What's the Time? The Why and When of Market Turns

Intro from "Master Class II-Timing Gold": Many seasoned advisers scoff at the notion that market timing even exists, let alone that it is possible. I call this and similar views, the "Columbus Doctrine". This doctrine states that "If I don't know how to do it; it can't be done". Columbus sparked the most historic moment in the doctrine's long history when he actually sailed off the edge of the world (it was widely believed to be flat in 1452) and miraculously returned to Spain. His reward was riches, fame and honor. Though not the first to reach the Americas from Europe, that being Leif Ericson, Christopher Columbus is remembered on Columbus Day whilst poor old Leif languishes as a footnote in history. Even 7 centuries ago, a good PR agent was paramount!

Our theme picture today is the magnificent Sistine Chapel (1508-12) painting of the Prophet Daniel by Michelangelo. Daniel gave us the earliest documented solutions for the problems of universal "Time". And I don't mean hours and minutes!!

Market timing is one of those areas of market lore that attracts vehement and opposite responses. Some find it strangely seductive, whilst others loathe and dismiss the idea in its entirety.

So we have dedicated market timers on one side of the argument, and these folks believe that markets can be timed to the day, and we have the sceptics on the other side who find no use for market timing, plus of course all those whose ideas fall somewhere in the twain. Strangely, both groups are right, but not in the way they think, and today I will show you the real and valid benefits of market timing which I expect will be quite a foreign concept to most of you.

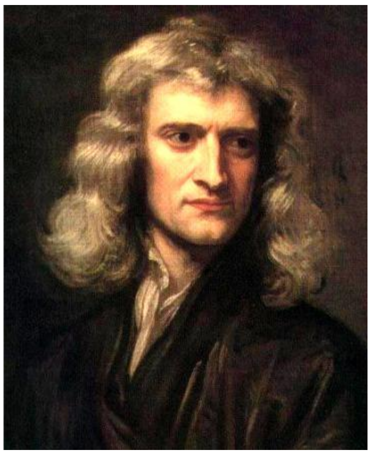
There are timing cycles in all markets. Many of them. Some inordinately long and of interest only to witchdoctors (economists), who will not live long enough to see the cycles repeated. Kondratieff Winters, Kuznets etc, are of no value to practical traders, even if the theory was true, which it's not, and some so short that they amount to not much more than wiggly lines which in truth require a hefty dose of booze or other substance abuse to glean any insight.

Third Way

Between the extremes of love and hate for the concept of market timing, there is (as politicians love to say), a third way. The Danielcode way. For those who seek to understand this methodology in more detail, there are two articles available at www.thedanielcode.com which lay out the methodology in some detail (see Articles "Master Class I-It's about Time" and "Master Class II-Timing Gold"). For the purposes of this article you need only know that the standard charts that you are used to seeing contain at least 4 Degrees of information. Price is the 1st Degree, Time the 2nd Degree and Volume is the 3rd Degree, whilst the most important, least visible and least understood is the mysterious 4th Degree, first identified by the famous (or infamous depending on your depth of knowledge) WD Gann. The 4th Degree is in Gann's words "An Angle".

Essential to understanding Danielcode "Time" charts is to use a 6 trading day chart. This is key as discussed in the articles cited above. To this we add the Danielcode proprietary retracements which you will find in the DC Library at Trade Navigator, along with the DC timing tool which Jeanie at Trade Navigator has kindly created for us. It contains the dominant "Time" cycles that rule all markets. WD Gann (really his mentor Sepharial who was a true Gnostic), told us that all markets are ruled by the Law of Vibrations. He expanded this bombshell by adding "but you are not ready for this knowledge", code for "Sepharial can see it but hasn't really figured it out yet". Sepharial and Gann were into Astrology in a big way. Indeed Sepharial wrote the definitive texts on this arcane art form, so it was no surprise that they saw astral and lunar cycles in charts, and these indeed form part of the cycles not only of markets, but of life itself.

As you will see, the Danielcode (coming not from Astrology about which I know nought, but from Science, and using the same source accessed by Sir Isaac Newton, the "Father of Modern Science"), has started to tear away the shrouds that have mystified the concept of market "Time".



Let's take 3 major markets that are of interest to most of you, S&P, Gold and T Bonds.

You will find that DC "Time" bars escalate on a base of 6, so a chart composed of trading bars each of 6 trading days duration (you can do all of this on Trade Navigator Charts which I used exclusively in discovering the Danielcode) are in effect a DC "week", 12 day bars are next in the pantheon of timing charts and 24 trading day bars are our equivalent of a monthly chart. All have truth to tell.

Let's start with the 6 day bar chart of the S&P. This is our primary timing tool. The charts below are from "Master Class I" published 05/15/09. We have a close only chart that established the dominance of the 59 DC week cycle into the 2007 high and then looked for prophesy to repeat as Daniel declared:

Dan 12:7 And I heard the man clothed in linen, which *was* upon the waters of the river, when he held up his right hand and his left hand unto heaven, and sware by him that liveth for ever that *it shall be* for a time, times, and an half;

And so it did on the next cycle expiration which allowed us to call the major low in March 2009, to the day and a few ticks.

Many have made this claim subsequently, in fact so common is this view now that I know hardly anyone who didn't call that historic low. But it was not so in the depths of the early 2009 stock market rout and panic. Fortunately, for the sake of veracity, I was conducting a Tutorial for DC members on that weekend and there is a nice body of folks who saw, and profited from this call by the "Time" charts, in real time.

Same chart on the more usual DC weekly bar basis showing the 59 and 44 cycles working together:

All market moves are fractals. That is the larger moves are made up of similarly structured smaller moves and “Time” has the same qualities. So we expect the time signals from the 6 day chart to be reflected as fractals in both the 12 and 24 day charts (6 is a fractal of both 12 and 24), and the occurrence of the same dominant time cycle in this market to signal the May 2011 high was as expected. We had noticed the signals from the 6 day chart deteriorating over the previous month which is a sure sign that fractals are in play and another view of the same cycles is warranted. In addition we had a 74 DC cycle expiring in the same time series. DC members know that 74 is the next number in the Danielcode ratio sequence.

The chart is below.

The DC “Time” charts are compelling evidence that these cycles exist and continue to hold sway over their respective markets, but I hasten to caution you they are not tradeable as stand alone signals in Futures. Life was never meant to be that easy!!

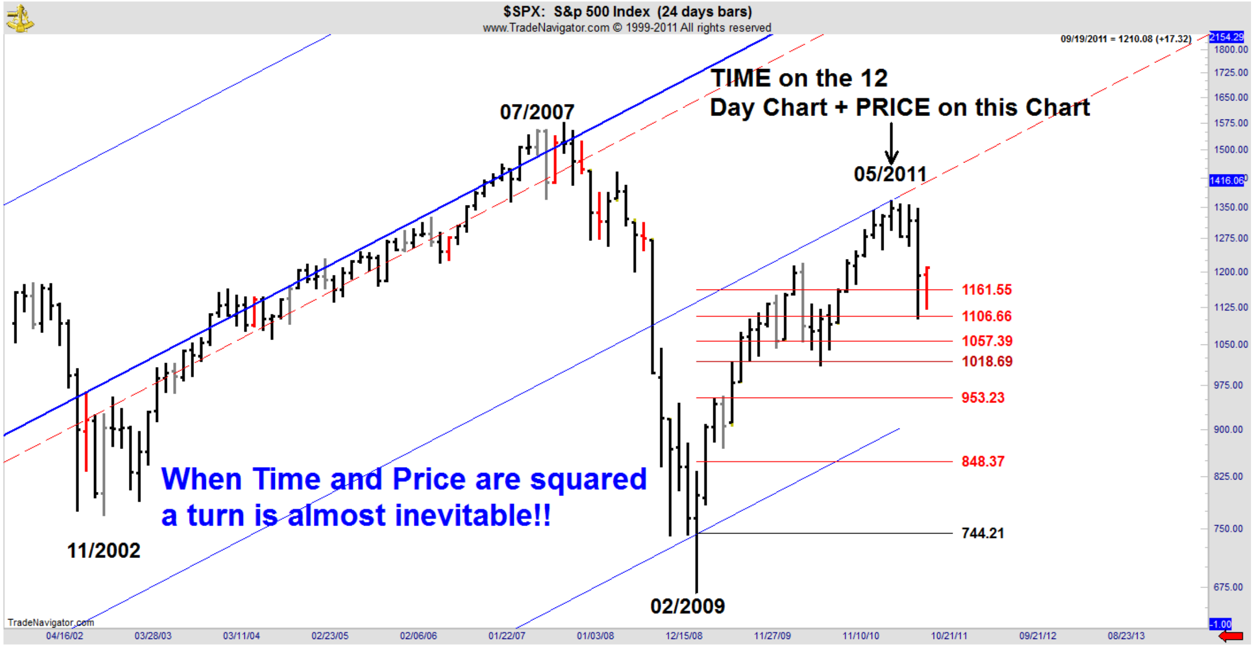
4th Degree

You will see on the above chart a series of diagonal blue lines being three iterations of the 4th Degree, “An Angle”, but I hasten to add not Gann’s angles for which we have no use. These are very special angles being the DC trading channels. The red and black lines are the DC retracements, parsing the pullback from the May top into the major swing. If you noticed that the market found major support at the 3rd iteration of the trading channel AND the 2nd level of the DC retracements, you are on to something. This is how the linear world of the 1st Degree (Price) interacts with the 4th Degree. Here is the objective truth of market lore. Markets exhibit this behaviour always. And on every fractal. But just as there are rainbows everywhere, you needs be standing in the right spot to observe the miracle!!

Rushing on with this brief look at how markets move, we encounter the same phenomenon on the 24 day chart (fractals again), and this time we look at a really long DC trading channel running from October of 1974 for which we use a semi log scale due to the length of time.

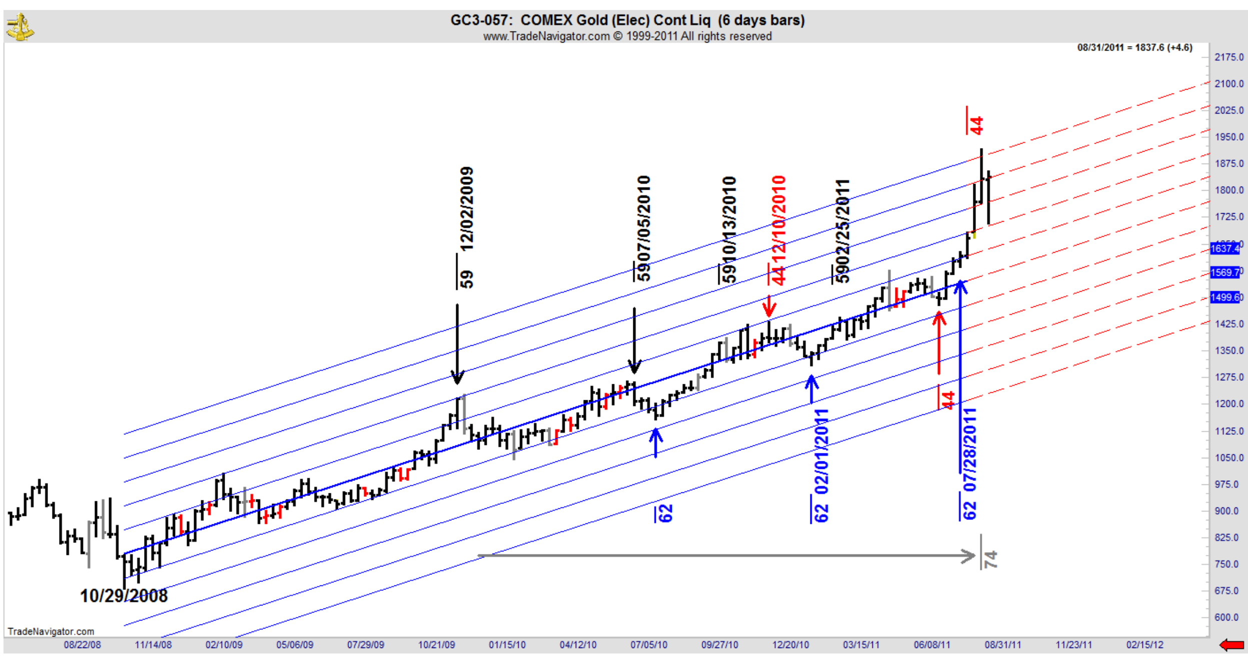
The chart below shows you how this market topped at the median in 2007, dropped to the 2nd iteration of the channel in 2009 and then rallied exactly to the bottom of the old channel as it sought to regain lost momentum. As the chart shows we had the magical mix of Time and Price being “squared” at the May high. “Squaring” of time and price does not mean that time and price are equal, a view that Gann espoused in his use of the 4th Degree. It may have meant that many years ago in regards to the slow moving stocks that Gann traded on his 1X1 line etc, but for fast moving modern Futures markets, it means that both time and price are at a recognisable DC ratio.

This unusual event buttressed the view from the 12 day chart that a turn of some significance was about to unfold. And so it did, culminating with some of the biggest daily moves ever seen in major US Stock Indices.



GOLD

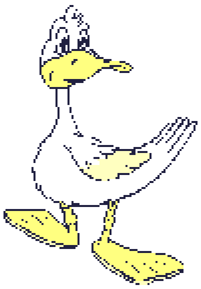
Like all markets, Gold has its own primary vibration which is 44. Whilst this will always be the dominant vibration in Gold, it mixes and matches with the other DC time ratios. The chart below shows the extraordinary spectacle of Gold reaching fully 5 standard deviations from the mean, one week after its DC 44 week cycle and right at its 74 DC cycle. Of equal interest is how the 62 support cycle on 07/28 signalled the start of the huge acceleration this market displayed thereafter.



Note that time cycles say nothing about quantum. We expect turns at these important inflections but only price action will disclose quantum. Indeed the time cycles per se merely mark sequence changes so as you see above, this market uses these cycles as both support and resistance, although we commonly see the 62 cycle in this market as exclusively support.

US T Bonds

This usually slow moving market is best observed on the slower charts. Here is our long term chart showing this market still running in its DC trading channel unchanged since 02/2000. DC members



have seen this chart many times. It illuminates the ability of cycles, once established, to keep on running; the 44 cycle has been dominant since the 1994 low, and the 59 has been sharing that dominance since 1996.

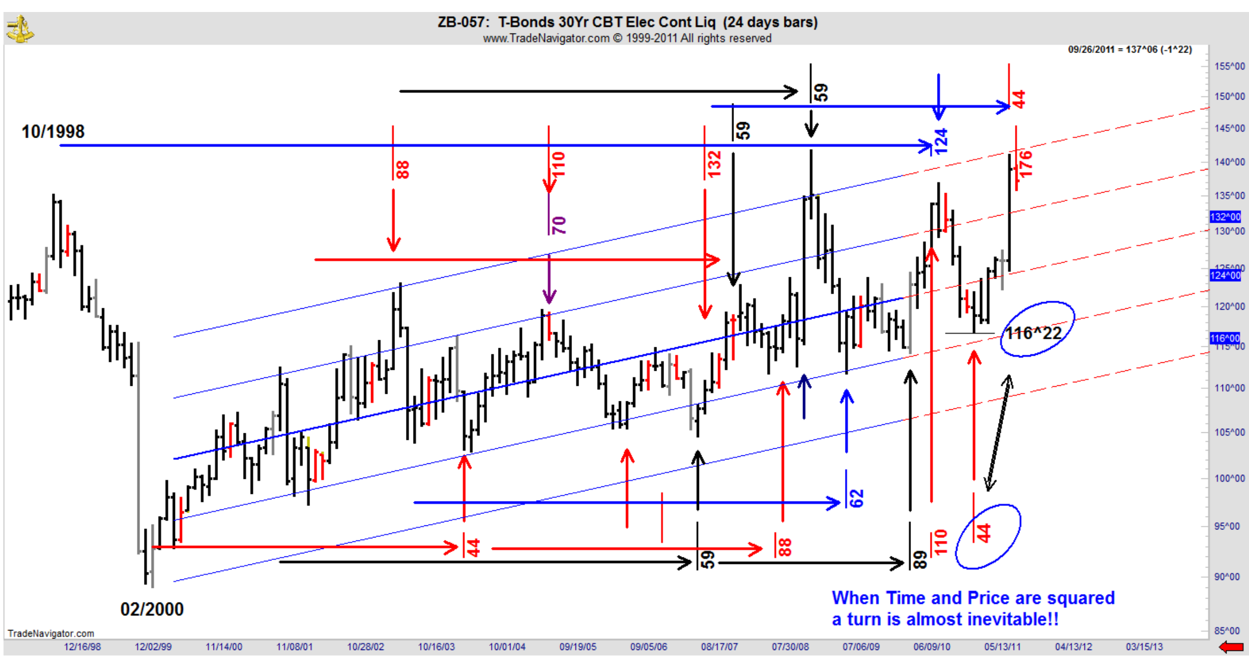
Take a moment to reflect on all of the crisis, turmoil and triumphs that have beset the US and its global investors in that time, 17 years. We have had the dot com boom and bust the Greenspan boom and inevitable bust, recessions, wars and more damaging than all, the wretched Fed with its 10 policy meetings a month and non stop tinkering with fiscal settings. Yet through all of this and much more this, the worlds' dominant market has steadfastly been observing its DC time cycles and trading channel. I think this simple fact is amazing and lends itself to some interesting conclusions, mainly of the Ron Paul variety. If you have stayed with me this far, take some time to reflect on this.

You may also wonder at the dominance of the 44 and 59 cycles with only an occasional appearance of the 62 cycle and a single outlier of 70, the Heathen cycle. You should ask why?

44 is Gold's cycle and 59 is the cycle of the S&P and major US Equity markets and DX, so we would expect to see lots of 59 cycles in this market. But why Gold. What's the link between the worlds' biggest fiat debt market and its supposed antithesis Gold? Now that's a question for market philosophers, but absent these timing charts, you would never have been aware of this link. Quite the conversation piece for your next cocktail party.

We particularly enjoyed seeing Time and Price Squared at the March 2011 low. We had the monthly low just 4 ticks from the famous DC Black line at 116^22 and a 44 cycle expiration. The subsequent resumption of the uptrend and massive rally into the next 44 time cycle and overhead resistance at the upper channel came amidst cries from the largest private Bond holder (PIMCO), that US Bonds were a dead duck that offered no opportunity for profit.

Some duck!!



I trust you have enjoyed our brief foray into the mysteries of "Time" and why markets do what they do. Given the amount of work involved in maintain 3 extra charts on each market, plus my observation that these signals are not readily tradeable on a stand alone basis, in Futures at least, you may have surmised that "Time" charts are not worth the effort. But we can put that another way and ask "Would you have been better for knowing these insights?"

Or is ignorance bliss after all!!

> Mat 13:13 Therefore speak I to them in parables: because they seeing see not; and hearing they hear not, neither do they understand.

John Needham

www.thedanielcode.com

31 August 2011