

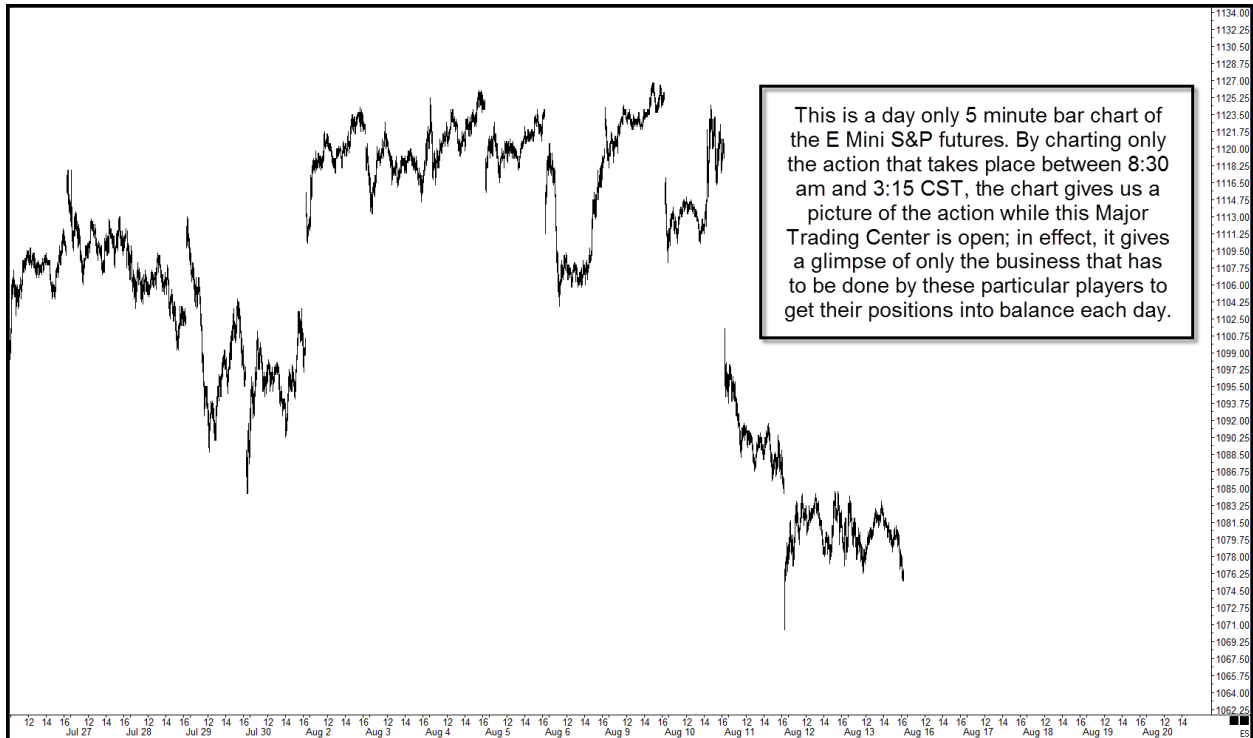
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## Charting the E-mini S&P Using Advanced Techniques

We focus on two very important things at Market Geometry: Our first priority is to help people become consistently profitable traders; our second priority is to teach traders to think about and manage trades like a seasoned professional trader. I have been a professional trader for forty years and I have been mentoring other professional traders since 1987, and I try to approach every person that approaches me to learn to be a better trader, no matter their level of experience, with those two goals in mind.

It always gives me a great deal of pleasure to watch someone I have been teaching mature into a full time professional trader, and I am proud to say there quite a few traders making a full-time living after either beginning their education with me or after I spent time with them correcting the barriers that had been keeping them from being consistently profitable.

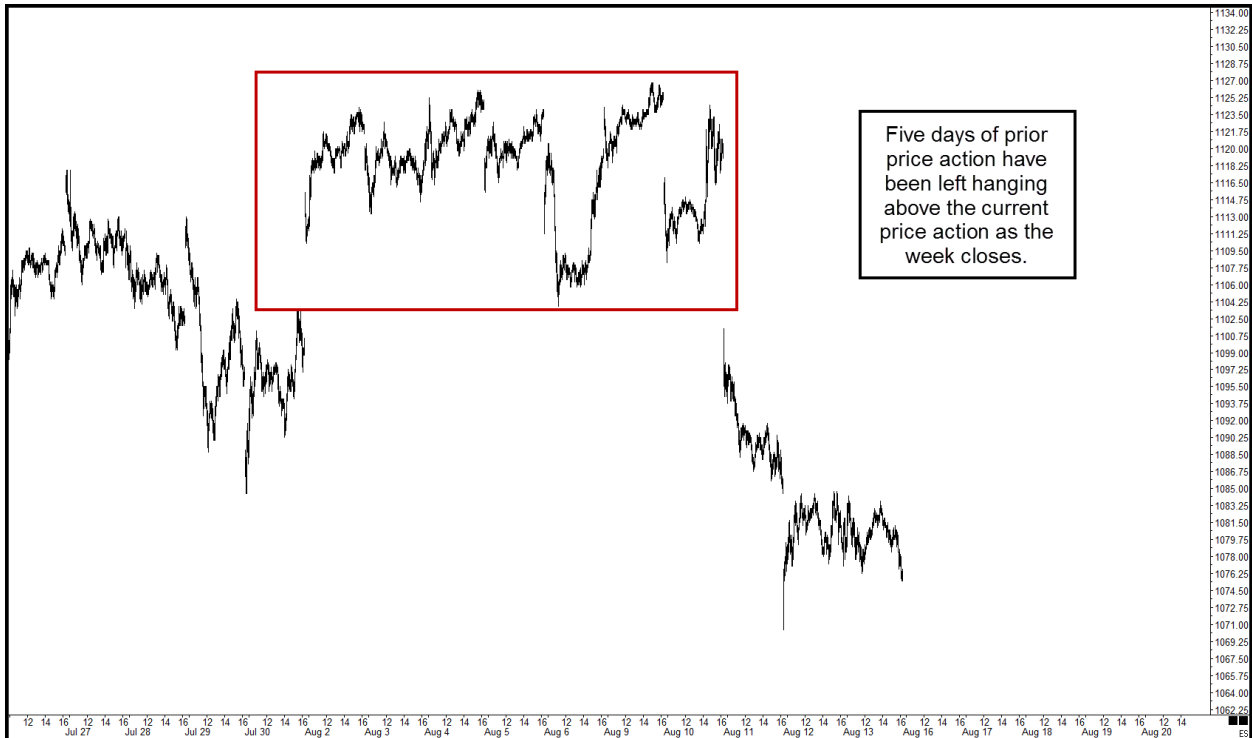
One of the traders I am particularly proud of is Shane Blankenship. Shane spent many years asking questions on my free public forum, then took my Basic Market Maps Seminar and eventually entered one on one Mentoring with me. You can see Shane these days showing his charting and trading skills alongside mine each day at Market Geometry - He became such a wonderful chartist and trader that when I recently moved to Arizona, I brought him to Market Geometry to help me with the daily live Mid-Day Market Geometry Mentoring sessions. He's been with me six months and become indispensable. In this article, I am going to show you my re-creations of a week's worth of charting of the E Mini S&Ps Shane showed members live in our Mid-Day sessions, because they tell how a profession approaches the market, prepares and waits for a trade entry, then executes the planned trade flawlessly. He embodies what I try to teach at Market Geometry, and I hope you find this set of charts and the story behind them from a recent week in the E Mini S&P futures interesting and informative-I know I did!



Shane generally charts day only five minute bar charts of the E Mini S&P futures; this means he is often staring at gaps created from the overnight action. Many traders do not like to deal with gaps or have trouble dealing with the meaning of gaps but Shane finds that gaps carry a great deal of information that he can use when 'Mapping' a market.

I tell this story to my students often to encourage them to think 'out of the box': In the early 1980's, one of the largest currency portfolio managers in the world kept three separate sets of data and charts for each Major Area of the world: He would keep data and charts on the New York currency markets, a separate set of data and charts on the Tokyo currency markets and a separate set on the London markets. Odd as it sounds, he would take positions based on the eight hours of the New York markets, positions based on the Tokyo market hours and positions based on the London markets; and yes, at times these positions conflicted. His thinking? Each of these Money Centers had flows that had to be dealt with and his data, charts and positions were based on the flows for each of the three Money Centers.

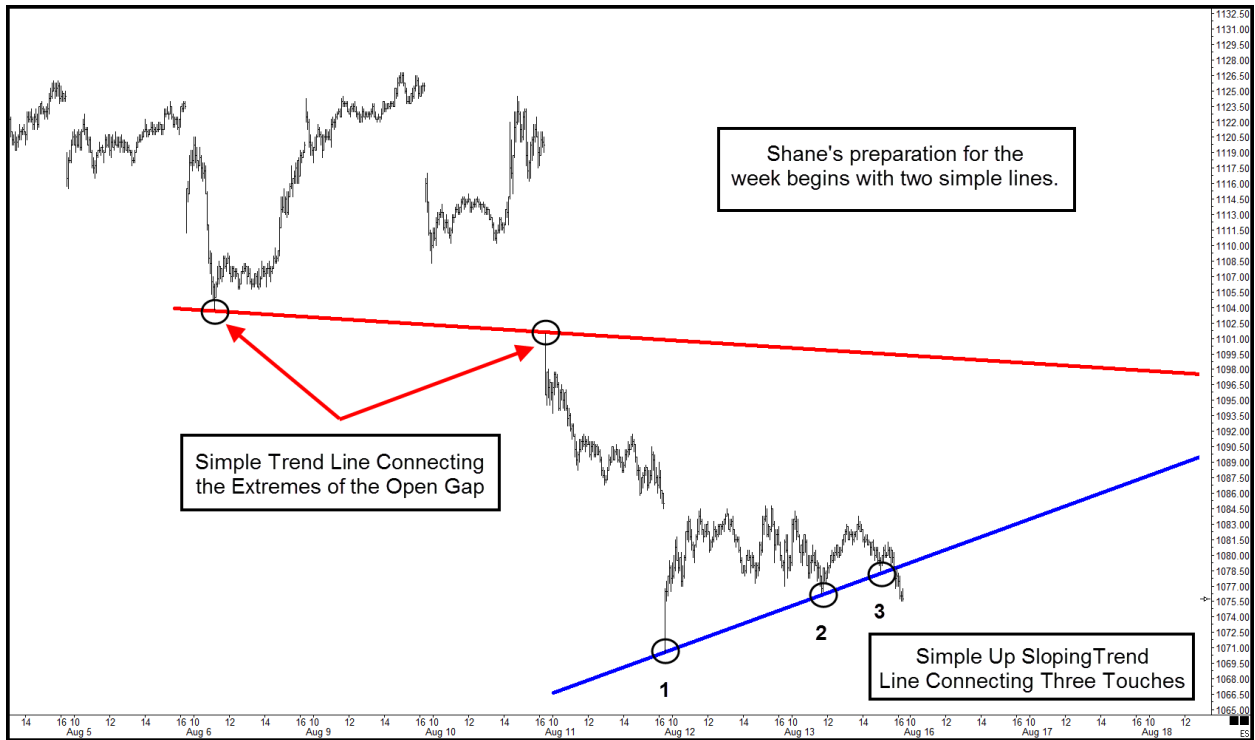
Back to Shane's chart: The majority of the money that flows through the U.S. stock markets flow when the U.S. 'cash' markets are open, and they are best represented by charting day only session charts. Another way to represent the flow of cash that is popular with larger traders like myself is to chart day only futures that begin at 8:30 am CST and end at 3 pm CST, which mirrors the beginning and end of the New York Stock Exchange's main hours and the majority of the U.S. stock market cash flows as well. I personally like to chart 13 minute or 39 minute day only charts that begin at 8:30 am CST and end at 3 pm CST, because it gives me a unique look at the U.S. stock market [Yes, I ignore the final 15 minutes of trading of the E Mini S&P futures on these charts, because the cash stock market has already closed]. But these are my re-recreation of Shane's charts.



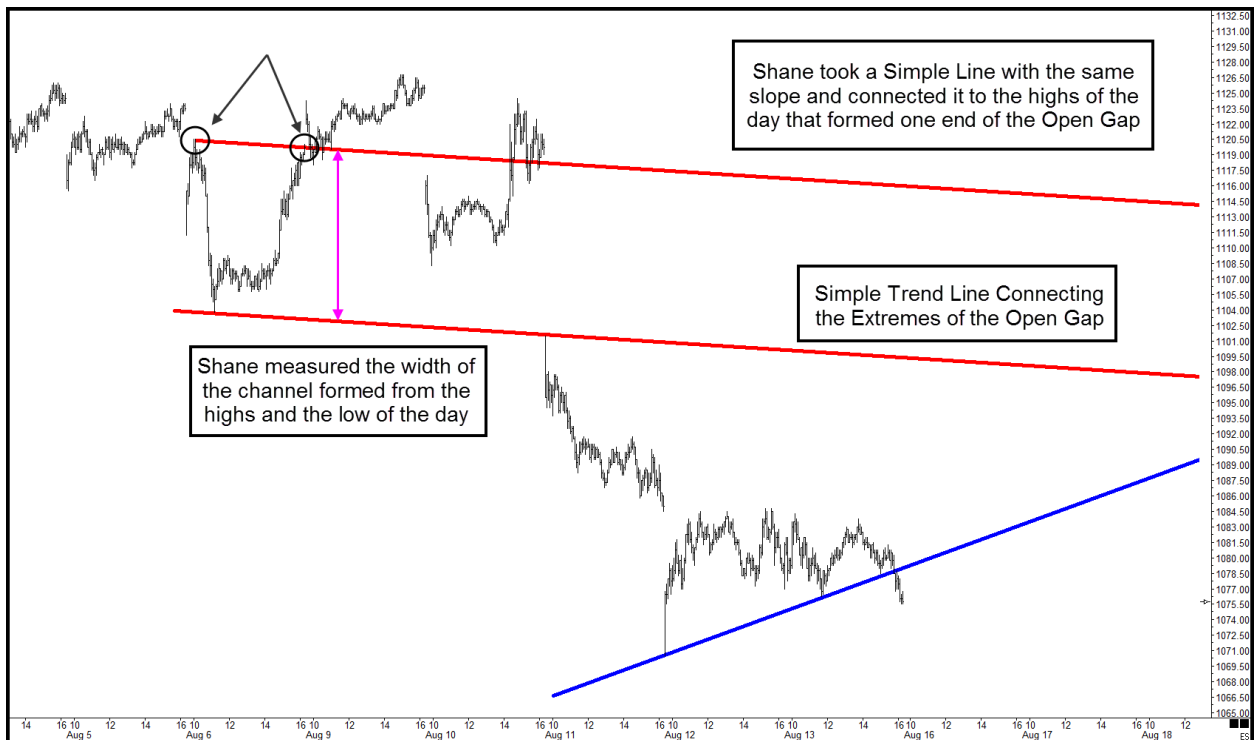
As the week opens, and Shane prepares his charts, you can see that the market left five days of price action above the current price action, on day only charts; this formation, until closed, weighs heavily on the markets and you can see price sold off quite sharply on the following two opens. This chart ends on Friday's close.



Shane begins by connecting the extremes of the Open Gap, using a Simple down sloping Trend Line.



Next he looks at the action from the last two days of the prior week and notices an up sloping Simple Trend Line that connects three pivots [a Multi-Pivot Line] and adds that to his chart.



Now he begins to add potentially important details to his 'Market Map'. First, he makes a copy of the red down sloping Simple Trend Line and transfers it to the morning's high of the same day - and notices it catches the close of the day as well; he leaves this new parallel Simple Trend Line on the chart and measures the distance between the two lines.

Can you guess why he would be interested in the distance between the two down sloping parallel lines?

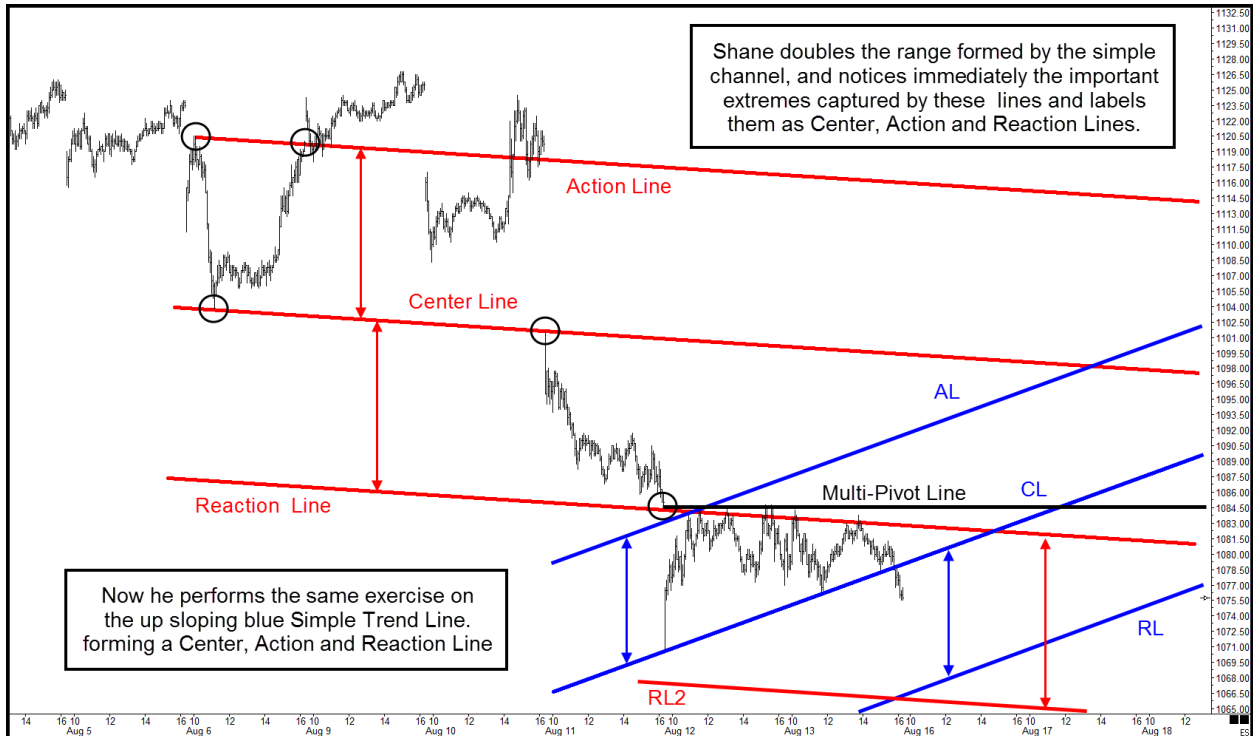


Remember, Dr. Andrews and Roger Babson were students of Sir Isaac Newton, who was a well known Mathematician and Physicist. But Newton was also the most well-known alchemist of his times, and although the term 'alchemist' has fallen in stature these days, most well-schooled scientists know that the alchemists of Newton's days, as well as those that preceded him, laid the ground work for our most powerful scientific principles. Newton's work, in particular, holds many of the keys to modern physics. His simple Three Laws of Motion spurred the work of Albert Einstein and Stephen Hawkins and continues to spur Physicists around the world more than 200 years after they were written. And most physicists believe his inspiration came from a treatise written at least several thousand years earlier, 'The Emerald Tablet'. Newton's translation of this simple alchemical work is still used as the best and most useful translation. When we look at its most well-known phrase, 'As above, so below', we may be looking at the inspiration for Newton's best known Law of Motion, 'For every Action, there is an Equal and Opposite Reaction.'

I marked where price interacts with these lines to make it easier for you to see why Shane might use these types of projections, as well as to spur you to ponder how these same lines may come into play later.

Shane measured the distance between the parallel down sloping lines and then projected that distance forward [or downward, in the probable path of price]; then he placed a Simple Trend Line with the same

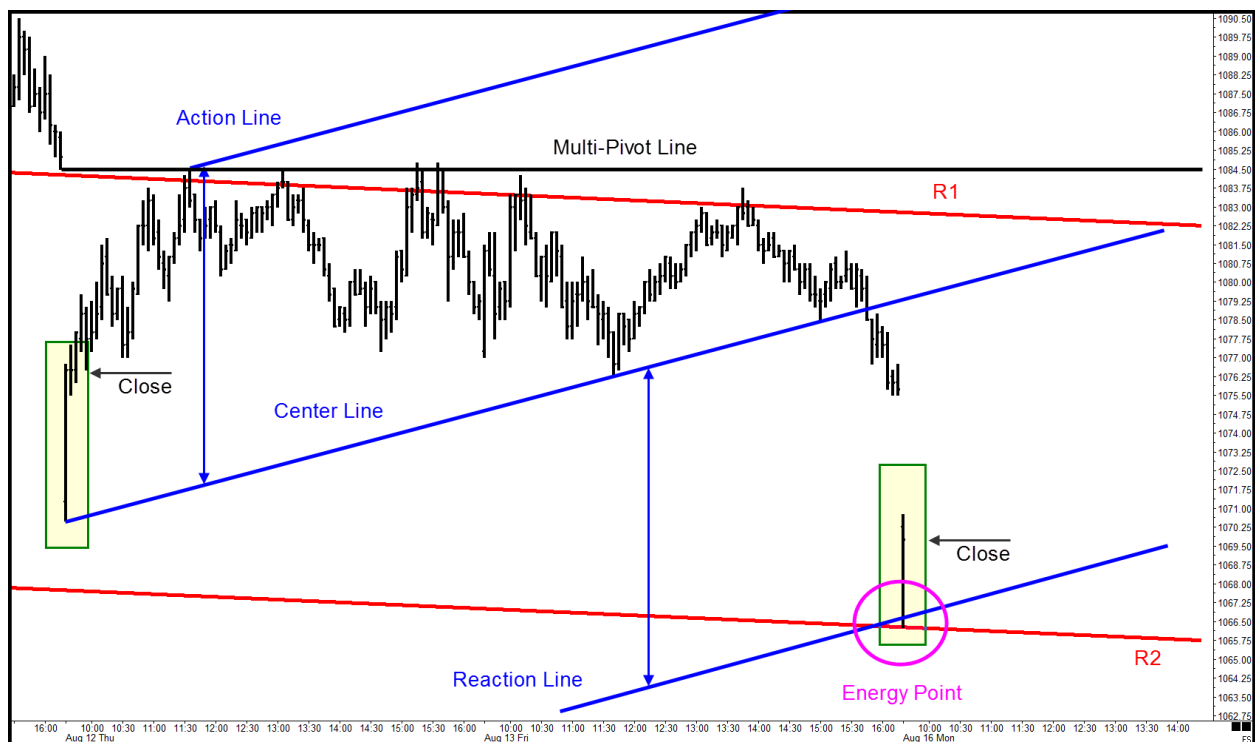
slope at that distance. The original red down sloping line was the Center Line, the line that captured the frequency of price-it was a Multi-Pivot Line as well. The Simple Trend Line above captures the first swing or pivot prior to the Center Line; this measures the amount of energy price can carry forward from the Center Line when it 'Reacts'. And of course, by projecting forward a line with the same slope with the same distance below the Center Line, Shane now has a first Reaction Line, where price will have spent an 'Equal and Opposite' amount of energy; as Newton translated: 'As above, so below'.



Still working on his 'Market Map', Shane performs the same exercise with the up sloping blue Simple Trend Line: he copies the slope of the Simple Trend Line drawn from the low of the Gap Opening and adds a new Simple Trend Line with the same slope to the high of that day; this will serve as his Action Line and the original blue up sloping Simple Trend Line-also a Multi-Pivot Line-acts as the Center Line. Now he simply measures the distance between the two lines and projects it forward [in this case it projects below price, because that is the probable path of price and the natural path of a 'Reaction'] and then adds a new Simple Trend Line at that distance, below the current price structure. This new blue up sloping line will act as the Reaction Line, a measure of where price will have expended its reaction energy off of the Center Line, should it continue lower-and so it is named the 'Reaction Line'. He also adds a second red down sloping Reaction Line [I'll label it R2] in case price continues much lower.

He then adds a horizontal black Simple Trend Line - a Multi-Pivot Line - that connects the high of the Open Gap and a handful of upper pivots.

Shane has his Market Map for the upcoming day and is ready to see the opening action-and ready to look for the high probability trade set ups he uses when he trades this market in this time frame if one begins to develop.



This chart shows a zoomed in version of Shane's Market Map, along with the first five minute bar of the day session; when this bar closes, it is 8:35 am CST on Monday morning.

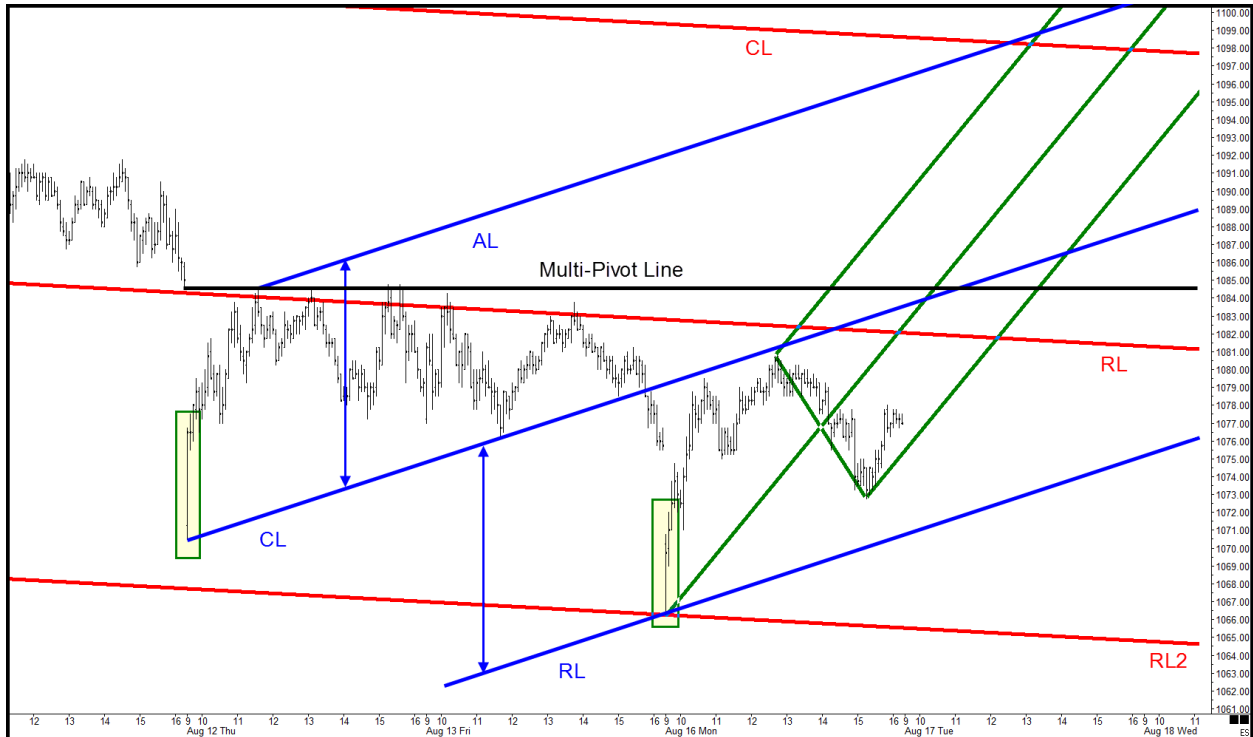
I highlighted two particular bars - both wide range bars and both bars that gapped open quite a bit to the down side. Note that in both cases, once the 'morning imbalances' are smoothed out by the market makers in the U.S. stock market, both in some individual stocks and in some large portfolios, the selling dries up. Then the larger traders, the Whales, begin buying out right, pushing the stock indices higher. They are trying to drag mid-sized and smaller retail players into having to chase these markets higher, in case price does indeed go high enough to fill the Open Gap. Look at the close on both extremely wide range bars: Price closes at or near the bar's highs.

But let's look carefully at Shane's Market Map. Remember the blue up sloping Reaction Line he added before the market opened? This up sloped line was based on a Multi-Pivot Line, in this case a Center Line, and the distance from the Center Line to the prior high pivot, which he had used to form the Action Line. As Newton would say, 'As above, so below'. Look at where price turned after the extremely wide range lower gap: Right at Shane's blue up sloping Reaction Line. And that's why he projected that line forward: 'For every action, there is an equal and opposite reaction' and if price sold off on Monday morning, an equal and opposite reaction from the Action Line, projected from the Center Line and its frequency was reflected by the up sloping blue Reaction Line. But that's far from the end of projections contained in Shane's Market Map.

I have been researching and teaching the concept of Lines of Opposing Forces, or Energy Points, for quite some time; I am proud to say it's one addition I have made to Technical Analysis. These Energy Points act as Price Attractors and often serve as areas where price makes a 'Change in Behavior'. I don't

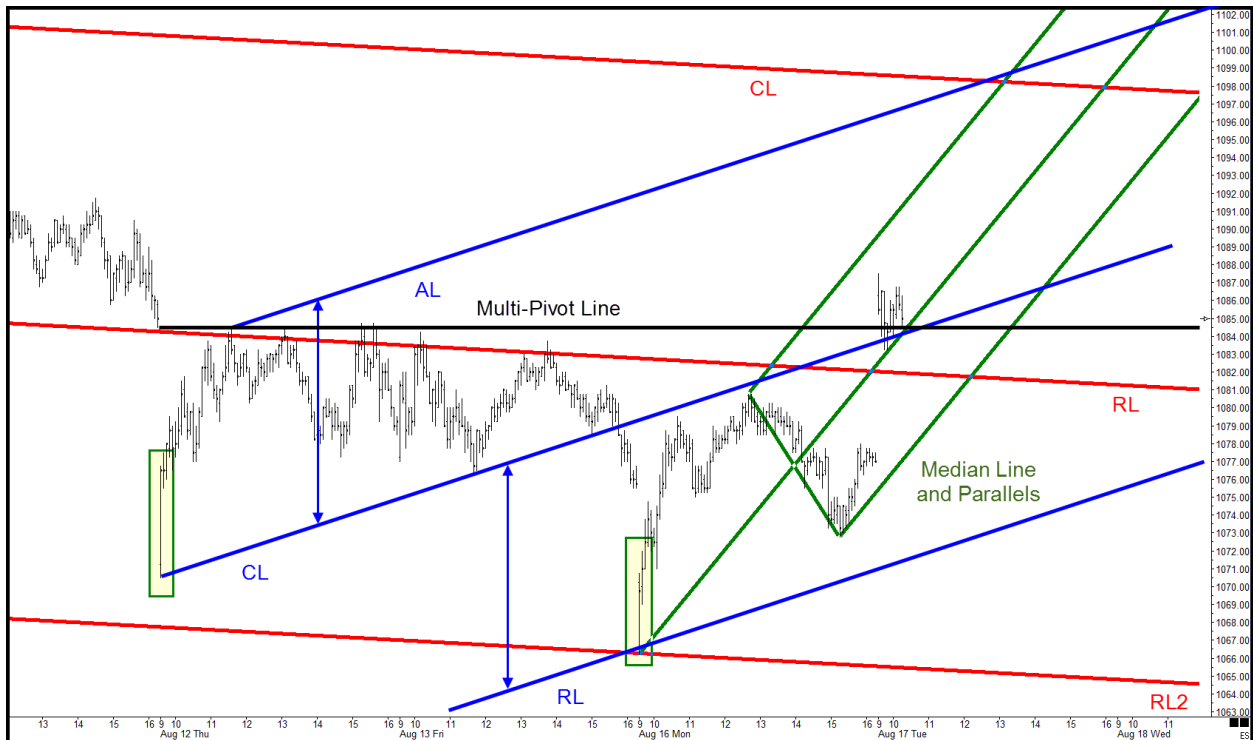
use them to anticipate turns in Price; instead I mark them and watch those areas carefully for price to exhibit Changes in Behavior.

In this case, you can see that Shane's red down sloping Second Reaction Line [R2] and his up sloping blue Reaction Line [which are Lines of Opposing Force or Lines with Opposite Slopes] cross at the area that coincides where price does indeed Gap Open - and price shows a Change in Behavior by forming an extremely wide range bar that closes near its highs. In many ways, you can think of these Lines of Opposing Force projecting a sense of a time where Price MAY exhibit a Change in Behavior. And in this case, Price and Time came together, and a Change in Behavior seems to be happening.



Although Shane's Market Map going into Monday's trading was 'picture perfect', he did not see a high probability trade entry set up that he uses on a regular basis to allow him to enter a trade. The majority of traders feel they must have an open position if they are watching the market; successful professional traders learn they survive and prosper by taking trades that have a successful outcome for them on a consistent basis. There are often days that go by when they 'know' where the market is likely going, but they have no edge, no acceptable money management stop or they don't see a high probability trade entry set up they use - and so they don't take a trade. We have seen that when we show live action and 'bar by bar' replay during our Market Geometry Live Mid-Day sessions, mid-sized and retail traders find it at first surprising that we watch without positions even when our Market Maps are so accurate that particular day and then they find it comforting, because it takes some of the pressure off of them to always have a position any time they are in front of the screen watching the market.

At the end of Monday, Shane made a single addition to his Market Map from Sunday night: He added a green up sloping Median Line [or pitchfork] to project the probable path of price if Monday's Gap Open Low was indeed a significant low and price continued higher Tuesday.



Tuesday, Shane took a personal day away from trading and wasn't present at the Live Market Geometry Mid-Day Session. But we all peeked at his Market Map from the night before to see if it had any relevance to Price. You can see that price Gapped Open higher, above the blue up sloping Center Line, above the red down sloping Reaction Line, above the green up sloping Median Line and above the black horizontal Multi-Pivot Line. If you push your chair back and look at the chart, you'll see Price gapped open above an area where these all meet or clump together - And you should consider this a form of Energy Point. This area is a Price Attractor, but you have to watch Price for it to tell you how it is going to react at this Energy Point.

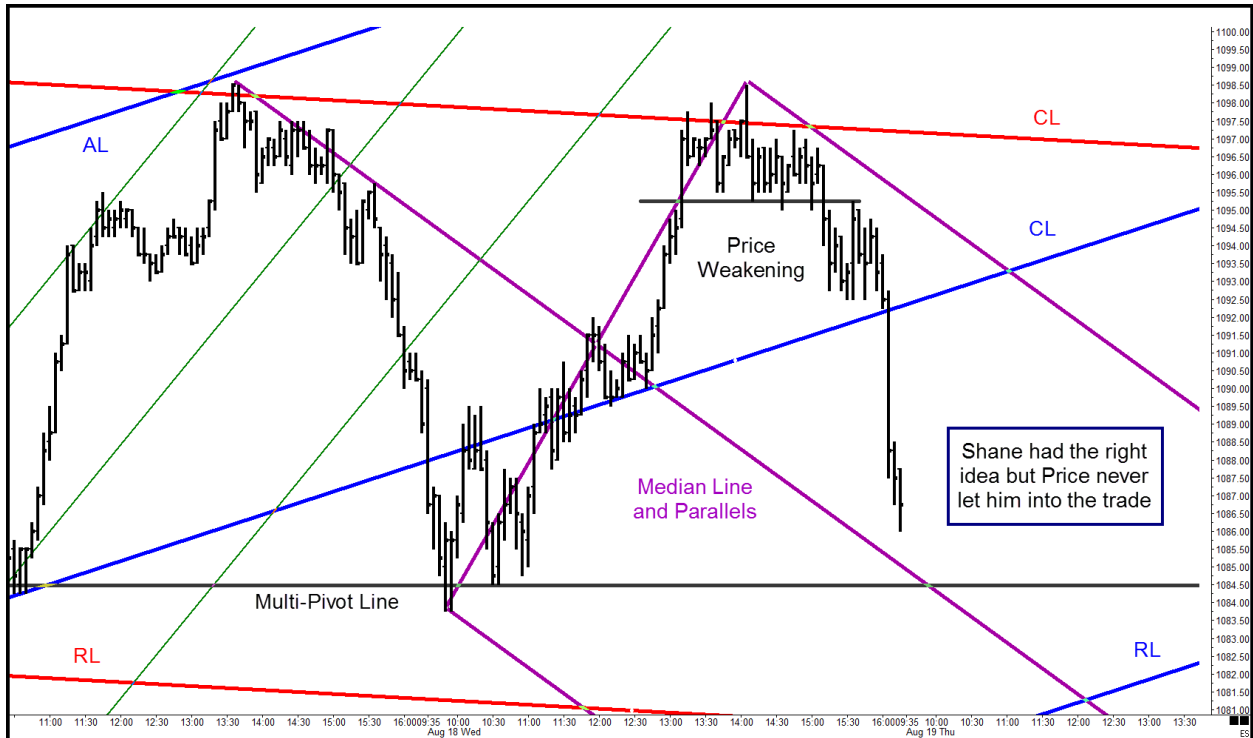
Dr. Andrews, one of my early Mentors and the person that gave us Median Lines and did years and years of research on Action Reaction Lines, taught that if price zoomed through a Median Line, it would come back and test the same Median Line. This is one of the high probability trade entries we teach at Market Geometry, after we put in countless thousands of hours of research on various Median Line trade entry set ups. Now that price has gapped or zoomed above the Median Line, you can buy the retest of that Median Line; in this case, there was no acceptable initial stop loss at this point, so I would personally pass on the trade. But Price has left a poke with a double bottom formation that did recently test this up sloping Median Line. IF price retested the Median Line again within the next three to five bars, I would buy a retest of the Median Line [and in this case, a retest of the Multi-Pivot Line and blue up sloping Center Line as well] with a stop roughly five E Mini S&P ticks below the prior test, which was the low of the day.



This is a set of Shane's Market Maps from the week, but I could not resist showing the gorgeous trade opportunity he had prepared for when he did his Market Map the night before; again, he had personal business to take care of, and did not trade this day. But this is how I would have traded his Market Map [I could have written that Shane took this gorgeous trade or that I took it, but again, our focus at Market Geometry is to teach people interested in trading how to trade and manage their trades as professional traders - and there are simply days when you have other things to do, or you miss a set up. There's no shame in that! That's life as it really is! I know showing potential trades we missed or losing trades, as well as teaching people how to set up Market Maps and become consistently profitable traders takes a great deal of emotional pressure off of them; professional traders miss trades. There will always be another trade. And even the best professional traders have losing trades 35 to 40 percent of the time. If you can keep your Risk Reward Ratio high enough, you can make a very good amount of money with a winning percentage approaching fifty percent.

I note the high Risk Reward on the potential trade set up [6.5 to 1] and I also note that when price did turn lower on the day, it was right at the red down sloping Center Line from Shane's Market Map, a line he added to his charts Sunday night.





The sell off accelerated and never let Shane into the trade. You can see that even with just over an hour left to trade in the day, the 'imbalances' pushed Prices quite a bit lower; he had the right idea but sometimes, Price doesn't allow you to enter at a price with an acceptable stop loss - and chasing price in a running market is usually a losing proposition. Again, we strive to teach traders to trade and manage their trades as professional traders manage their trades. Sometimes you have the right idea but can't find an entry with the right Risk Reward Ratio, or the Initial Stop Loss is too large for you or Price doesn't let you in; don't waste your focus being frustrated or angry! Prepare for the next trade - There will always be another trade opportunity!

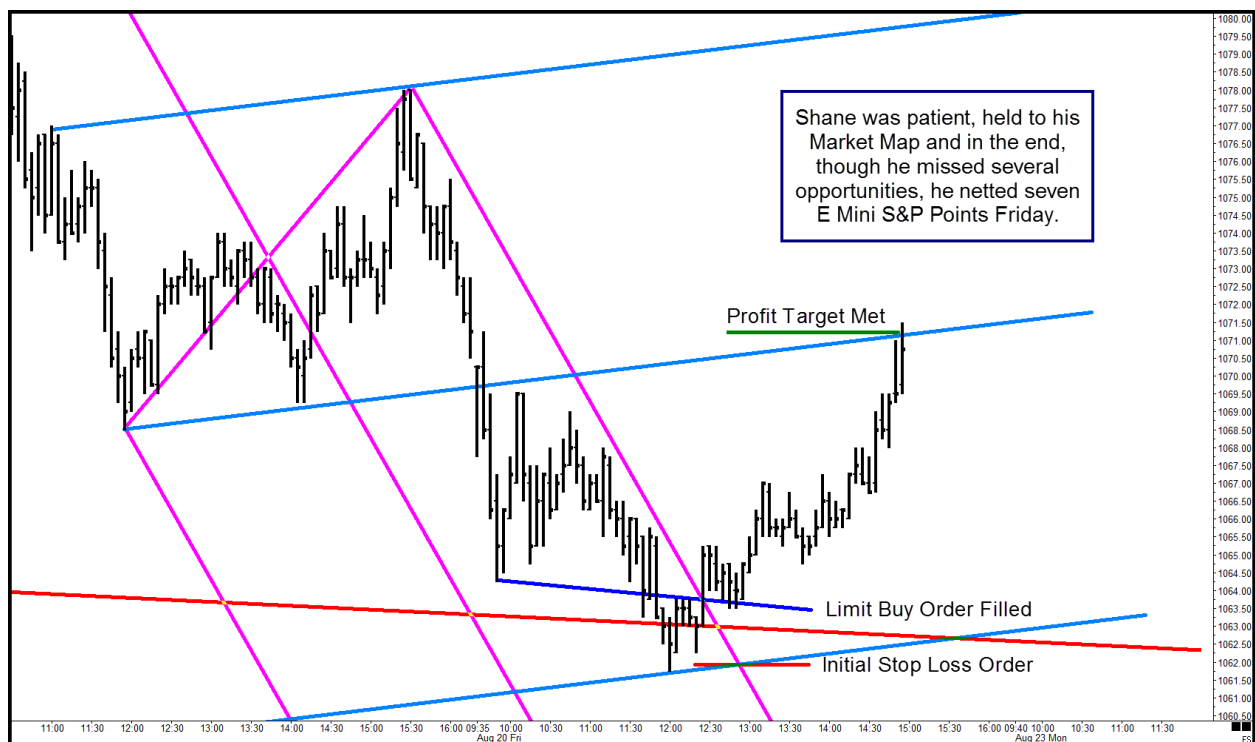


Thursday also brings no action that Shane finds interesting enough to open a trade in the E Mini S&Ps. But by Friday's Live Market Geometry Mid-Day Mentoring Session, he is watching and carefully watching an area where IF price is going to exhibit a Change in Behavior, it will probably be here. This is the price area, off the original Reaction 2 Line, where the early week rally began. Price has left some markers, triple tops and a Multi-Pivot Line connecting some bottoms and tops, that Shane is watching closely. If he sees Price show strength and can find a trade entry set up with an acceptable Risk Reward and Initial Stop, he'll attempt a trade in this area.



Once price breaks above the triple tops, Shane feels confident the Original Reaction Line 2 will hold, as it did earlier in the week. He diagrams his trade out live in the Mid-Day Session. This trade will have a Risk Reward of four to one, which is quite nice. Risk Reward Ratios above three to one really help keep your trading account balance healthy.

Now Shane has to wait to see if Price will fill his Limit Buy order and give him a trade, winner or loser, in the E Mini S&Ps this week.



Price finally let Shane into a trade in the E Mini S&P futures just after the Live Market Maps Session ended Friday afternoon. He netted seven E Mini S&P points on this trade - which had a very nice Risk Reward Ratio of four to one. And although many people might think he spent the week kicking furniture because of missed opportunities, he had several nice trades in the U.S. Ten Year Note futures, so in truth, he had a very nice week trading.

I hope some of you take away an understanding that the market does what it wants and using your focus and energy being angry about not getting filled or about being away from the screen when a trade you were stalking finally hits - and you miss it - is only a waste of your focus and energy. Professional traders live with this day in and day out; those that are consistently profitable learn that this is a part of trading. How do we deal with it? We make our Market Maps, study the markets, do research, and manage the trades professionally that the market allows us to enter.

I hope it was interesting watching an entire week's set of charts and potential trade entries from a trader that I taught and mentored. He's now a full time professional trader and I certainly respect his charting abilities, as well as the way he has mastered himself, which is the most difficult part of becoming a consistently profitable trader.

That's why my tagline since 1987 has been:

"Master your tools, Master yourself."®

Timothy Morge