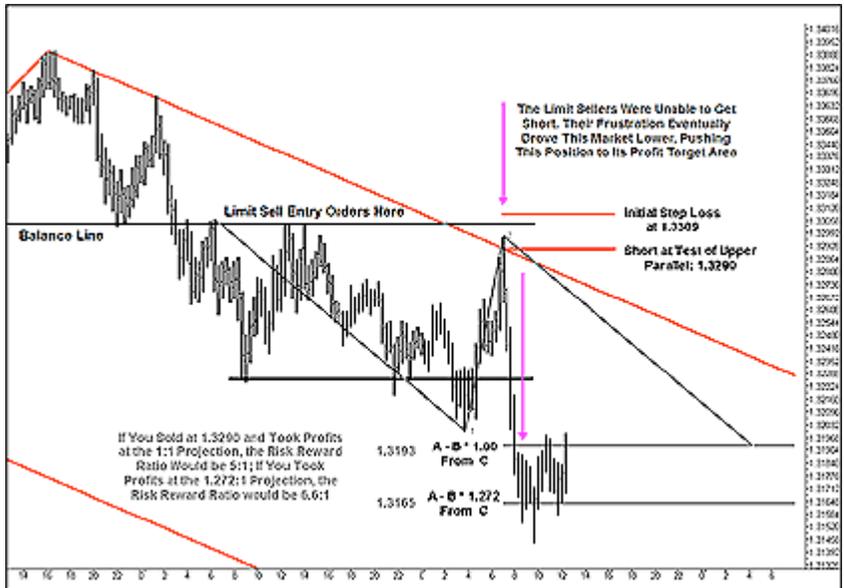


As price moves towards the horizontal Balance Line where most traders have left their limit sell orders, price slows, pauses, and changes direction. And it changes direction well before it reached the horizontal Balance Line.

But I have stalked the swirling eddies and small variations in its path and my limit sell orders were filled when it paused and changed direction. As the large pendulum of price changes direction, most traders want to be short, but are not short. They left their orders at the horizontal Balance line and the travel of the pendulum of price never made it that far this time. Price has changed direction and most traders have missed the change in direction.

What edge do I have

Most traders are quick to realize that the market has moved on without them. Their limit sell orders were not filled and it is quickly obvious they are not likely to be filled. Price has already paused and changed direction, and if they want to catch any of this new swing, they must use a more aggressive tactic to enter a short position.



I am already short at the pause and change in direction.

When price begins to plunge lower, traders who missed the pause and change in direction have two choices:

1. They can wait for another swing of the pendulum and stalk its next pause and change in direction.
2. They can try to jump on the current swing lower and hope it goes far enough, fast enough that their market entry allows them to catch a good portion of this new swing lower.

Most traders are not particularly patient. They choose the second option and sell “at the market” as the plunge of price accelerates. And their selling briefly adds additional momentum to the current swing lower, accelerating its motion. This additional selling, in fact, is a new swirling eddy added to the path of the market's pendulum. As the market moves forward in time and space, it will influence the “normal” path of price and a new reaction will form, slightly off the horizontal projection made by the Balance Line.

As most traders elect to sell “at the market,” price plunges faster and faster. Because I was able to enter my short position at the pause in the market, before it changed direction, this new acceleration in trend pushes price toward my potential profit targets.

So what edge do I have?

By entering at the pause of price before it changed direction, the majority of traders are now working for me, pushing price lower to my profit targets. As the market continues lower and other traders scramble to find a short entry, I ride the pendulum of price and manage my trade.

There is a tiny moment in time, a near-zero state of time, when price stops, pauses, turns inward, and gathers itself, but then is off again, racing down the arc of a new trend. If we can identify these near-zero pause states and use them to our advantage, we can use the power of the entire market to power our trades towards our profit targets.

I wish you all good trading.

Timothy Morge

[timmorge@gmail.com](mailto:timmorge@gmail.com)  
[www.medianline.com](http://www.medianline.com)  
[www.marketgeometry.com](http://www.marketgeometry.com)

**Timothy Morge**  
**President**  
**MarketGeometrics, and Blackthorne Capital, Inc.**  
**1870 Diamond Creek Lane**  
**Aurora, IL 60504-3441**  
**630/236-3441**  
**Fax: 630/236-3448**  
**Web sites: [www.marketgeometry.com](http://www.marketgeometry.com) or [www.medianline.com](http://www.medianline.com)**

---