

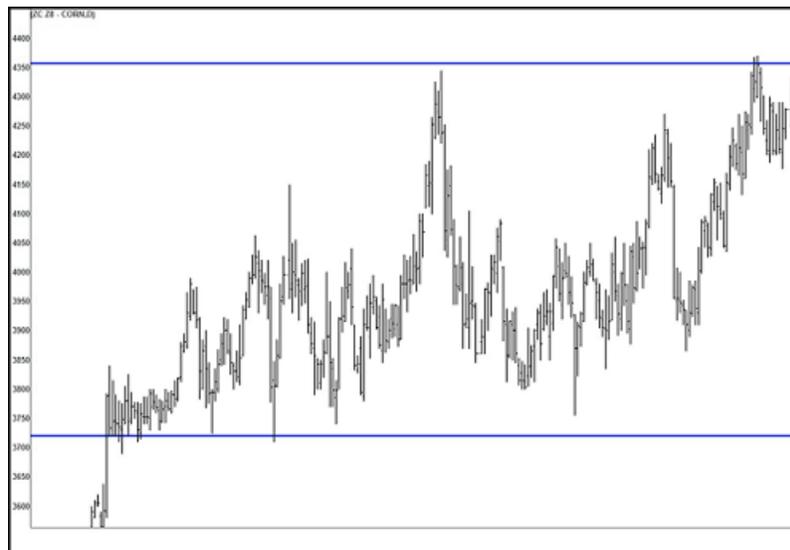
Tips for Traders | 5/5/2008

Measured Moves: Simple, Powerful and Profitable Trading Tools

Using 'measured moves' when trading is very popular and best known by traders that use them as 'Fibonacci' ratios, even though the ratios they are using were actually first described in a mathematics treatise written by Euclid around 300 BC. The early Greek mathematicians and architects had an eye for beauty and symmetry and built pleasing ratios into their designs well before Euclid was born. Although many traders have heard of, and use 38.2, 61.8 and 1.618 ratios, even earlier Greek and Egyptian scholars and artists found beauty, form and function using 1:1 ratios. An early mystic book whose roots goes back to 2500 BC, The Emerald Tablet, refers to '*That which is below is like that which is above*', a passage not only known by but studied by Sir Isaac Newton, the father of modern physics; in fact, many scholars believe his Third Law of Motion, 'For every action, there is an equal and opposite reaction', has its roots directly in this passage from this work done roughly 4000 years before Newton was born.

One of the earliest known groups of traders was the Phoenicians and they flourished in the same area as the early Greek civilization around 1200 BC. Modern day archaeologists have found clay and lead 'trading slips' and even what appear to be graphic representations of prices over periods of time of certain commodities that the Phoenicians traded on a regular basis-in other words, the Phoenicians were one of the world's first hand chartists! One of the inscriptions on these particular clay charts reads 'There is a time to buy and a time to sell'. Though the Phoenicians are credited with creating today's written alphabet [theirs featured twenty-two characters that were used in combinations to form words, much like twenty-six characters are used in the English language to form specific words], it's unlikely they used technical analysis tools like MACD and RSI to time their buying and selling. What, then, would the Phoenicians have used to determine when to buy and when to sell?

Let me show you a simple set of charts that illustrate the types of measured moves that the Phoenicians may have used:

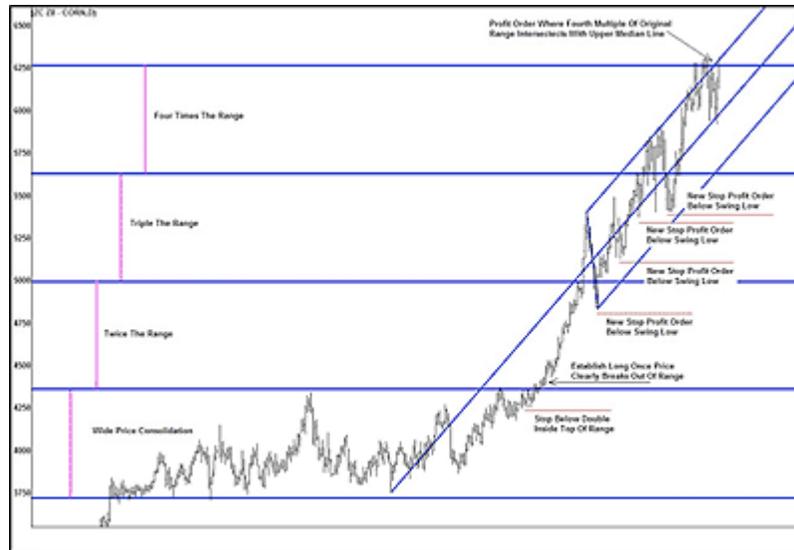


On this chart, you can see that corn prices have been in a wide trading range for quite some time. You can

see that as price approaches the bottom area of congestion, it has been profitable to enter into long corn positions and as price nears the upper portion of the area of congestion, it has paid to lock in profits.

The early price records and charts of the Phoenicians that have been found suggest they looked at just such types of 'value' trading when making purchases and then when selling off their inventory. Remember that they lived in a part of the world where flooding and drought were common occurrences, so if a trader took advantage of the natural measured cyclic activity, he would generally be rewarded financially; this means that when there is a glut of grains, for example, there eventually does come a time when the price and time is right to buy and enter long positions. And of course, it also means that when drought or famine came, there came a time when well-positioned Phoenician traders knew when to take their profits!

Now let's extend that idea a moment, with the phrase *'That which is below is like that which is above'* in the back of our minds as we view another chart of corn futures:



Once price breaks out of the clearly defined trading range and heads much higher, it is obvious that a 'normal trading situation' is no longer at hand and windfall profits can often be had in these types of situations, if a trader is positioned correctly and also has a method to help project a meaningful target. Though the method shown above is by no means a 'hard science' statistical approach, it is the type of approach a trader that is using hand drawn charts and equal or regularly spaced measured moves might employ. Once price breaks above the highs marked on the prior chart, it is obvious there is unprecedented demand for corn, as shown on this chart. You don't need to know if it is because there is a drought, or someone invented a car that operates on an ear of corn per 500 miles! The chart above tells you early on that the demand for corn has increased dramatically and if you are already long corn, your only concern is how to maximize profits, because a move of this magnitude comes infrequently.

Note that in part 2 I have 'stacked' or drawn in zones that are of equal height, one on top of another. These stacked zones represent the concept of equal actions—in essence, price will eventually top out and when it does, it will likely top out at some multiple of the original trading range.

You can see I added an up sloping median line or pitchfork and its upper and lower parallels. Note that the upper median line parallel of the pitchfork and the third horizontal parallel line above the original trading range intersect at the area where price tops out. This is an area of confluence, and many types of measured moves can be combined to find areas of confluence.

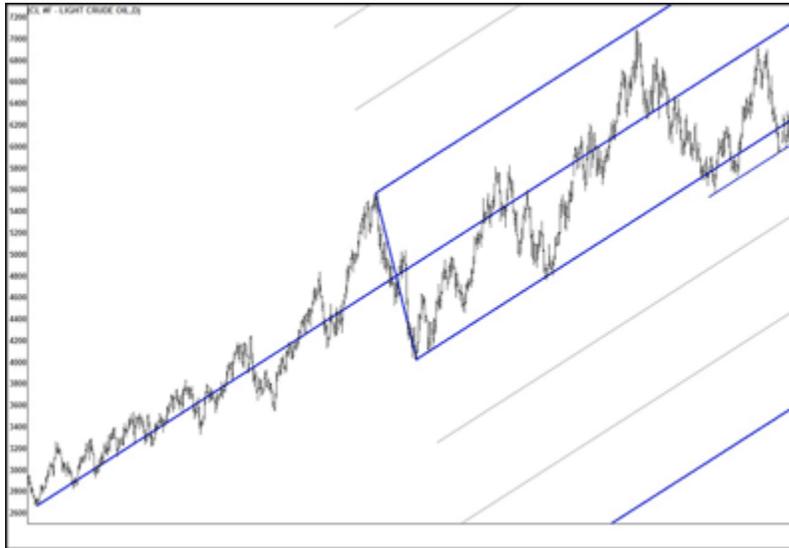
These can be very powerful measuring techniques, yet they are simple enough that the Phoenicians, more than 4000 years ago, may have employed some of them in their own decision making when trading.

Let me show you another example:

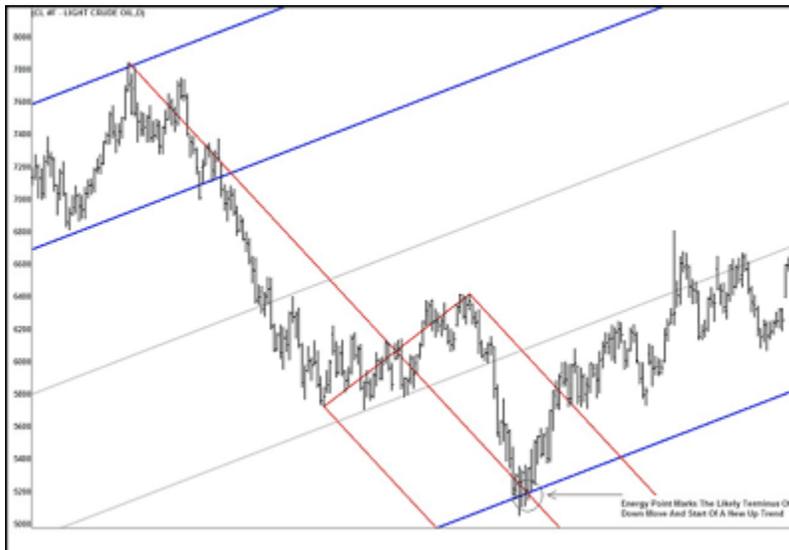


This is a chart of Consolidated Energy, a stock traded in the United States. Price has been in a nice up trend but then it pulls back and violates the lower median line parallel. While there are high probability entry techniques to use after this type of precipitous drop, they are beyond the scope of this article and you can read about them in my books or on my web pages. In this article, we are concerned with measured moves, so we will assume the trader knows a way to get long once price makes the steep decline. The key again is how does this trader maximize profits once price begins to quickly climb out of the hole? Let me repeat the earlier phrase *'That which is below is like that which is above'*! Simply measure the amount price undershot the lower median line parallel and then project that same price distance above the median line or center line to get a high probability target area to take profits. As you can see, what worked for the ancient Phoenicians still works wonderfully well in today's many markets.

Let's look at another set of charts:



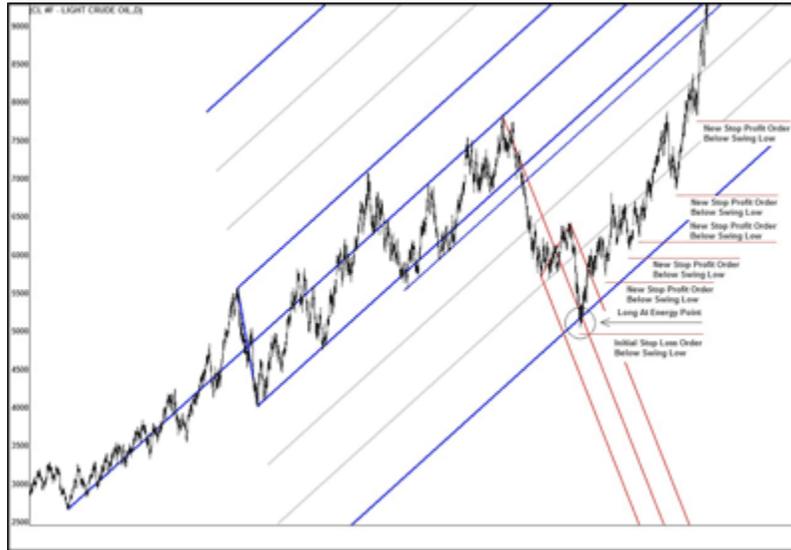
Crude Oil prices are in a steady long-term up trend but have recently pulled back down to test and break below the up sloping lower median line parallel. Note that as price came back up, I connected the lows, adding a sliding parallel below the original lower median line parallel. I also added three lines above and below that are parallel and have the same distance as the distance between the median line and its upper and lower parallels; these are known as warning lines and they are used to find support and resistance for measured moves in run away markets. If this market takes off to the up side or the down side, I expect one of these warning lines will help me pinpoint where price is likely to stop. A new break below the sliding parallel will be an ominous signal that a new large move to the down side has begun.



Note that price finally broke to the down side and began a long and protracted slide of nearly \$20 a barrel.

Again, the high probability short entry method I would use to enter this market is beyond the scope of this article, but the simple and powerful measured move that gives us a near picture perfect exit area for locking in our profits is once again a simple extension of equal measured moves, combined with confluence-in this case the area where the down sloping red median line intersects with the up sloping third warning line. Those traders that were short knew to take their profits in that area of confluence [in this case, because the lines that intersect are lines of opposing force-one is an up sloping line and one is a down sloping line-and that makes this an energy point] and in fact, would use the same high probability entry method I teach to enter a long position with very tight money management stops just below the lows of the move.

Let's see if this area held and if another measured move would have helped identify a potential exit for a long position:



You can see that price indeed turned on a dime in the area of confluence [or at the energy point] and has climbed all the way back to re-test the original lower median line parallel, a move of well over \$40 per barrel. As you can see on this chart, there is no area of confluence yet, so as price moved higher, I simply keep moving up my stop profit orders each time price leaves a new higher swing low. Although you cannot see it on this chart, price continued much higher and is currently testing the upper median line parallel at nearly \$120 per barrel, and the simple money management technique I showed on the chart above of moving my profit stops below each new higher swing low as they unfold has kept me in this trade all the way up!

Simple measured moves, whether you were living in Phoenicia over 4000 years ago or a current active trader, are easy to use once you understand them and can help you produce tremendous profits, especially in strongly trending markets!

I wish you all good trading.

Timothy Morge
tmorge@sbcglobal.net
www.marketgeometry.com
www.medianline.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 or www.medianline.com