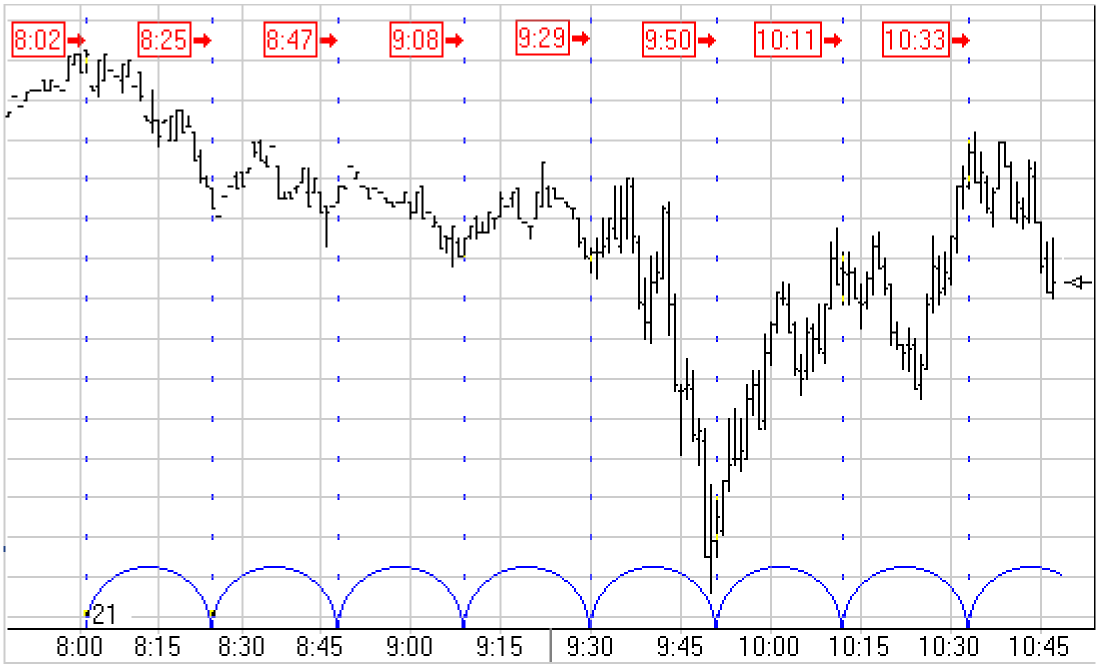
Cycles

To use the Cycle lines or Moon Phases tool, click the Cycles button. The cursor will change to a pencil while in the draw mode. Cycle lines mark time cycles from important highs and lows. A bar counter will be displayed while drawing the cycles. This displays how many bars are contained in each cycle. A start and end point are necessary to draw the cycle lines on a chart. The distance between the start and end points will be replicated across the chart. Vertical dashed lines mark each cycle point.



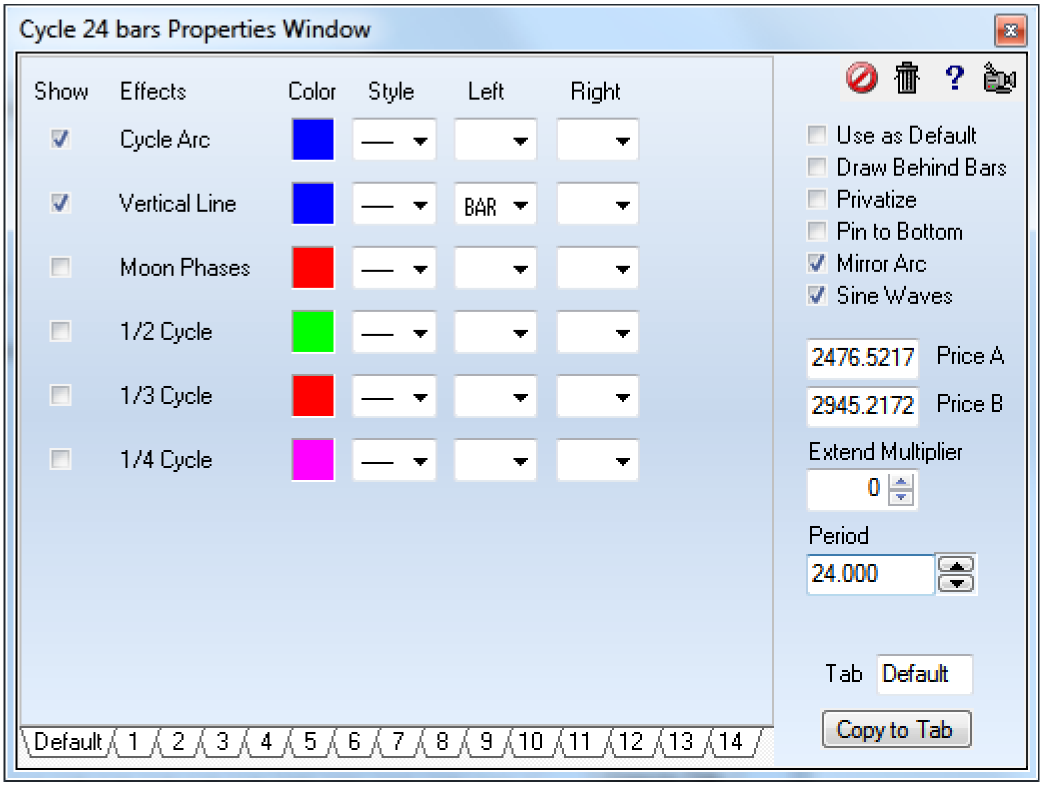
To draw cycles on a chart move the cursor to the starting point and then drag the mouse to the ending time cycle point. The starting point is generally an important high or low on the chart. The ending point is usually the end of an important trend or correction following the starting point. The cycle lines can extend into the future and backwards to indicate possible cycles. Watch for a market to switch directions at the cycle points.

Adjusting Cycles

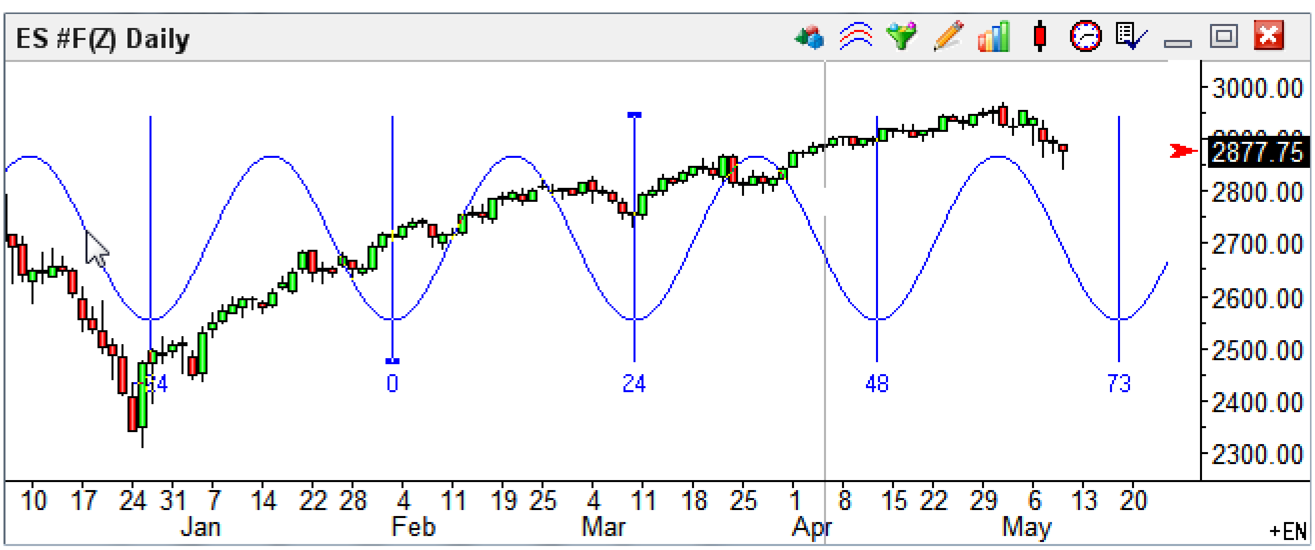
Re-selecting the cycles will activate the ability to move and adjust the cycles to a different location. Click the mouse on the bottom of a cycle line to activate it. The cursor will change to a pencil and square bullets will mark the original start and end points. Drag the square bullets to a new location and the cycle lines will adjust.

Properties

After drawing a cycle, click the Chart Objects button, select Cycles, and then click Properties to view the properties window. The properties window can also be displayed by re-selecting the cycle lines and then right-clicking the mouse.



In the properties window, place a check mark next to Pin To Bottom to Pin the Cycles to the bottom of the chart. Place a check mark in the 'Mirror' box to cause the cycle lines to extend in both directions. Place a check mark to in the Show box to show the Cycle Arcs, Vertical Lines, and Moon Phases. Place a check mark in the 1/2 Cycle, 1/3 Cycle, and 1/4 Cycle boxes to plot additional cycle lines which divide the original cycle.   The example properties created the Sine Waves on this chart.



Moon Phases

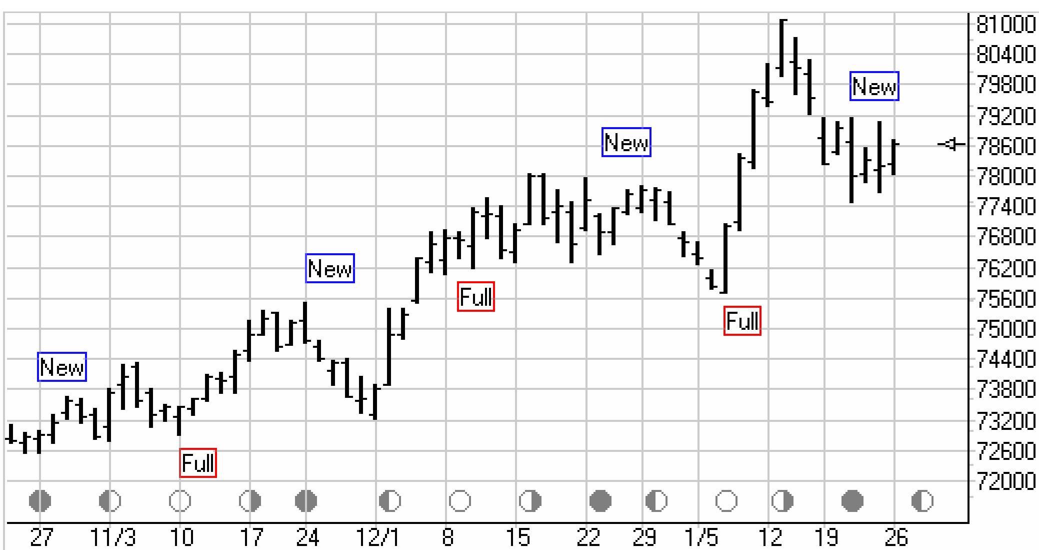
"We know that the moon's effect on our planet is great--it is vitally connected with the movement of all fluids. The moon is also believed to effect human behavior in strange ways, especially during a new or full moon.

"In an experiment conducted on an arbitrary set of commodities for the year 1972 (Todd Lofton, July 1974, writes about his observations) it was shown that short-term movements of prices react with some uniformity with respect to the phases of the moon. In fact, the commodities chosen for observation--silver, wheat, cattle, cocoa, and sugar--showed an uncanny ability to form a rising market following a full moon and a falling market after a new moon." -Commodity Trading Systems and Methods, P.J. Kaufman, p. 205.

That last statement, "a rising market following a full moon and a falling market after a new moon", intrigues me. I wondered whether it is true or false, of value or worthless nonsense. Many years ago as I would travel back and forth between Boise, Idaho, and Salt Lake City, Utah, one of my customers lived near the highway at the half way point of the trip. Several times I stopped in and visited with him. He owned several large farms in southern Idaho and traded sizable positions in live cattle futures. His office had large custom made chart tables where his secretary would manually update daily bar charts on three feet by four feet graph paper. The reason I mention this customer is because his charts were marked with symbols for the moon phases. I have great respect for this trader because he has been trading for a long time, trades big positions, and takes trading seriously. I wish now I had paid more attention to how he used the moon phases that he marked on his charts.

Anyway, I can't do research unless I have tools to work with. So, moon phases were added to the Cycles tool in Ensign 10. The moon phase parameter is simply a check box to indicate the moon symbols are to be shown on the chart.

The first two Show options are used to display cycle arcs on the chart. For this research, I am only interested in having Moon Phases shown on the chart. I selected a dark gray color for the new moon image. Full moons will always be shown in white. I did not go hunt down the perfect example. I am simply using a current daily Feb Live Cattle chart as my example since cattle was mentioned in the Kaufman book, and my customer puts moon phases on his manually drawn cattle charts. Here is the LC1G cattle chart showing moon phase symbols. (Some moon phases occur on weekends and holidays. In that case, the moon symbol is shown on the nearest trading date.)



Cattle have been in a strong up trend since their $70.050 low on September 13th, 2000, which happens to be a Full Moon date! This low turning point is not shown in the example.

Let's rate the correlation in the chart for the week following the new moons and the full moons. I will include the net change of the moon day as the first of 6 trading days. The theory is "a rising market following a full moon and a falling market after a new moon". So, how well does this cattle chart correlate with the theory?

Full Moons (expect rising market)

- Nov 10th, 2000. Excellent - This day was a low turning point followed by a $1.325 gain.
- Dec 11th, 2000. Excellent - This day was followed by a $1.15 gain in 6 days.
- Jan 9th, 2001. Superior - This day was a low turning point. The huge 6-day gain is $4.025.

New Moons (expect falling market)

- Oct 27th, 2000. Poor - Not too bad until the strong up day on Nov 3rd for an up move of $0.825.
- Nov 24th, 2000. Excellent - Rare correction in this strong up trend. Down move was $1.225.
- Dec 26th, 2000. Good - Down move in 6 days is $0.425. However, better down move followed.
- Jan 23rd, 2001. Excellent - 6 day down move is $2.45. The Jan 30th close, not shown, was $77.625.

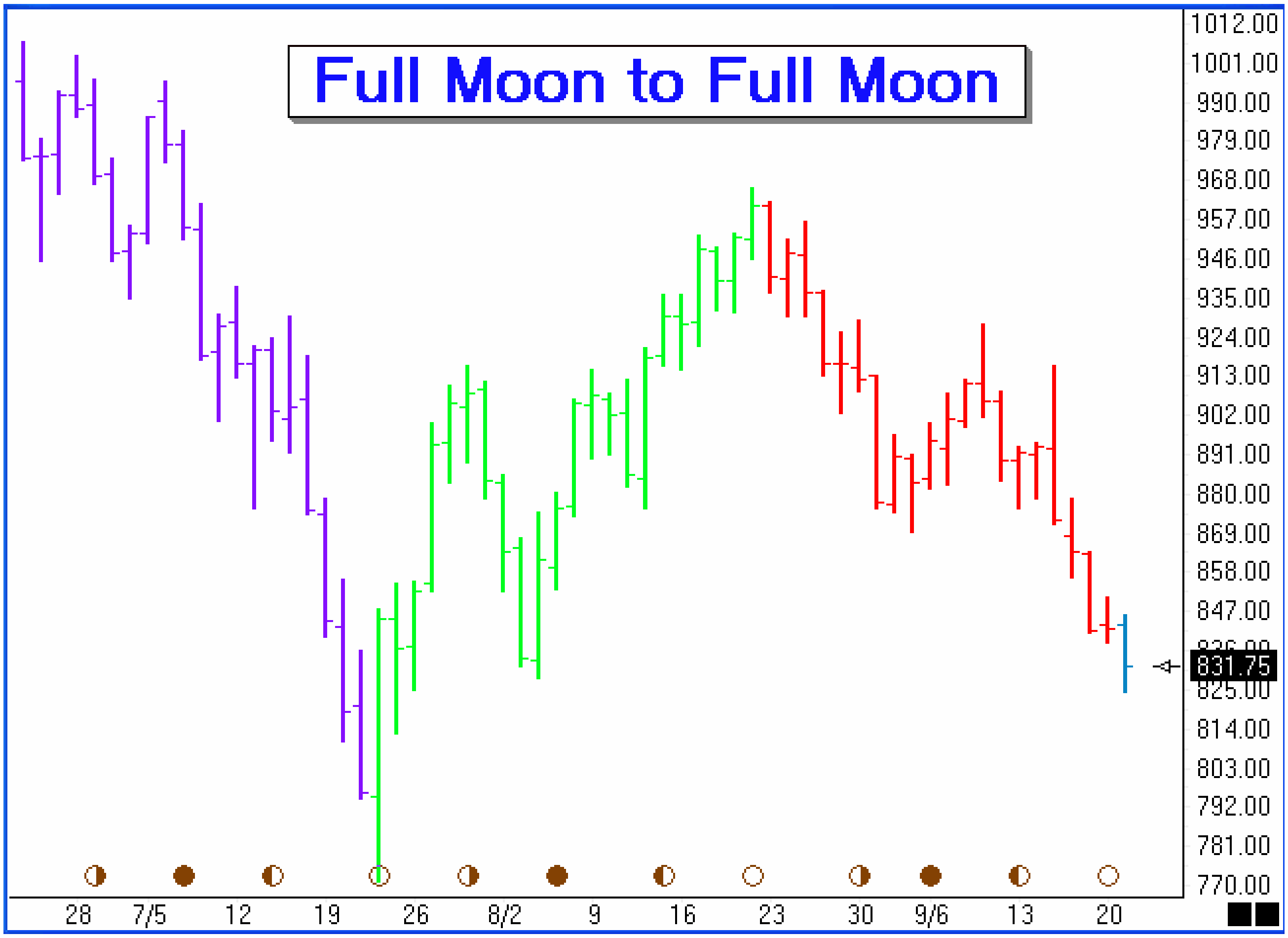
Summary

I would give the theory pretty high marks for correlation on the current LC1G chart. The low turning points on the full moon dates of Nov 10th and Jan 9th jump out. The high turning point on the new moon date of Nov 24th jumps out. The correlation of the other new and full moons is pretty good as well. And to top it off, the annual low occurred on a full moon on September 13th, 2000! My personal conclusion is that there is value in the theory that the moon influences human behavior.

As a result of this research, my brother added the moon phase as another input to his personal cattle market neural net forecasts. You are encouraged to do you own research and arrive at your own conclusions. The material presented here has been limited to the examination of one cattle chart for seven recent moon phase dates. Thorough research should involve evaluating lots of charts and lots of moon dates.

The following daily chart of the e-mini shows high correlation with the moon in 2002. The bars are colored from a Full Moon to the following Full Moon.

Article by Howard Arrington



Full Moon to Full Moon
1012.00
1001.00
990.00
979.00
968.00
957.00
946.00
935.00
924.00
913.00
902.00
891.00
880.00
869.00
858.00
847.00
831.75
825.00
814.00
803.00
792.00
781.00
770.00
28
7/5
12
19
26
8/2
9
16
23
30
9/6
13
20

In-Depth

One of the most critical aspects of successful trading is not what the direction is or why it's happening. It is the mostly overlooked *when*. The *when* can often be forecast just like phases of the moon or the tides or waves or rhythms of any kind. Using one very simple tool, time cycles, and some common sense, you can win consistently. Without that tool it's a crap shoot. For that reason and dozens of others, and I've tried them all... I repeat, Ensign rocks!

In reference to the *what*, *why*, and *when*, and the importance of each, please don't misunderstand me about down playing the *what* and *why*. There are so many commonly known and used sources of what (see oscillators and advanced indicator studies, volume etc.) As for *why*... that's as easy as keeping a couple of televisions running while you trade, ie: CNBC, Fox News, etc. They will keep you apprised of fundamentals (government reports, election antics... argg, dominating large caps, etc.)

As to where to find more printed information on time cycles, there isn't much out there that I've found. Do you suppose it's something the big guys don't want you to know? Anyways, I have found bits and pieces in these sources:

- Futures Magazine
- Bridge Trader Newspaper
- DayTraders Bulletin: Tips, Tricks & Techniques for Day Traders

Every day I check the pre-bell market first, then extend cycles forward after the bell. I lay down a permanent 22 minute cycle from 9:30 am (the bell) onward. After the bell I start tracking reversals as I trade and make subtle modifications.

Understand 2 things:

1. Cycles don't have to reverse the trend every time, they can be skipped sometimes just causing a little hiccup and sometimes nothing visible at all and two or three can be skipped only to be resumed down the road (pre-bell cycles in particular).
2. You will notice that many times the market will trade with a lot of volatility right on the cycle turning point... streaking up (or down) to form a peak (or trough), only to reverse quickly forming a sharp spike. This ends up being the top (or bottom)... these are my favorites, what a rush! On the other hand... a cycle can be a catalyst... acting to push or accelerate the current trend appreciably in the same direction.

Now remember, cycles don't tell you the what or the why, you have plenty of other tools for that. It only says "LOOK BUCKO, SOMETHING IS PROBABLY GOING TO HAPPEN HERE>>>." That's what it's good for and as far as I know that's all that it does, but it's enough. Give yourself a few weeks using cycles before you start relying on them heavily.

One neat thing about using time cycles is that it gets you thinking about the past and the future in a different way. It got me graphically tracking the small and large reversals every day early on, when they happened, how many points the move was and so forth. And it's amazing how trading days repeat themselves again and again in the same and subsequent weeks.

Here are some of my personal observations (for NQ):

- Cycles are all about trial and error... always.
- Cycles, like Stochastics or anything else are only guidelines.
- 22-minute cycles from the opening bell forward... every day. Be conscious of the 11-minute cycle as a rule.
- Some times cycles run top-top, top-bottom, bottom-bottom... just try different combos.

- For the Nasdaq, use the contract 1-minute chart, not the index.
- Look at the long-term and short term (last hour) before the bell, then watch the 1st reversal after the bell, 2nd, 3rd.
- Every day is different, but usually once cycles are set up they are reliable. Don't trade on days that they don't.
- Usually as of 11:30 a.m. EST, your current cycles will usually go into the toilet, look for a new set starting around 1 p.m. EST (This is true of most of the studies, because of low volume generally).
- Get ready to kick yourself at the end of the day as you look back on the day-- for not trusting the cycles you had set up earlier. It pays to be patient... the market will still be there tomorrow, even if you're not, get my meaning?
- Get ready to be floored at what you see, on a daily basis, but remember, cycles are guidelines like anything else,
- DO NOT BET THE FARM ON CYCLES UNTIL YOU ARE PRACTICED.
- DO NOT IGNORE YOUR OTHER INDICATORS BECAUSE YOU FOUND CYCLES. Compelling as they are, Cycles are is just one more tool.
- Watch how cycles coincide with trend lines, speed lines, support & resistance levels, open/high/low and lock-limit-down levels, and a host of other studies. Combined together they tell a story.