Only Price Pays So Lets Focus On What Matters

As a trader looking to pull money out of the market on a regular basis the only thing you are really looking for is for the price of the investment you bought or sold short to move in your favor. So common sense tells us that "Only Price Pays". If the price does not move then you do not make any money, it's that simple.

If you think it's going to help you become a better trader by reading financial articles, watching the business channel or listening to several other people's opinions you are sadly mistaken. That is the absolute best way to undermine all your hard work, analyzing the market. The last thing you want to be doing is second guessing yourself each time you are placing a trade.

Remember most news and surprises follow the direction of the trend. Even if the news is against the underlying trend more times than not price action will be nothing more than an intraday or one day blip on the chart. So ignore the news, rumors, opinions, tips and your emotions - Be a Technical Trader!

If price movement is what pays us then it’s only logical that we focus mainly on the price. Remember, most indicators are based off of price, so they lag the last traded price for a investment. Some indicators like the 50 day moving average which many traders use is actually lagging that investment by fifty days. How is a trader going to catch short term moves in the market when they are analyzing data that is 50 days old?

Don't get me wrong, some lagging indicators work great for specific trade setups. Myself I like to keep an eye on the 20, 50, 150, and 200 day simple moving averages. I only really like them when the investment has been trending for a long period of time and the price pulls back to the one of those moving averages. Generally you get a strong 1-3 day bounce off those moving averages the first time price touches them. But the point I am trying to make here is that if you want to be more of an active trader with daily, weekly or monthly trades to generate a steady income for you then you must focus on the things which have very little lag time and provide continuous trading opportunities. Surprisingly if you use the proper combination of indicators you can actually forecast short term price movement before price moves and I'm going to show you how in this booklet.

It is very easy to get caught up in using several indicators because there are hundreds of them. Unfortunately most are almost duplicates of the same data shown in a different format and many will completely contradict what other indicators are showing, leaving you confused, frustrated and likely trading without a clearly defined strategy.

The key to selecting the proper indicators and tools is to find indicators that represent different types of analysis (cycles, volume and market sentiment) so you do not have any overlap, you can then create a synergy of confirming indicators that will allow you to accurately time market tops and bottoms, and predict price movement in the near future. Before we dig into the analysis let me share with you a skill which you must master and if you can master this one skill, then I have no doubt you will be highly success with your trading and investing.

SINGLE-MARKET ANALYSIS

Trading With LASER-BEAM Focus

As you likely know there are so many investment vehicles for us to choose from to trade like Rydex funds, mutual funds, stocks, ETFs, options, futures, and currencies. What do you trade? Let me tell you what I trade and why because there is a little secret that I share that will save you a lot of time and make you a ton more money:

While I do not have an issue with any of those options above, I do know that a trader must start somewhere. Instead of going wide (trading all kinds of things and jumping around) you must go deep and truly learn one investment really well until you can pull money from it on a consistent basis. Once you master one you can start to learn another, and another... and grow your strategies over time.

You Need To Put On Blinders

The SP500 is what I love to analyze, trade and time, and for many reasons:

- Each investment has a personality of its own in terms of how they move, how fast they move, do they pay dividends etc... So it only makes sense that each stock, index, bond, currency, and commodity must be traded differently. With well over 8,000 stocks, hundreds of ETF's, and index futures available it is virtually impossible to master them all. But you need to start somewhere and the SP500 has proven to be the most consistent moving investment with the most tradable price action I found. And the fact that it's the #1 traded futures contract confirms it.

What I like about it:

- Consistent profitable price fluctuations on the intraday and daily charts
- Highly liquid investments based around it (ETFs, Options, Futures)
- Watch and traded by big money players providing many of the opportunities we will be trading.
- Multiple levels of leverage available 1x, 2x 3x, and 50x, leverage depending on your investment vehicle
- Pays quarterly dividends (on some vehicles)
- It's the benchmark index everyone tries to match, so why not focus on maximizing its performance!
- You can trade a large position sizes and in many cases all of your portfolio on this one investment (dependent on time frame in which you trade and investment vehicle used). This is a basket of 500 stocks providing diversification within one simple position.
- Focusing on only one investment cuts down the noise and makes trading and position management simple.
- Allows you to drill down and analyze the trends, cycles, volume, and trader sentiment of the market for improved trading accuracy. Its only logical that if you know more about one particular investment than everyone else don’t you think you can make money trading it? You sure can!
- **Secret:** Once you learn how to time the SP500 tops and bottoms you use the same timing signals for the Dow Jones, Nasdaq, Russell 2000, hot sectors, high beta stocks.

Identification of Market Tops and Bottoms – Cycles

I'm sure you have heard the saying; a rising tide lifts all boats.
Well, think about a rising or falling tide and what it does. Dinghy's and yachts are equally affected by the up and down motion of a tide.
Similarly, both weak and strong stocks are greatly influenced by the rise and fall of the broad market (SP500).

After all, the market is the sum of all stock action. The interesting thing here, is that most stocks, like boats in a tide, tend to move in a synchronized motion no matter of the valuation or news surrounding each individual stock.

If on any given trading day a stock's price could move up or move down, and the direction was random, we would see on average, half of all stocks rise up and the other half moving down. This would lead to the broad market being flat or not moving up or down. But the reality is, on any given day, a majority of stocks will be moving in the same direction. This tells us that there is a directional influence and that not all movement is random for individual stocks.

The forces which move the financial markets are not as vague as you may think. A large part of market direction is the effect of regular cyclic forces in play. These cycles are much like waves in the ocean where the rhythmic motion of the water forms a series of peaks and troughs.

Cycles can be identified and measured over time but their length and height (amplitude) will change slightly from time to time. These cyclical patterns in the financial markets are created from a variety of recurring economic conditions, calendar events, and human behavior. What is exciting about this is that these periodic cycles continue to re-appear over time with a high degree of predictability.

To the untrained investor these seemingly random explosive moves in the market are actually predictable. They tend to occur when multiple cycles from multiple time frames converge forming a significant low or high at the same time increasing the probability of price reversing direction and with a lot of power behind it. The combined force of each creates an enormous move that takes most market participants by surprise, but not for the strategic trader!

As we will discuss later, many of the cyclic influences are derived from calendar based events, while others are unclear in terms why they exist, but are reliable in the fact that they do appear regularly on the chart.

The Only Leading Stock Market Indicator That Works

In 2001 a fellow trader got me interested in stock market cycles and at that time there were only a few others trying to figure out how best to identify, apply, and trade using the information. It took me by surprise but after researching, analyzing and building my own proprietary tools based around cycles in combination with market sentiment it became clear that cycles in the stock market were real, and incredibly consistent!

You will not see these kinds of forecasting results anywhere else. This shows you where institutional money is going, and how long a particular trend will last.

It drives me crazy when I hear people say you can't predict the markets. That's like someone saying to a golf professional that you can't predict which way the wind will blow your ball. You can't control the wind and gusts, but you can monitor it and understand with some certainty how to utilize the wind direction and speed.

The bottom line is that cycle analysis has improved my timing for entry, profit taking and exits which obviously helps to boost trading profits and return on investments significantly.

What Creates Stock Market Cycles?

Interestingly, the stock market has several waves of oscillation within their own price movement. Waves within waves. Let's consider some of the reasons why those exist.

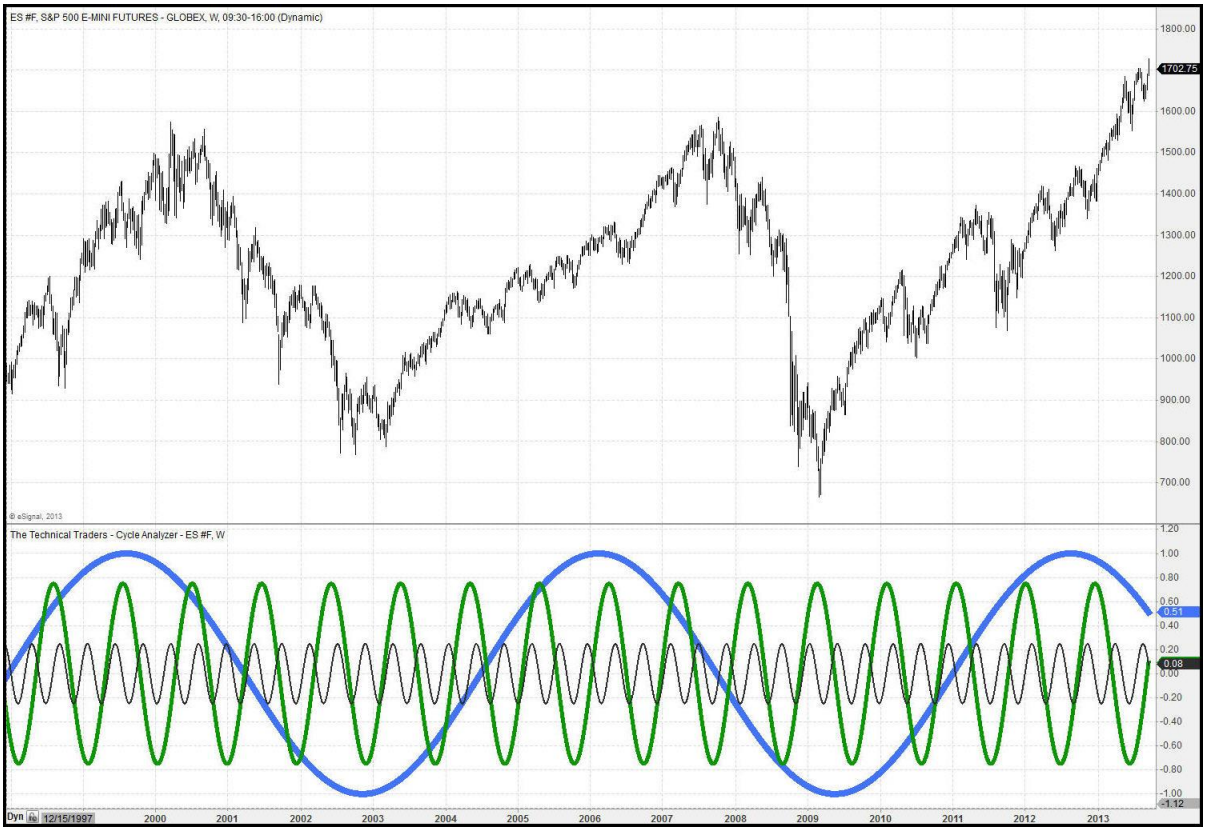
The flow and periodic price motion for any given stock or broad market can be caused by:

- Economic Data can cause large waves to money to flow in our out of stocks, sectors or indexes as a whole.
- Quarterly earnings reports can affect the perception of a stock's potential going forward and can trigger a wave of buying or selling from the anticipation, or release of the results.
- Seasonal sales causing an increased interest in the sector or stock, frequently seen in the retail sector before or after holidays.

- Stock options expirations on a regular basis, and is used by traders to hedge positions that cause extra buying or selling after expiration.
- Bi-monthly fund contributions whose members deposit money with each paycheck.
- Herd/Mob psychology known as Market Sentiment Traders move in sync like a school of fish when extreme fear or greed is surging through their veins.

The Key To Cycle Analysis: It's not the "why" cycles move the way they do that is critical, rather, it's knowing the direction and the size of each developing wave that really tells you ALL you need to know to start earning big profits and properly protecting yourself against reversals.

Visual of Stock Market Cycles:



The same theory and cyclical factors for individual stocks can be applied to the stock market as a whole to dramatically improve your market timing and profits. Remember that fear is the most powerful force in the stock market. So when analyzing cycles, be sure to focus on matching cycle lows with price lows.

In order to identify the most active cycles and their direction, speed and frequency within a market, commodity, currency or an individual stock for that matter you'll need a spectra tool. Armed with this financial information, we can know with confidence whether it's time get off the train, or time to get on for a ride.

When we apply this knowledge to the market index, we can see the data arranged in waves along with which wave lengths have the most or least power behind them. This method of analysis allows us to instantly identify the important waves which are moving prices for virtually any type of investment like individual stocks, sectors, indexes, commodities, silver, gold, crude oil, currencies etc...

Cycle Lengths To Focus On

There are three dominant cycle times in the market which I focus on: Investing Cycle, Swing Cycle, and Momentum Cycle.

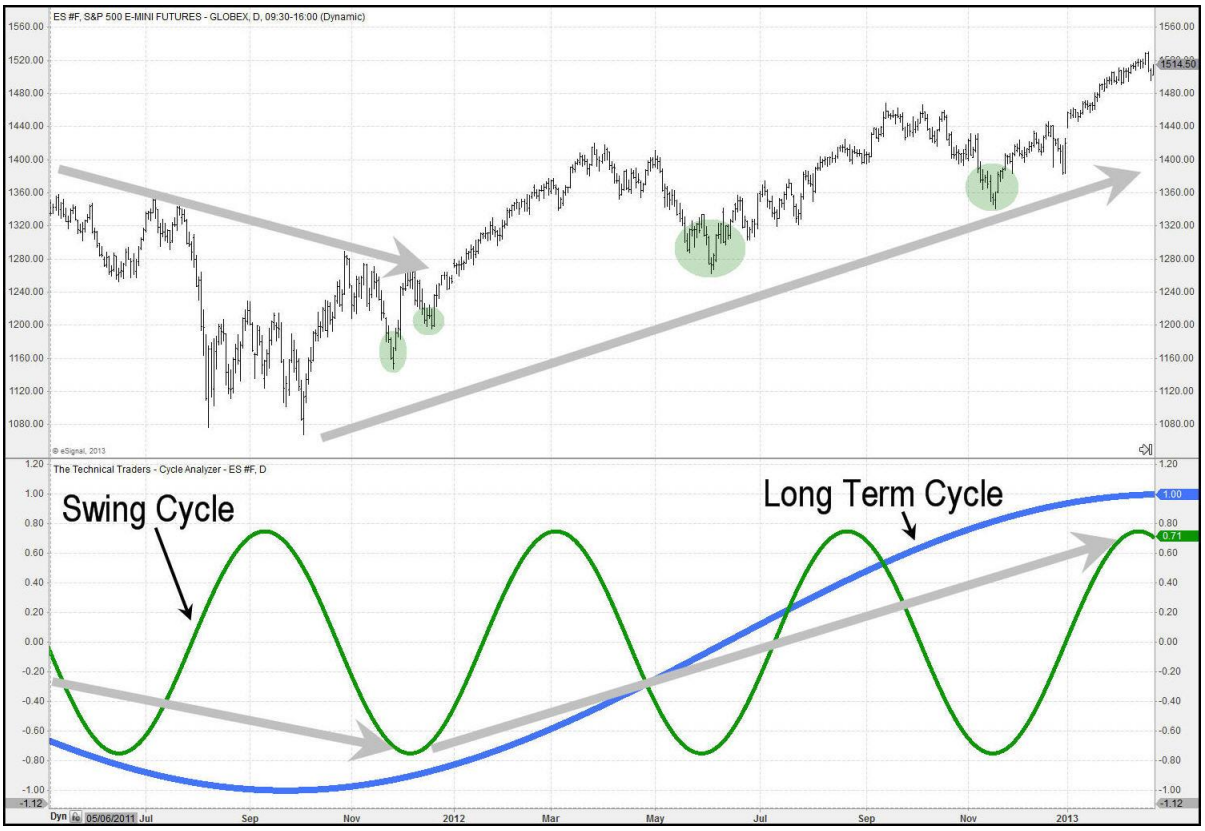
Investing Cycle is the longest cycle I follow. It ranges between 5 - 10 years from trough to trough. It's trend is very powerful and I use this analysis for my long term investing portfolio, which being in Canada is my RSP (Registered Savings Account), for American's it would like a 401k or IRA.

The investing cycle has the largest amplitude of all the cycles we follow. When this cycle is moving up, its directional force will provide extra lift in the market when the shorter-term cycles are moving upwards. When the shorter cycles are moving down against the investing cycle price may only correct briefly or simply pause (trade sideways) until the shorter term cycles are clearly heading back up.

Remember, Cycles are more of a forecasting tool giving you advanced warning of a trend reversal. So do not jump the gun and try to out think the cycles by getting into position early. You first need to see the cycles moving in your favor with price before getting on board with the trend.

Swing Cycle which I consider to be the most profitable trading cycle in the stock market has a cycle length of about 2 - 3 months. You will often hear me refer to this cycle as the current trend. If this cycle is rising then the trend is up, if it's falling then the trend is down and we trade accordingly.

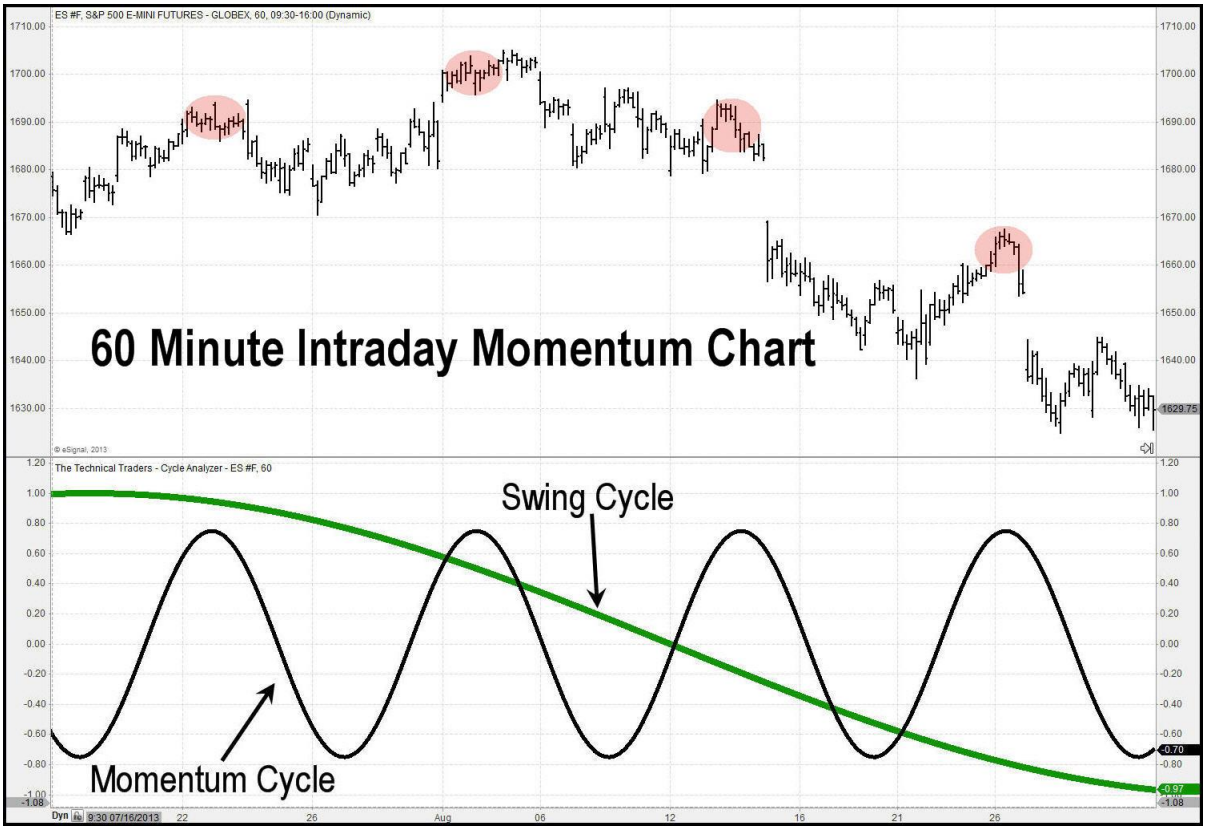
Here is what that can look like:



The Swing cycle is the foundation of my analysis as it identifies the current market trend, and it is also what my core trading strategy was built to trade from. This cycle clearly helps determine the best direction (long or short) for trades. Focusing on long positions during an uptrend (trading with the trend and buying when swing cycle bottoms) are most profitable plays while this cycle is rising. Taking short positions (counter trend trades) are more risky and must be actively managed for small quick profits. Shorting the market when the swing cycle is trending down will be the most profitable positions (short selling during swing cycle tops). Remember that prices tend to fall three - seven times faster than they rise so when shorting the market be ready for fast moves and be ready to take profits off the table.

Four to six times each year, the Swing Cycle will bottom, When that occurs, it represents an exceptional buying opportunity within a bull market in which markets will typically rally 5% - 15% in the following months. During these times there will be multiple entry points using my secret volume and sentiment indicator along with the momentum cycle bottoms to get you properly positioned.

Momentum Cycle has a length of about 1-5 days. This is the shortest cycle I trade because it can provide quick profits each week. Also the momentum has enough movement behind it that even if you have a bad entry or exit point and sometimes both, you can still make some money.



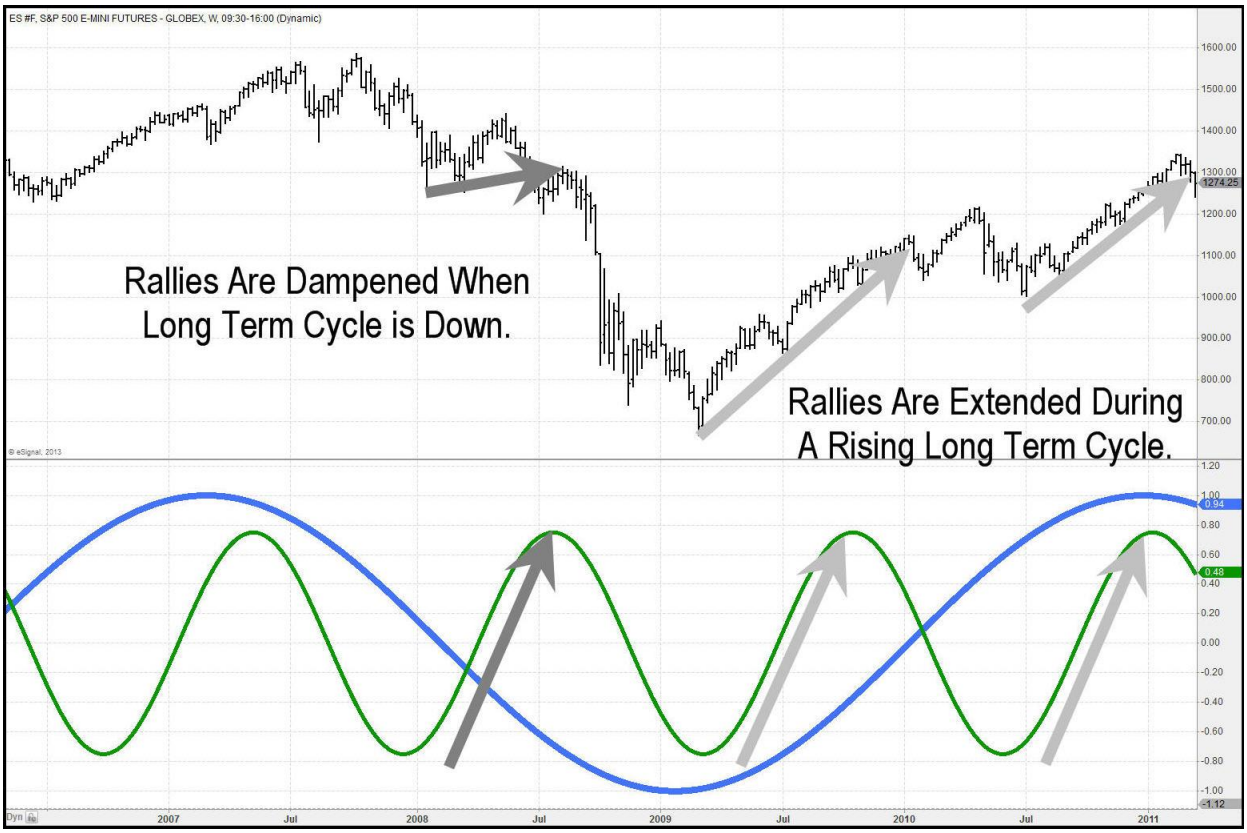
A simple use for the momentum cycle is to wait for instances when it has bottomed and turned back up. Only then should you be looking to enter long positions. And the opposite during a down swing Cycle as shown in the chart above with a down trend. You want your short term trades to be in favor with the longer cycle.

Remember cycles forecast price in advance so if you try to front run (IE, get in early before cycle tops/bottoms) your timing will likely be poor which can result in losing trades. Also keep in mind, some of the strongest moves in the market take place just before a trend reverses so do not try entering earlier or it may be costly.

The bottom line is that we can see where cycles will be in the in the coming days, and even weeks, and by adding a few confirming indicators through the use of technical analysis, we can position our trades to profit from the next market move!

Boring but Critical - Understanding Cycle Damping

The longer the cycle length, the stronger it’s influence. But when multiple cycles are forming tops and bottoms at different times the market can get choppy and volatile. This is typical during a transition period in the market similar to when the stock market is basing after a long bear market also known as a stage 1 phase. And will also occur during a stage 3 topping phase like what we have seen in 2015 and January 2016.



In the chart above notice the long term cycle (blue line) is trending down. In a down trend, shorter term cycles including price are "damped" or compressed. When the shorter term cycle is trending up, price only moves up a little or only trades sideways because the longer term cycle has a negative effect on price.

Now, compare the price when the blue and green cycles move with a rising longer term cycle. Pullbacks are shallow, and rallies are extended.

This is why we focus on trading with the trend. We avoid "counter-trend" cycles as short trades, though it is wise to lock in some profits when a pullback is likely to start as part of your trading strategy. If anything, during a trending period, we'll use counter-trend moves as a method to time our profit taking and/or re-entry into the current trend.

The only thing that will affect the swing cycle's strength, is the direction of the long term cycle. When both are moving in the same direction, be prepared for some very strong market moves. When opposing each other, look for extended periods of a sideways and choppy market.

While cycle analysis is very powerful it still requires additional analysis, and position management to be sure you enter and exit the market at optimal times with the most profits possible.

Turning Cycles Into Profits

Whether you are an investor or active trader, my cycle analysis identifies key turning points for all types of traders before a trend change is likely to occur. The strength of cycle analysis is in its ability to identify those turning points without the lag effect found in most technical indicators. It can provide you with valuable insight into current cycle behavior that can help you better plan your positions entries and exits.

What are the Key Benefit to Using Cycle Analysis?

Cycles are the one indicator that allows us to predict the direction of the stock market.

1. It tells you which direction the market is trending.
2. Shows us when a change in the trend is about to take place, allowing us to take profits and prepare to change strategies.
3. Identifies pullbacks or bounces, which we can use to lock in gains or re-enter a trend.
4. They alerts us to price swings before they happen.

Cycle analysis is unlike anything you have ever used and when applied to complimentary technical indicators and trade management you have a very complete, simple and profitable trading strategy for all market conditions.

Cycle analysis will become an invaluable tool for your long term success as a trader. Having this information gives you an edge on knowing when those key turning points are developing in the markets, and better yet, how to manage your positions and anticipate your next trade.

Volume = Power = Sentiment

Volume plays an equally important role in order for us to understand price. While most individuals look at volume in terms of how much power/commitment is behind a price movement when reviewing chart patterns, I on the other hand look at volume completely different.

I read volume as a gauge for market psychology as it can tell you what is going on in the emotional psyche of buyers and sellers. Volume and price have a symbiotic relationship that go hand in hand and experienced traders understand how to analyze and interpret them together.

Volume is the best indicator of how emotionally invested individuals are at any specific moment, for instance, high volume may indicate emotional commitment, or mania, while low volume may indicate complacency or apathy, or nothing at all. Understanding the movements of the market, as it relates to volume, can help you significantly as I will show you in the following pages.

It is important to know that volume has always been used by traders as a confirming indicator, buy my unique NYSE Volume Ratio Secret indicator turns this data into a leading indicator!

The NYSE's Secret Weapon: Using its Volume to Your Advantage

I use the NYSE up and down volume to measure market sentiment, which is basically a way to gauge fear and greed of the majority of market participants. By simply dividing the up volume by the down volume or vice-versa, is creates a ratio indicator that shows you when everyone is either buying or selling shares. Think of it as people are being greedy or fearful. This is a powerful tool because it helps in identifying tradable short term market tops and bottoms thus allowing us to enter, re-enter or locking partial profits within a current trend.

Also these ratio spikes of greed and fear allow us to identify peaks and troughs during a sideways trading market. This secret weapon when used in conjunction with cycle analysis dramatically improves our market timing while filtering out false tops and bottoms which most traders fall victim to picking.

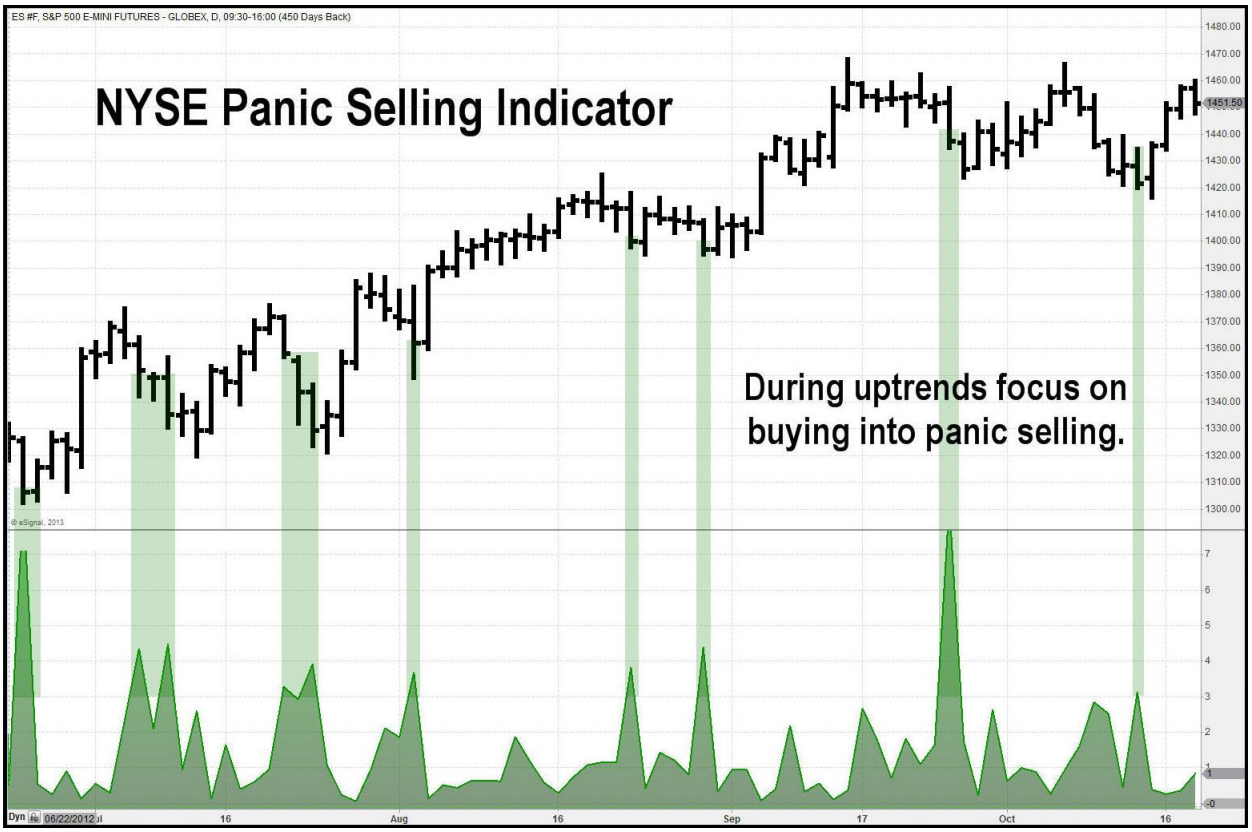
I don't know of any other traders who use this data, but in my opinion this information is critical in order to get a feel for the current sentiment (mindset/emotional level) of market participants. Remember we want to know what the Herd is thinking so when they are rushing to buy or running for the exit door to sell we will be ready to take the other side of their emotionally driven market.

NYSE Selling Is Your Buying Opportunity: Down Volume / Up Volume

This calculation tells us the ratio of sellers to buyers on any given day in real-time. It is calculated by taking the NYSE down volume and dividing it by the up volume. It measures panic selling and acts as a contrarian indicator. Panic selling to me is when the majority of participants are overly bearish and fearful on the market. This causes large waves of selling warning us that prices are likely moving to far in one direction and price will likely give back some or all of the recent move that was created by this emotional surge of volume.

When this indicator is above 3 it means there are 3 times more shares being sold than there are being bought on the NYSE. This tells us that the majority of traders (the herd) are running for the exit door selling their positions. Obviously the higher this indicator moves, or the longer it stays above 3, the more potential there is for a sharp rebound in price.

Notice how this indicator typically leads the price reversal to give us early warning of a market bottom.



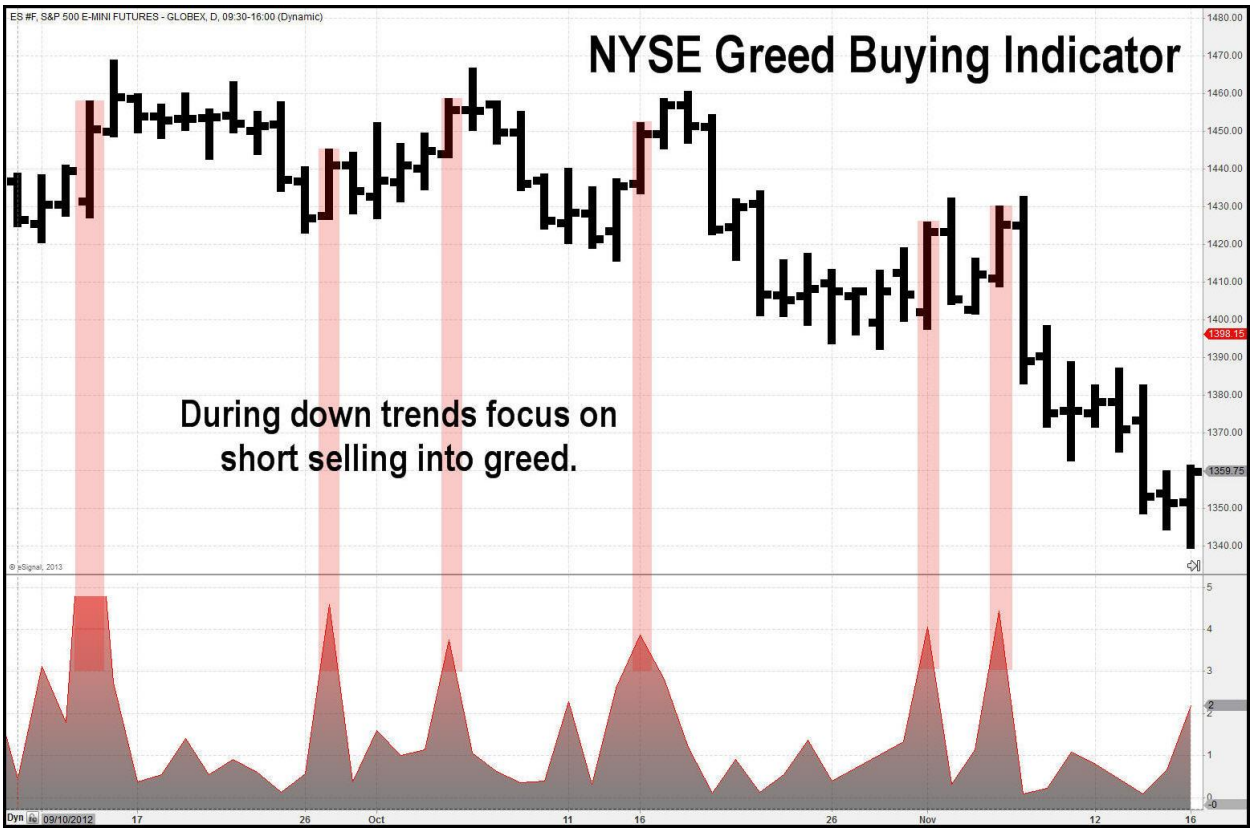
NYSE Buying Is Your Selling Opportunity: Up Volume / Down Volume

This calculation tells us the ratio of buyers to sellers on any given day in real-time. It is calculated by taking the NYSE up volume and dividing it by the down volume. It measures panic buying and acts as a contrarian indicator. Greed based buying to me is when the majority of participants are overly bullish on the market.

This causes large waves of buying and short covering in the market warning us that prices are likely moving up to fast and price will likely give back some or all of the recent gain which took place during the greed induced volume surge.

When this indicator rises above 3 it means there are 3 times more buyers than sellers. This tells us that the majority of traders (the herd) are buying. Obviously the higher this indicator moves, or the longer it stays above 3, the more potential there is for a sharp reversal to the down side as it is a contrarian indicator.

Notice how this indicator typically leads the price reversal to give us early warning of a market top.



What to Trade & The Correct Instrument

Let me present some strategies and investment vehicles relevant to bullish, bearish and sideways trending markets and the benefits of each.

Index Trading with Exchange Traded Funds (ETF's)

These funds are easy to trade. They trade like stocks but are designed to mimic the price movement of a specific underlying investment.

Here, you literally own a fractional share of the underlying equities of the index, for each share of the ETF purchased. These shares can be traded like a stock, at any time without additional restriction and can even be traded in extended pre and post market hours.

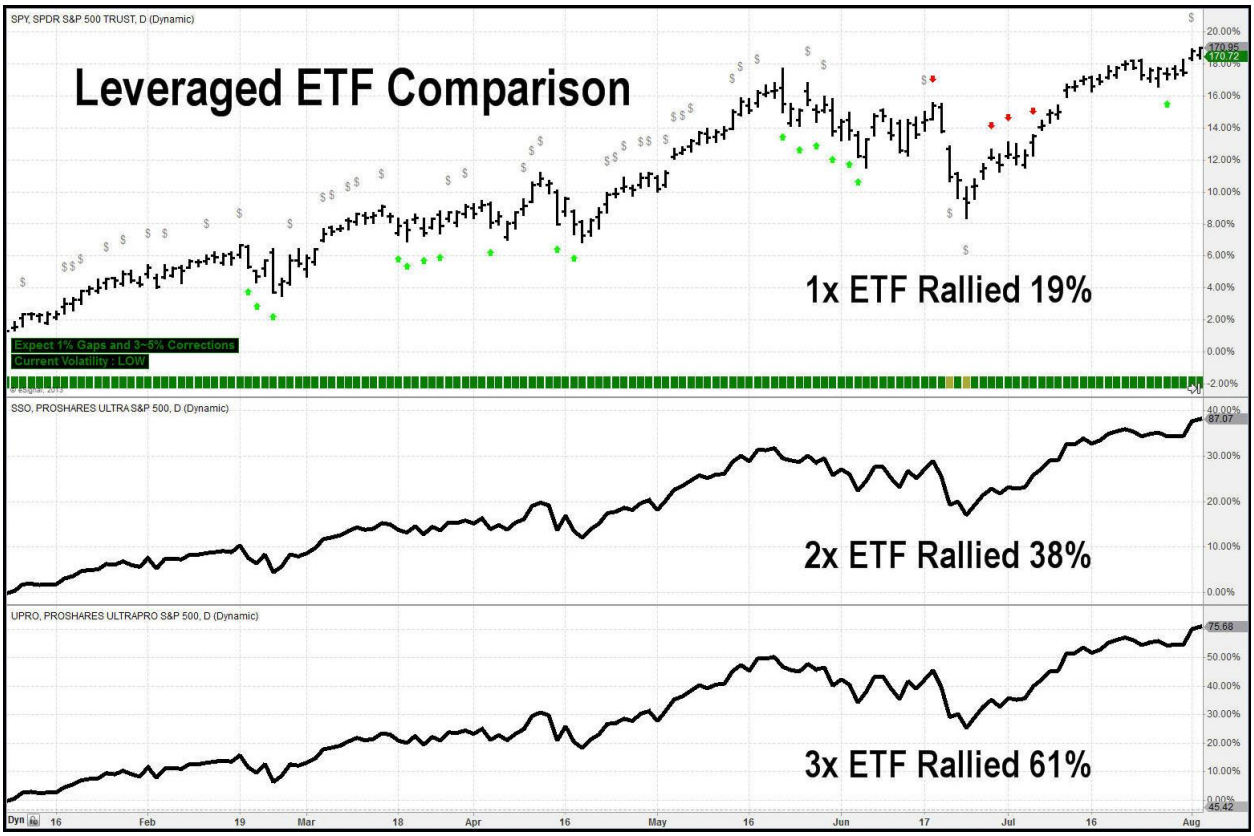
Leveraged ETFs:

Also there are now leveraged ETFs available giving you 2x and 3x the percent move of the underlying index. For example if the SP500 or SPY ETF moves up 1%. If you had bought the 3x leveraged fund your ETF would move up 3%.

Inverse ETF's:

Many traders and investors do not like to short the market and an even larger group don't even know what shorting means. Shorting the market means you are borrowing shares from your broker and sell them in the open market. You hope to buy them back at a lower price and return them to the broker to pocket the difference in value for a profit. If you don't understand this concept do not worry.

Because there are now inverse ETF's allowing you to profit from a falling stock market and there is no need for shorting anymore. These ETF's move up in value as the stock market falls. All you do is buy an inverse fund which is also available with 1x, 2x, and 3x leverage and watch the price move higher in your favor as the stock market falls. Consider how ETF's could be played using our market analysis signals.



These ETF's follow the movement of the SP500 index and as you can see they move the same. Only difference is that the leveraged funds move in multiples of the underlying index.

Options Trading on ETFs & High Beta Stocks

Using options it is important to exit trades quickly because they are highly leveraged and lose value through Theta (time decay).

You would normally use at-the-money options for optimal leverage and generally select options with at least three or more months of remaining time. The purpose of this extra time is to limit the amount of time decay that can occur during the holding period.

In this instance, if we utilized the same trades using timing signals. We simply need to modify our approach with another type of trading instrument (options) and exited more quickly. The results are dramatic. For example, if the SPY ETF moved up 5%, we can boots our profit to 100% return on the same trade signal.

Index options are one of the simplest strategies to profit from the market's direction. No stock or ETF ownership is involved as it is purely an option play on markets and always settles to cash. The advantage of trading options is that the moves tend to be highly leveraged and swift. The disadvantage is that they tend to be a little pricier than tracking stock options and they are more susceptible to time-decay as they can burn up a lot of time premium before a significant move may occur.

Remember options are a great way to profit from the market if you have a small account size. And they allow you to profit in both up and down trending markets.

High Beta Stocks

As talked about earlier, three out of four stocks move with the broad market as a rising tides lifts all boats. But, finding stocks that will move in concert with the markets requires some additional research to be sure you are trading the correct ones.

Here we are looking for stocks which are helping to create the market's overall direction. In other words, the stocks we seek should mimic the movement of the market.

There are several ways this can be achieved, but a simple way is to look for stocks that have a high Beta. Beta is a measurement of a stock's performance relative to the overall market. A Beta of one means a stock's price and the broad market both move about the same on a percentage bases.

For example, if the SP500 moves up 1% a stock with a one beta should have also moved up 1%.

A lower Beta suggests that the stock underperforms the market. For our purpose of trading, we will look for stocks that outperform the market with a beta of 3+. Their price movements are exaggerated and will provide a somewhat leveraged opportunity for you.

For example: if a stock has a beta of three, then a five percent move in the broad market could produce a 15 percent gain in the stock. This is a great way of getting more bang for the buck without incurring the risk of using margin or worrying about the time decay that options carry.

Be aware however, that you don't overstay your welcome. High beta stocks can move fast in both directions, so it is imperative that you manage positions based on the momentum cycle and our volume and sentiment leading indicator for oversold and overbought levels.

Closing Thoughts

I hope you found some of this information useful and that I made it clear that we as traders and investors can tap into the market's cyclical price action to grab massive returns in relatively short periods of time.

As a subscriber to my trading analysis and trades at www.TheGoldAndOilGuy.com you will see first-hand that there is no point in holding positions and locking capital into positions when counter trends or potential trend reversals are about to form.

Chris Vermeulen