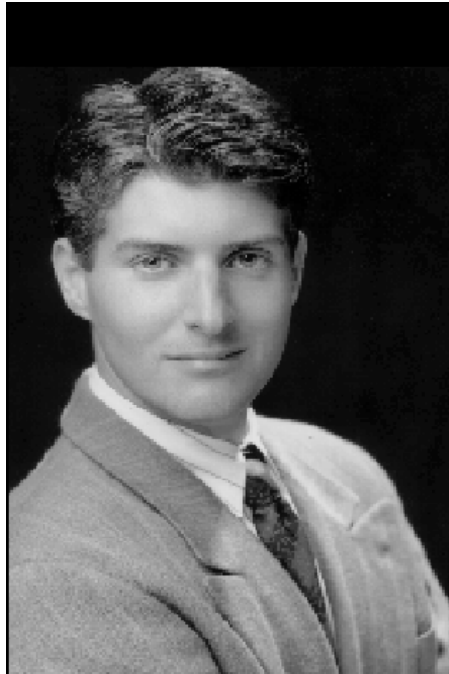


Real-Time Trading using N_EoWave™ Concepts



Presented by

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Topics Covered Today

- Trade CONTEMPLATION
- Trade INITIATION
- STOPS and Trade MANAGEMENT
- Price FORECASTING and position LIQUIDATION
- Trading Does and Don'ts



Pre-TRADE Considerations

- Is the market worth trading?
- Is Psychology in your favor?
(Put/Call Ratios, sentiment, etc.)
- What will be your RISK upon entry,
what might be your REWARD?
- Can you identify signs of
Impending Trend Change



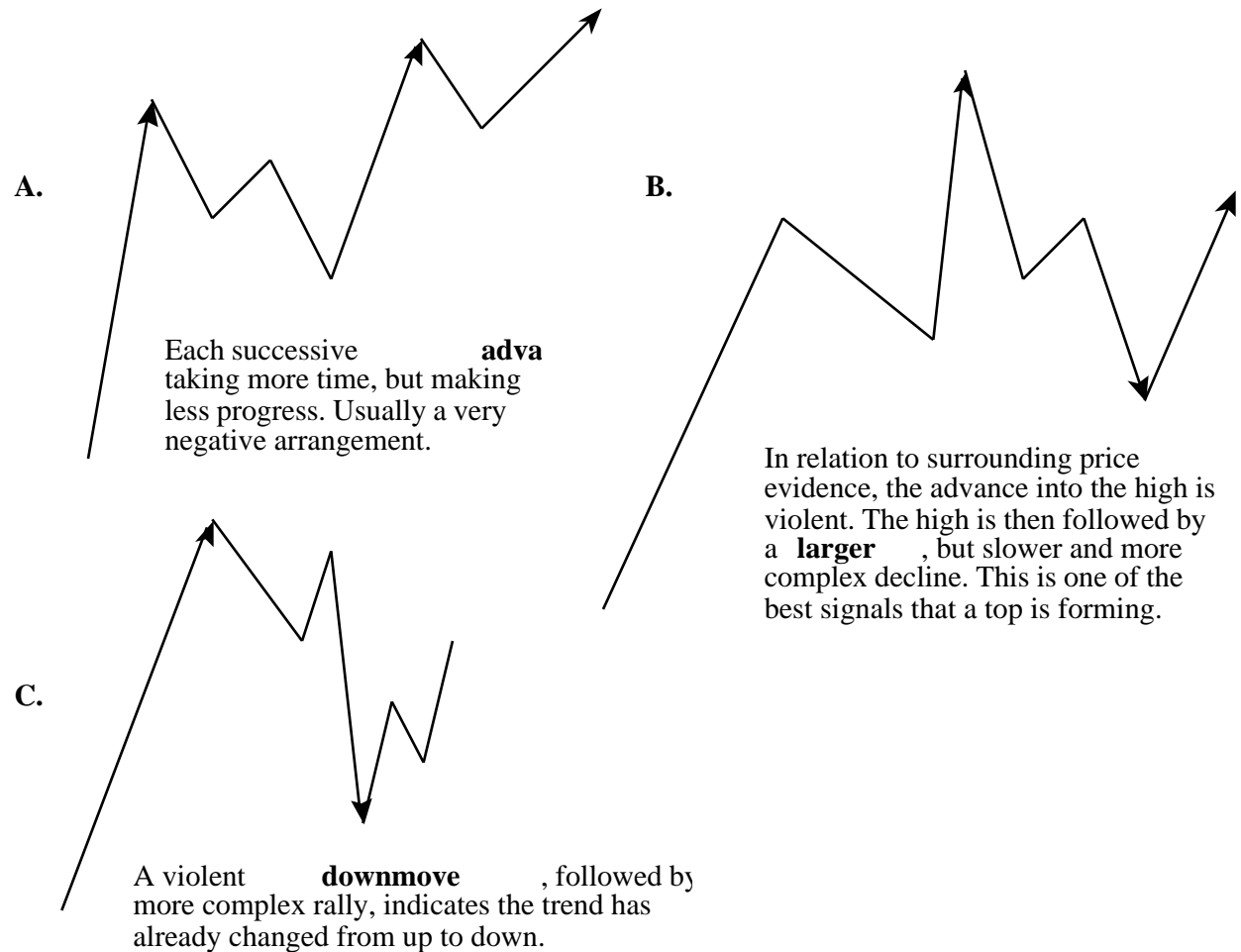
Behavior Associated with Impending TOPS

To increase confidence that an important top is approaching, or has taken place, look for of these conditions:

A . Each successive advance leading up to the high is taking more time to cover less ground.

B . The market advances violently to its highest point, that is then followed by a slower, larger decline that drops **below** the starting point of the final violent advance.

C . Following a high and some consolidation, the declines become more violent than the advances.



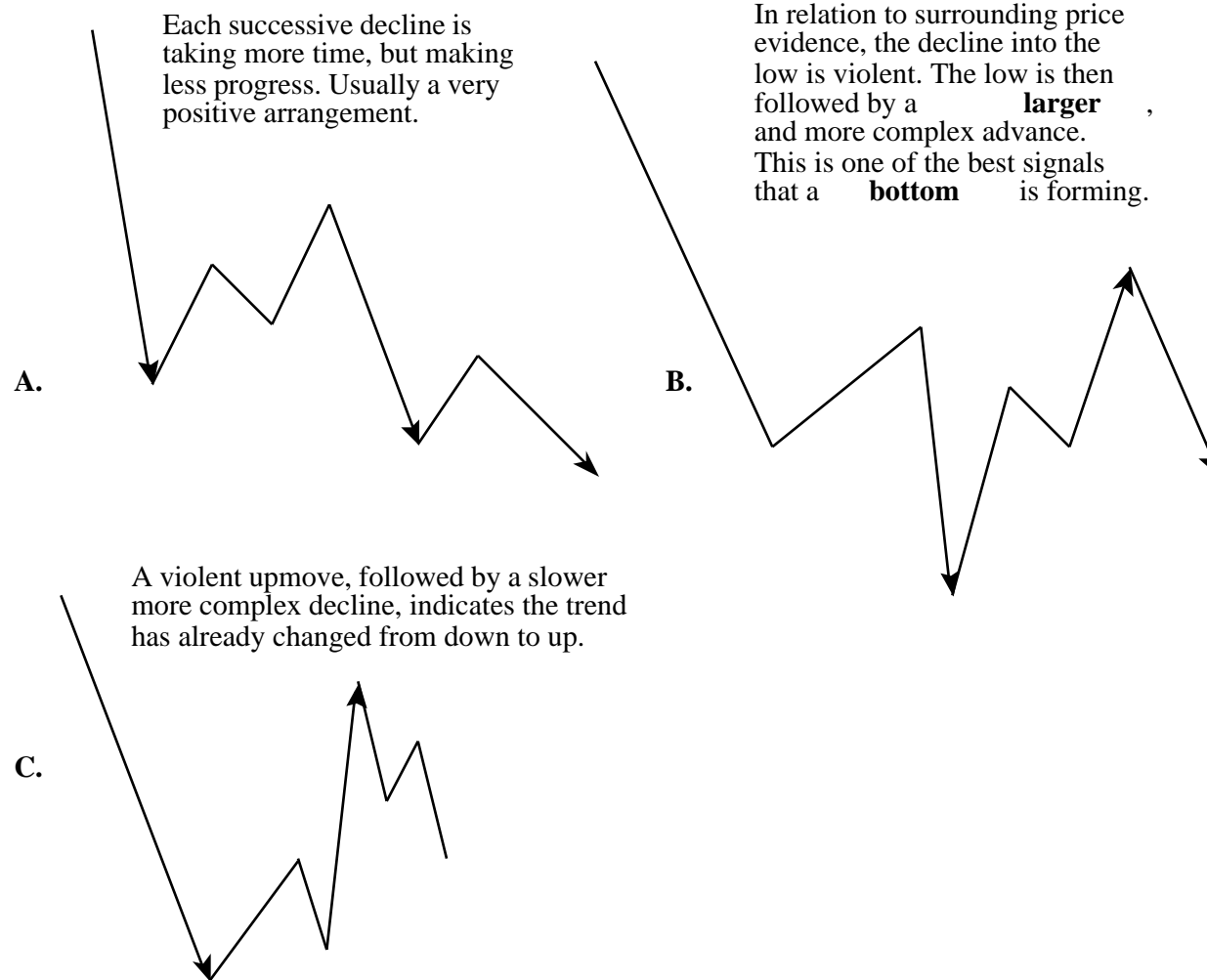
Behavior Associated with Impending BOTTOMS

To increase confidence that an important **bottom** is approaching or has taken place, look for these conditions:

A . Each successive decline leading down to the **low** more time to cover less ground.

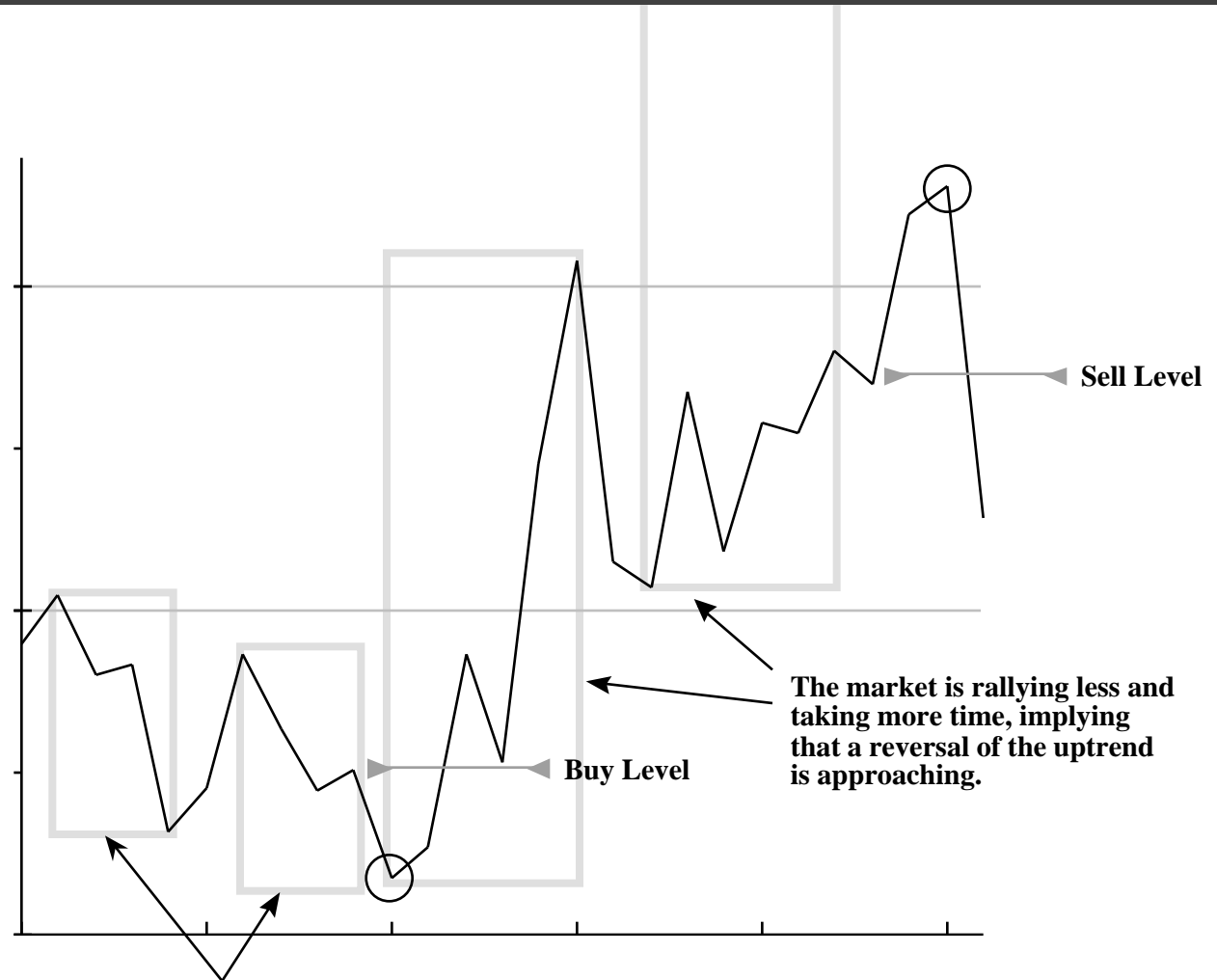
B . The market declines violently to its lowest point, is then followed by a slower, larger **advance** starting point of the previous violent decline.

C . Following a low and some consolidation, the advances become more violent than the declines.



NEOWave™ Momentum Studies (S&P data)

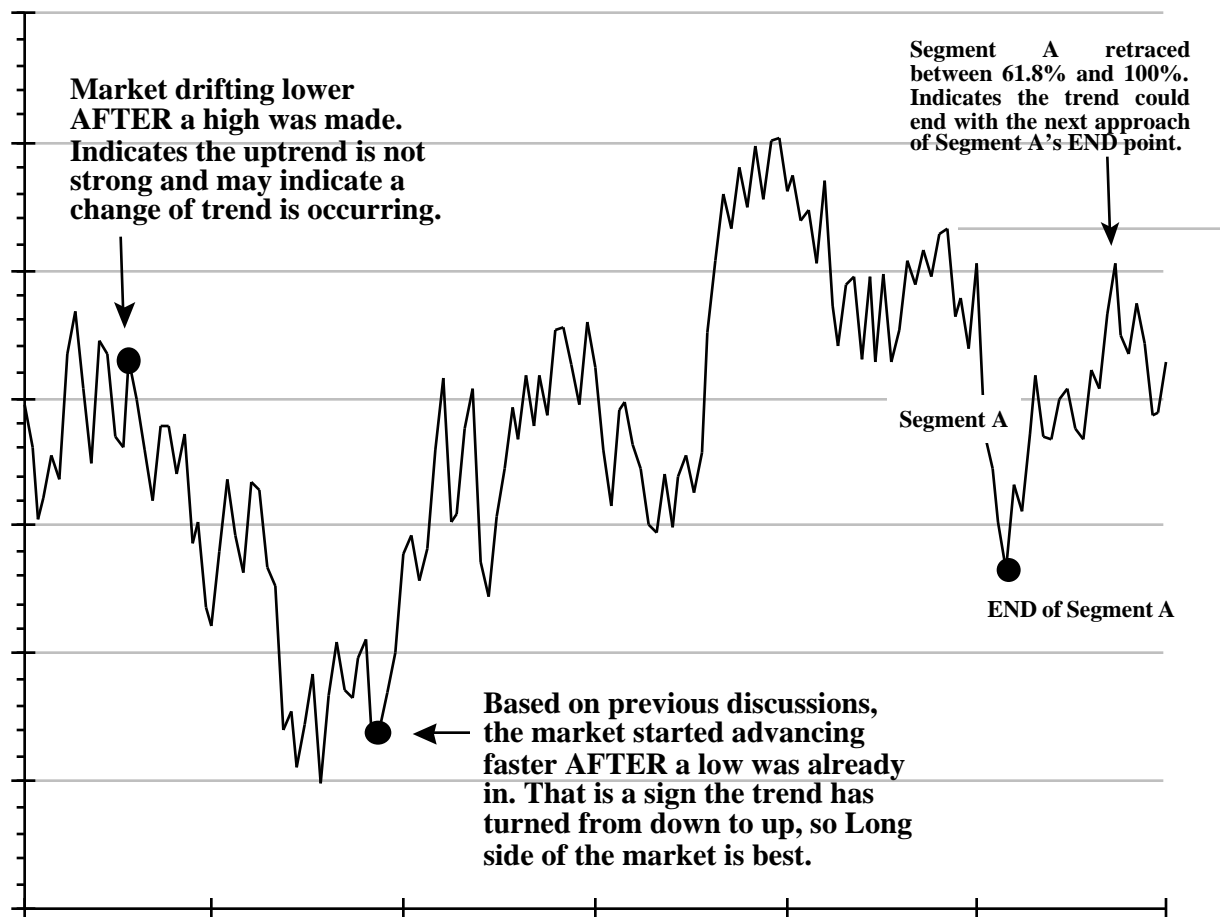
Markets almost always provide clues or warnings that a trend change is in the works. If a market is ready to reverse on a more permanent basis, in preparation for that event, it will almost always begin losing momentum.



What is the TREND of the market?

To determine which side of a market you should trade, locate the **largest, fastest move** on the violent move that covers the most territory in the shortest time); that will almost always be the direction of the trend for at least a while longer (see Segment A at far right).

Next, notice how much the violent move is retraced. If the market consolidates, retracing less than 38.2% of the violent move, the trend is powerful and should continue. If retracement is between 38.2% and 61.8%, the trend is less powerful, but should continue. If retracement is between 61.8% and 100%, the trend is coming to an end, and may end with the next approach/retest of the area where the violent move ended. If retracement is more than 100%, the end of the violent move probably marks an important high or low. Look for a counter-trend trade to develop soon.



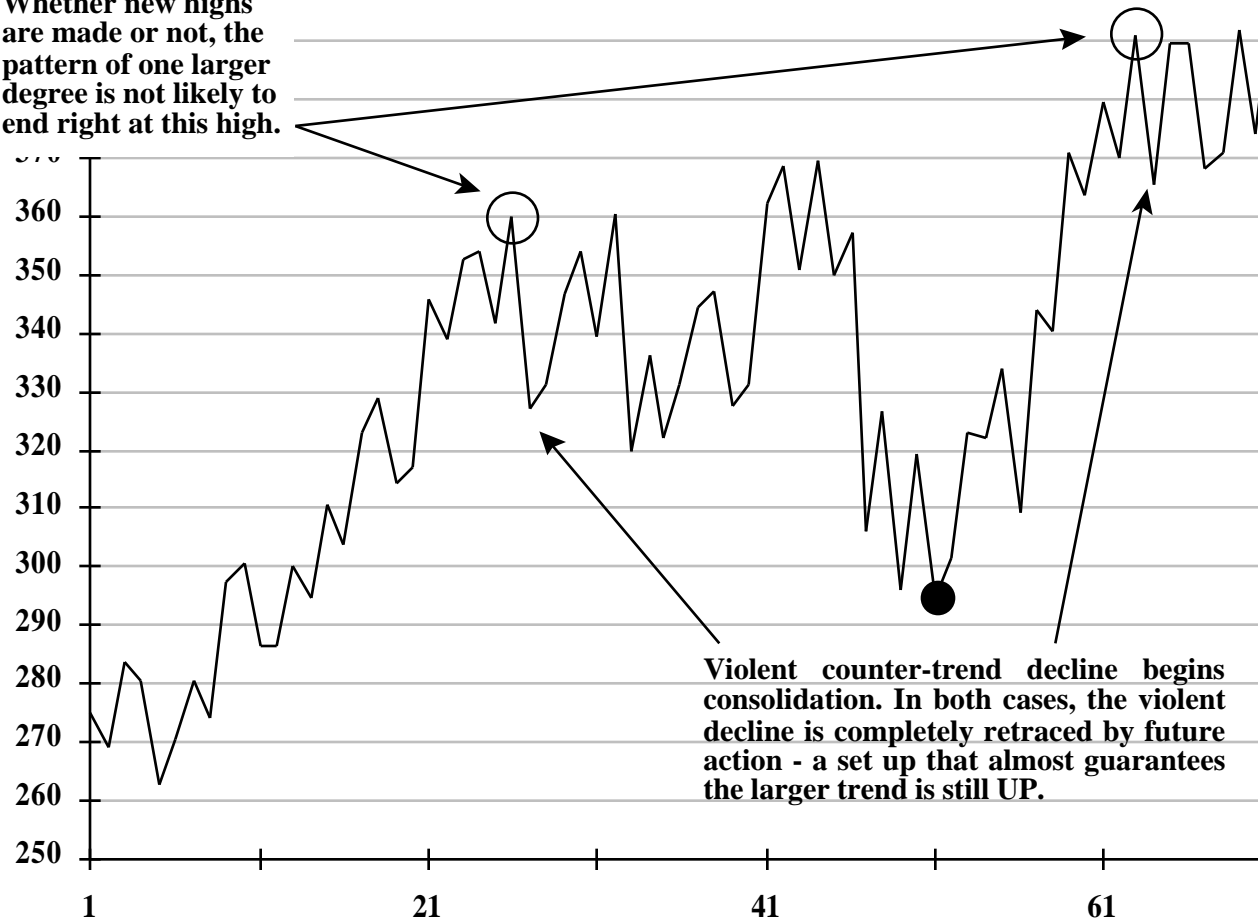
What if Trend Concludes

AT High

Part of the evidence that a trend has concluded AT a high or low occurs when a violent counter trend move unfolds immediately afterward (see two circled points, their highs were followed by the largest, fastest moves to occur following significant trends).

Confirmation that the trend is **not** occurs if the violent reversal is "completely" retraced by future action.

Whether new highs are made or not, the pattern of one larger degree is not likely to end right at this high.



Violent counter-trend decline begins consolidation. In both cases, the violent decline is completely retraced by future action - a set up that almost guarantees the larger trend is still UP.

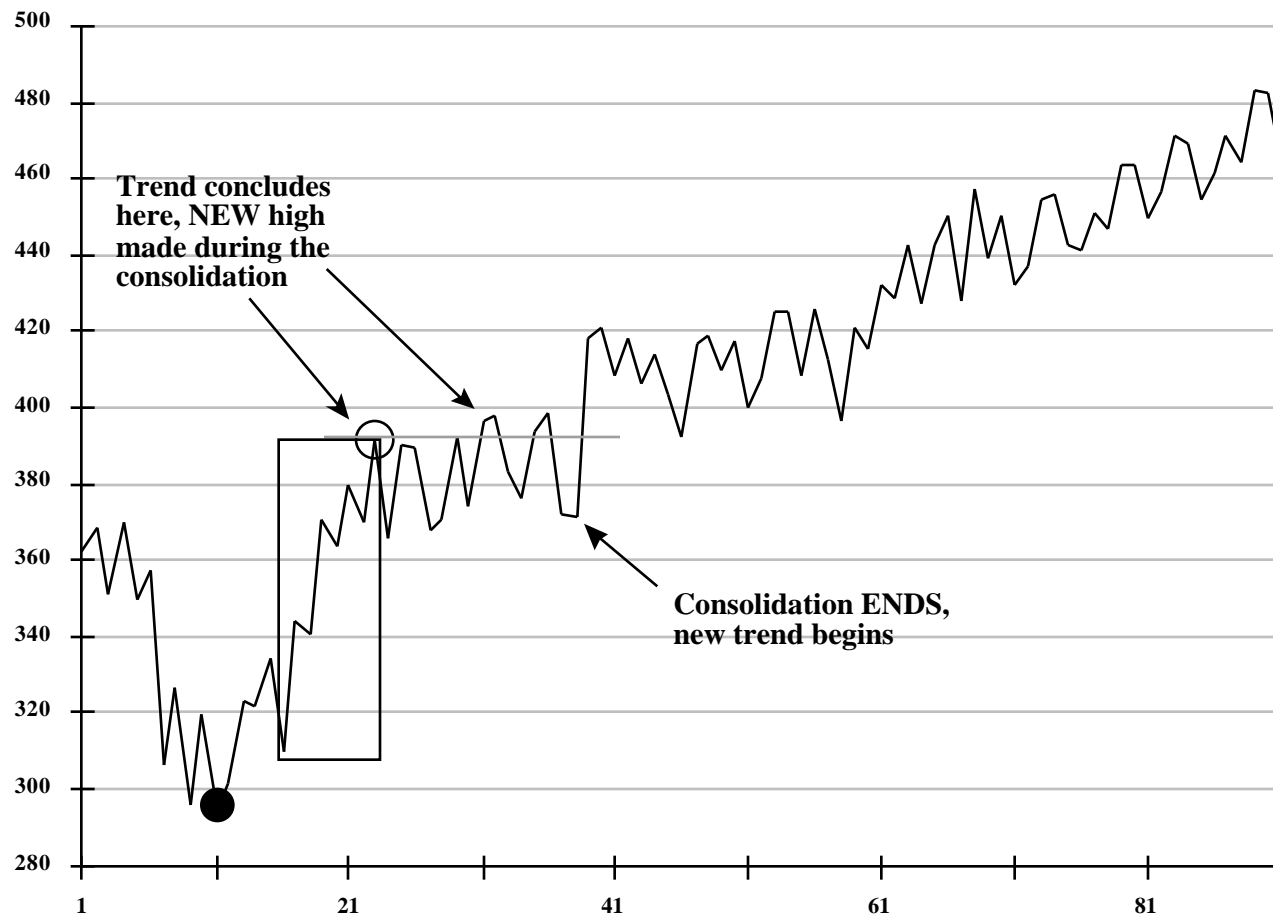


What if Trend Concludes

BEFORE

When a trend completes BEFORE a high, it implies the uptrend will continue and is probably gaining momentum.

Conversely, if a pattern concludes BEFORE a low, it implies the downtrend will continue and is probably gaining momentum.



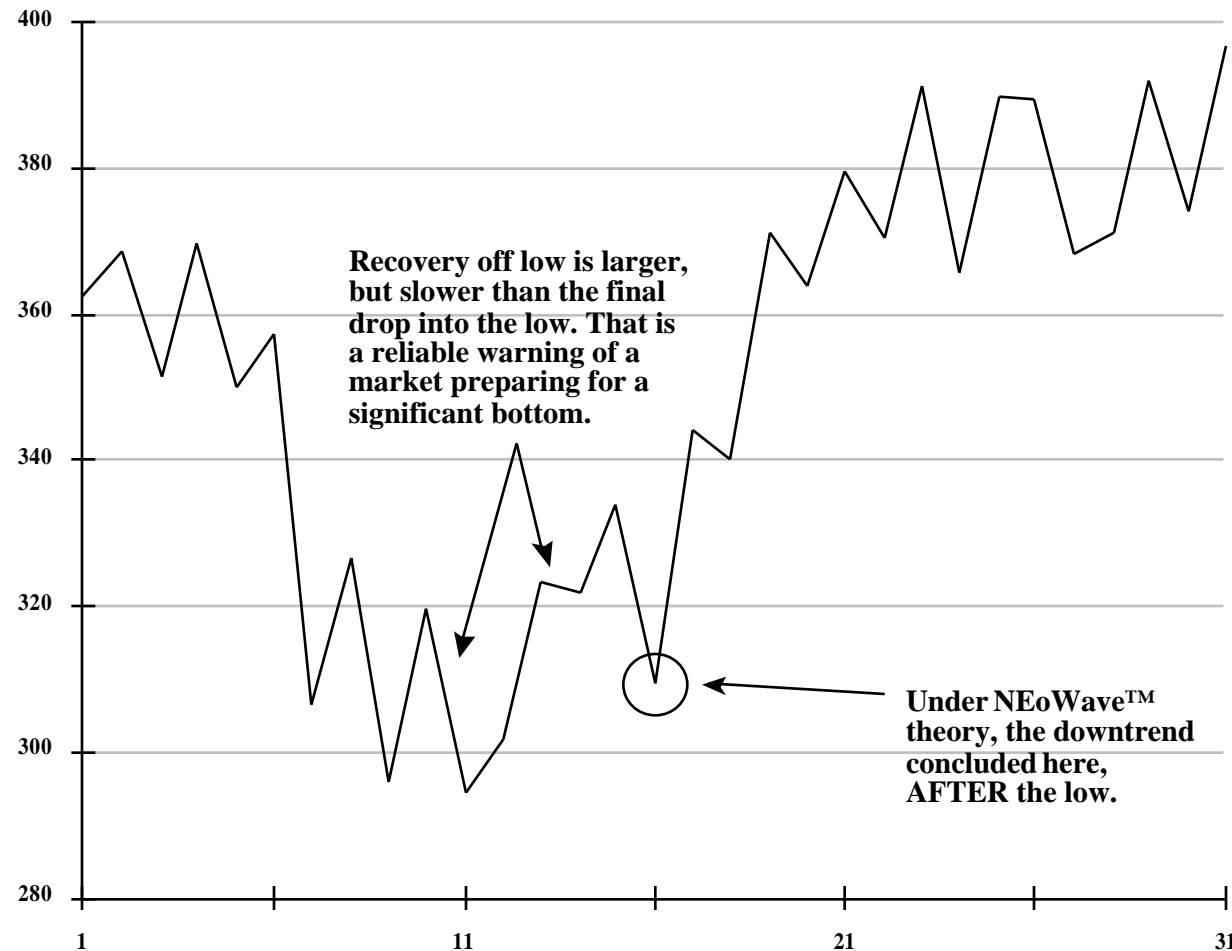
What if Trend Concludes

AFTER

If a pattern concludes AFTER a low, the probabilities are high that the higher low will prove a significant change in trend. To anticipate such a situation is not difficult, it just requires patience. If you see a market bottom followed by a recovery that is larger but slower than the one right into the low, this situation may be setting up.

The same rules that apply for a bottom apply for a top. If the market makes a top, reacts, then makes a lower high that is followed by a violent decline, the chances for a significant high are substantial.

The only exception to this rule is when the market is forming a Contracting environment (such as a Contracting Triangle). But, even in that situation, the market will move away from that high or low until the “thrust” occurs. Even then the “thrust” may move away from the high or low you were analyzing.



Which VEHICLE should you use? Stocks, Futures, Options

- Impact of TIME on Selection
- Checklist for Trading OPTIONS
- Checklist for Trading FUTURES
- Checklist for Trading STOCKS



Trade INITIATION

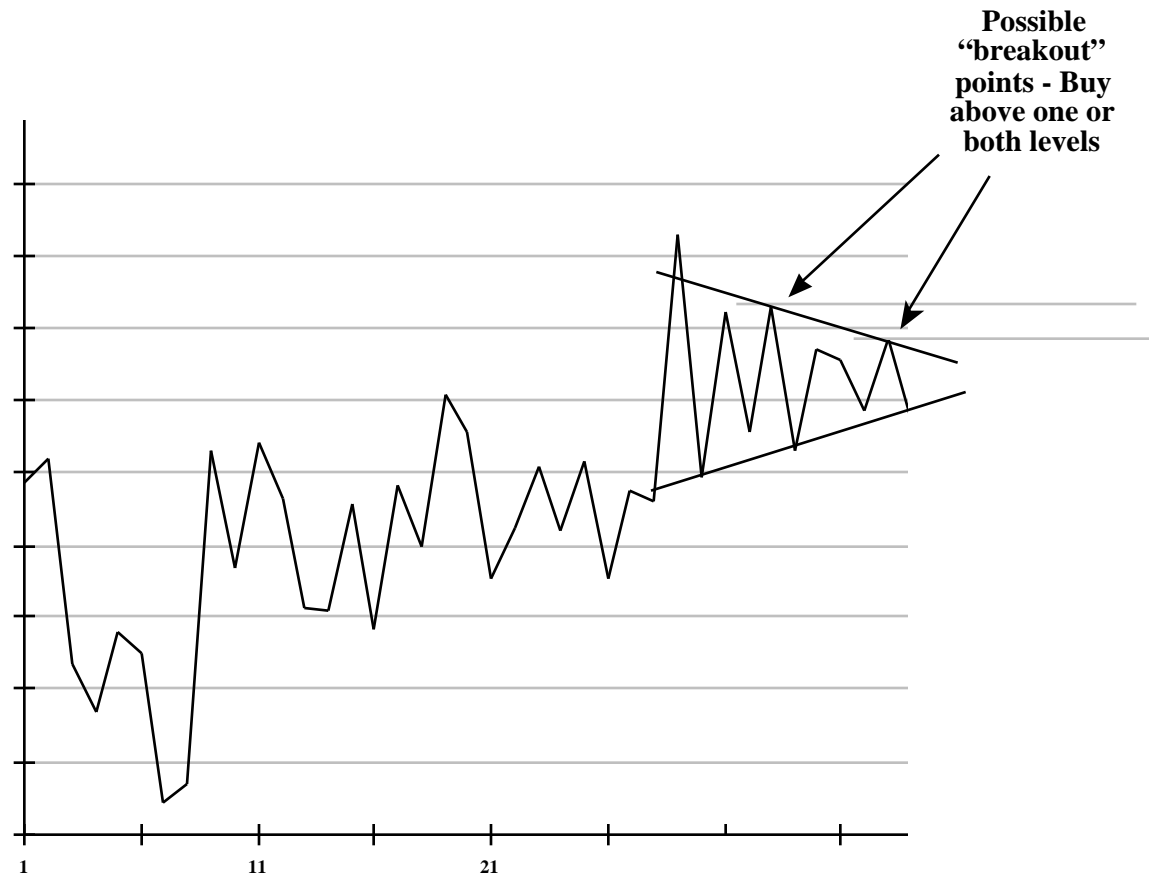
- BREAKOUT Trading in Contracting environments
- REVERSAL Trading in Expanding environments
- TREND Trading in Neutral environments



BREAKOUT Trading in Contracting environments

If the market has been contracting for some time and you think the pattern is approaching conclusion, this is the time to plan a “breakout” trading strategy. Decide the price level that, if the market moved beyond, would indicate a quick move to a new level or the beginning of a new sustained trend.

Depending on your level of conviction, you would decide at which high a price move would indicate that the consolidation is over and the new trend has begun. Even if the trend does not last long (which is frequently the case with Contracting environments), it usually will move far enough to make the trade worth while.

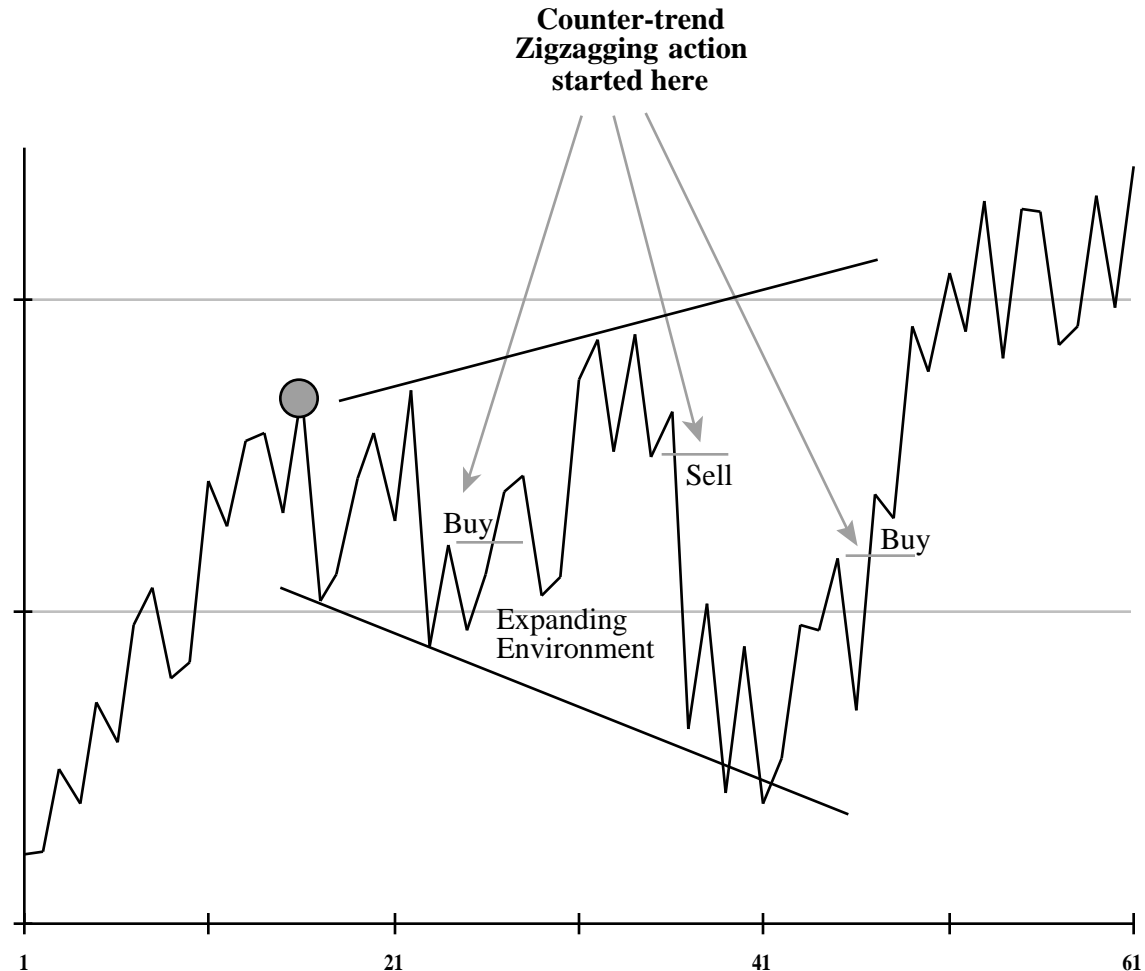


REVERSAL Trading in Expanding environments

If using a “WAVE” chart in an Expanding market environment, the behavior needed to justify counter-trend trading is zigzagging action in the opposite direction of the trend you think is getting ready to end; right as that zigzag begins, your position should be entered.

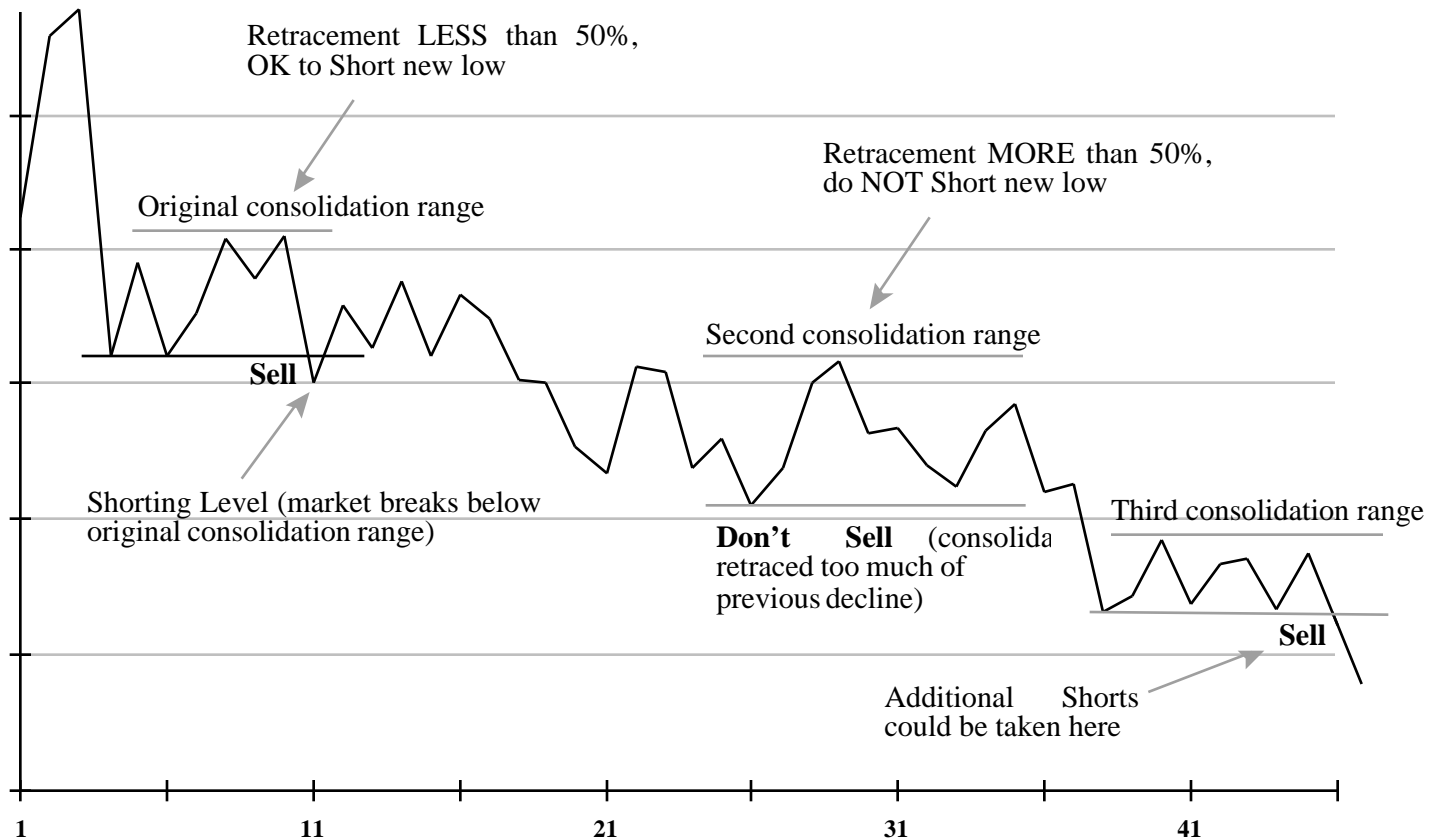
If using a BAR chart in an Expanding market environment, the behavior needed to justify counter-trend trading is the break of a previous day’s high or low; you would enter your position as that occurs.

NOTE: For this approach to work, the chart you are following must be complex or too simple. The chart shown is approximately the ideal complexity.



TREND Trading in Neutral environments

If you are confident of the direction of a market's trend in an environment of sideways consolidations, the best way to enter is on a new low (if the trend is down) or a new high (if the trend is up). Once you enter, your stop should be on the opposite end of the consolidation range at a point twice the width of the consolidation. Once the new trend has doubled the width of the original consolidation range, part of your position should be liquidated and your stop should be moved to the last low or high before the trend reinstated.



STOPS and Trade MANAGEMENT

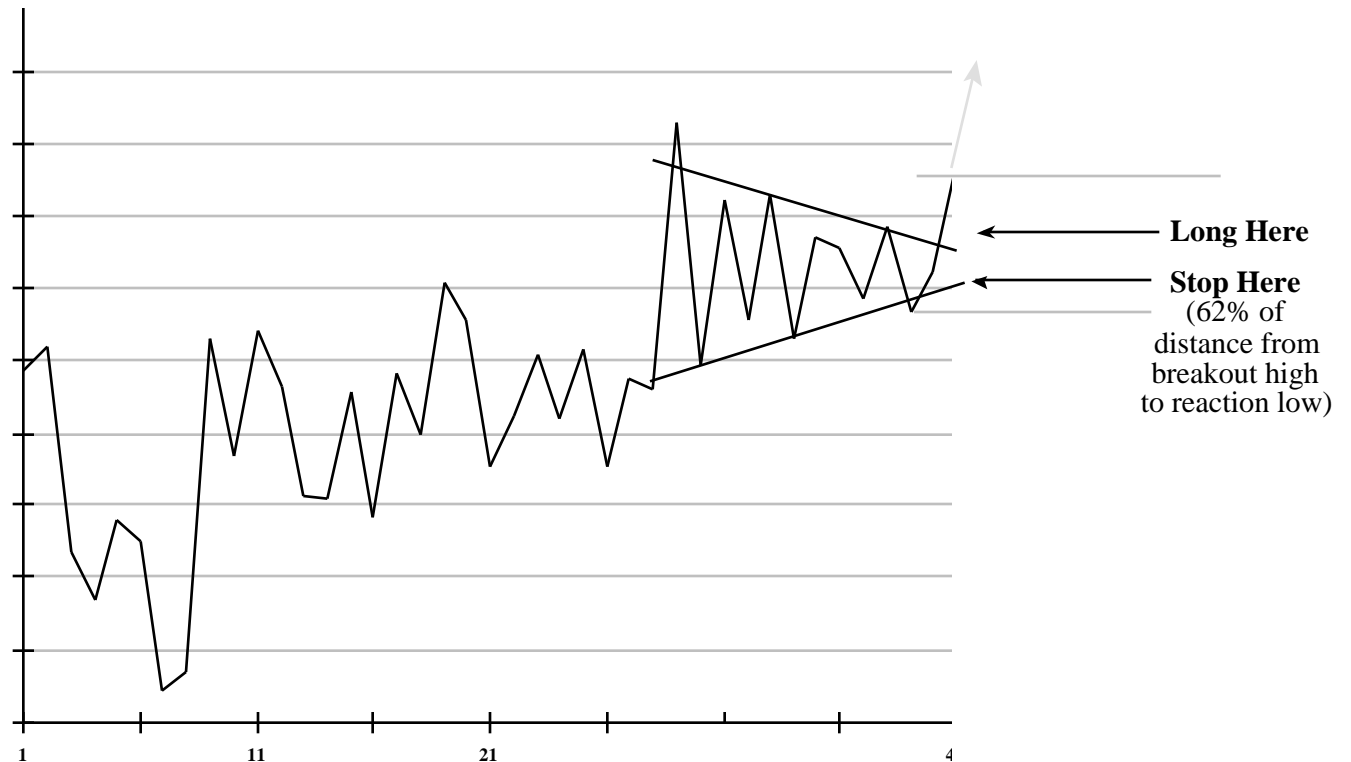
- STOP Placement -
Contracting Environment
- STOP Placement -
Expanding Environment
- STOP Placement -
Trending Environment



STOP Placement - Contracting

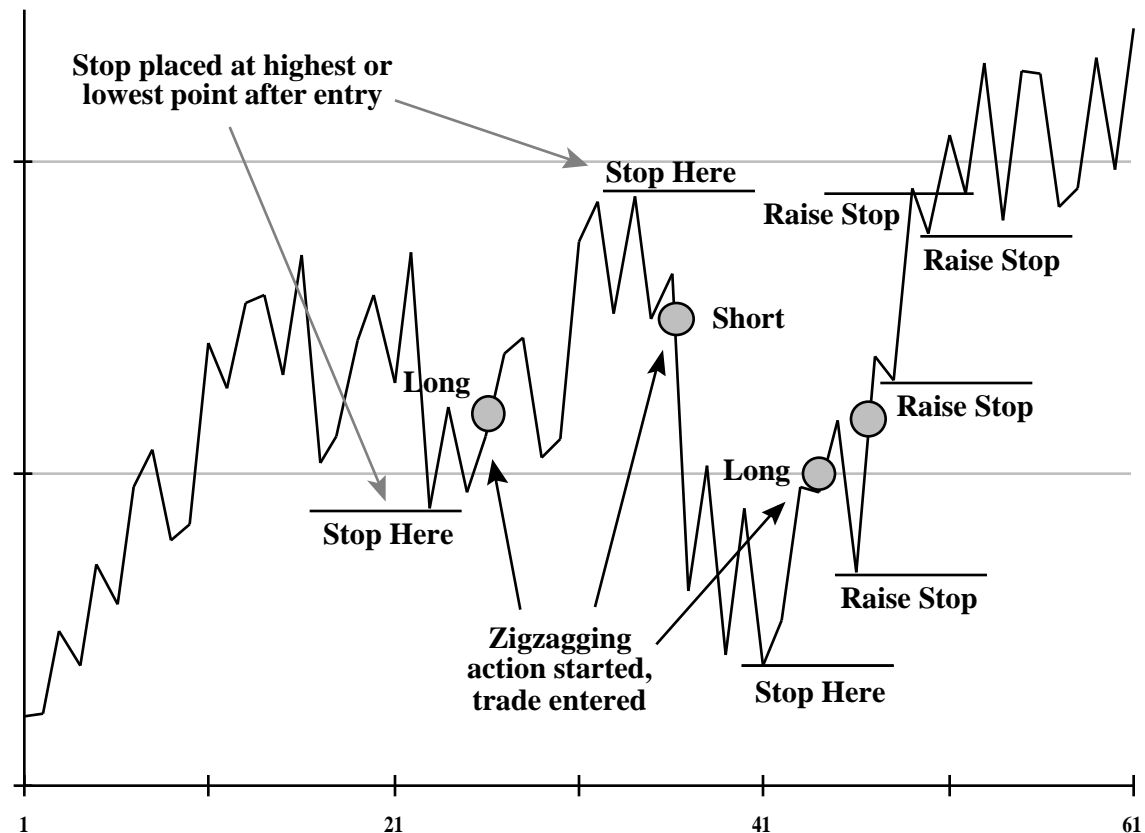
After entering your position due to the “breakout,” your stop should be placed just beyond 61.8% of the length of the new trend and the highest or lowest point right before the breakout occurred.

If the market really began a new trend, it WILL NOT retrace more than 61.8% of that initial move.



STOP Placement - Expanding

Once you have entered an Expanding market environment, the stop should go at the highest or lowest point where the zigzagging action began. If you get stopped out, wait for another zigzagging period in the preferred direction before reentering, then begin the process again.

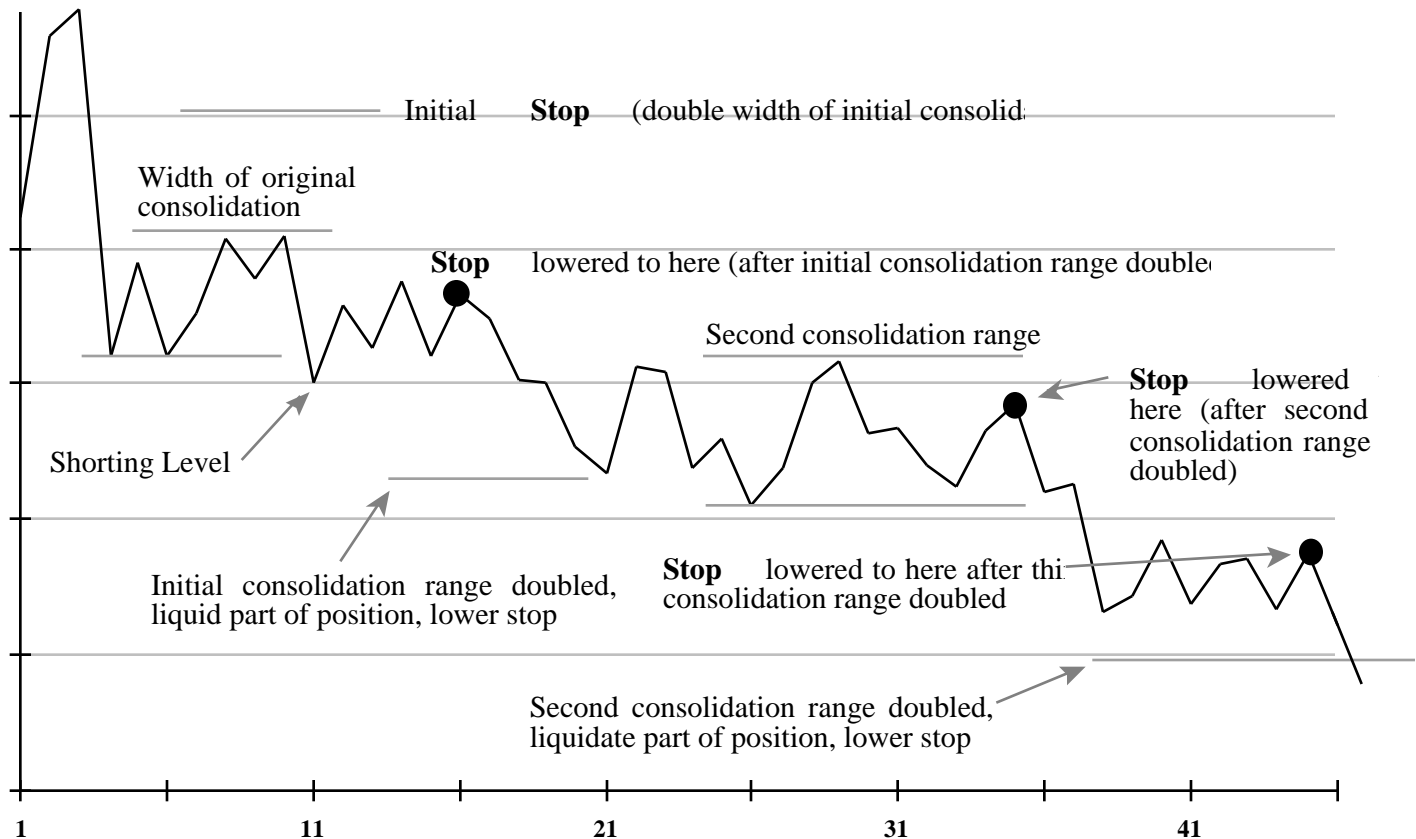


STOP Placement - Trending End

After you take a position in what you think will be a trending market, your stop should be on the opposite end of the consolidation range at a point twice the width of the original consolidation.

After the market has doubled the width of the original consolidation range, liquidate part of your position and move your stop to the last low or high right before the latest trend began.

As the market goes through another consolidation, the same strategy should be used to move the stop again (i.e., once the width of the second consolidation is reached, liquidate more of your position and move your stop to the end of the second consolidation).



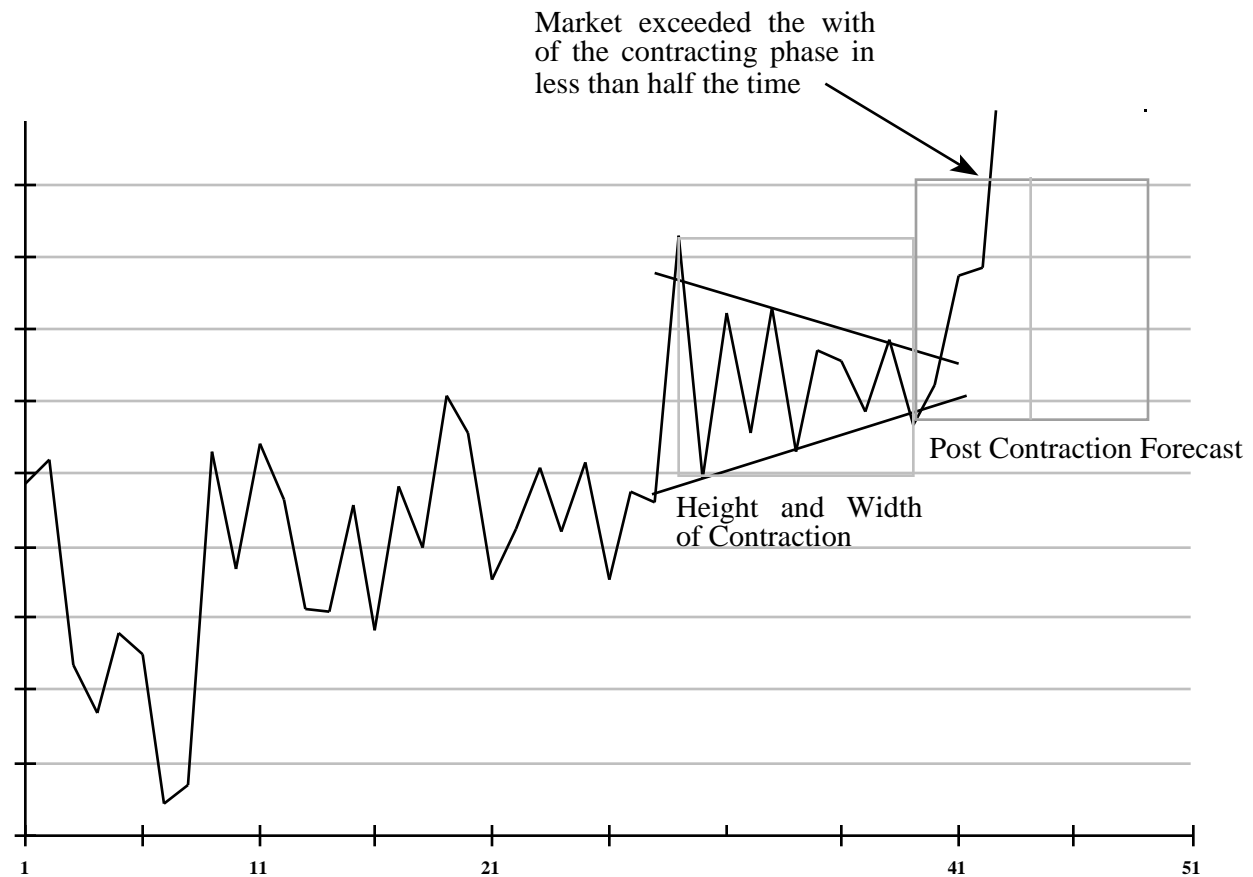
Forecasting and Trade LIQUIDATION

- Using Established Support/Resistance Levels
- Forecasting • Post- **Cont**
- Forecasting • Post- **Exp**
- Forecasting • Post- **Tren**



Forecasting • Post- Contraction

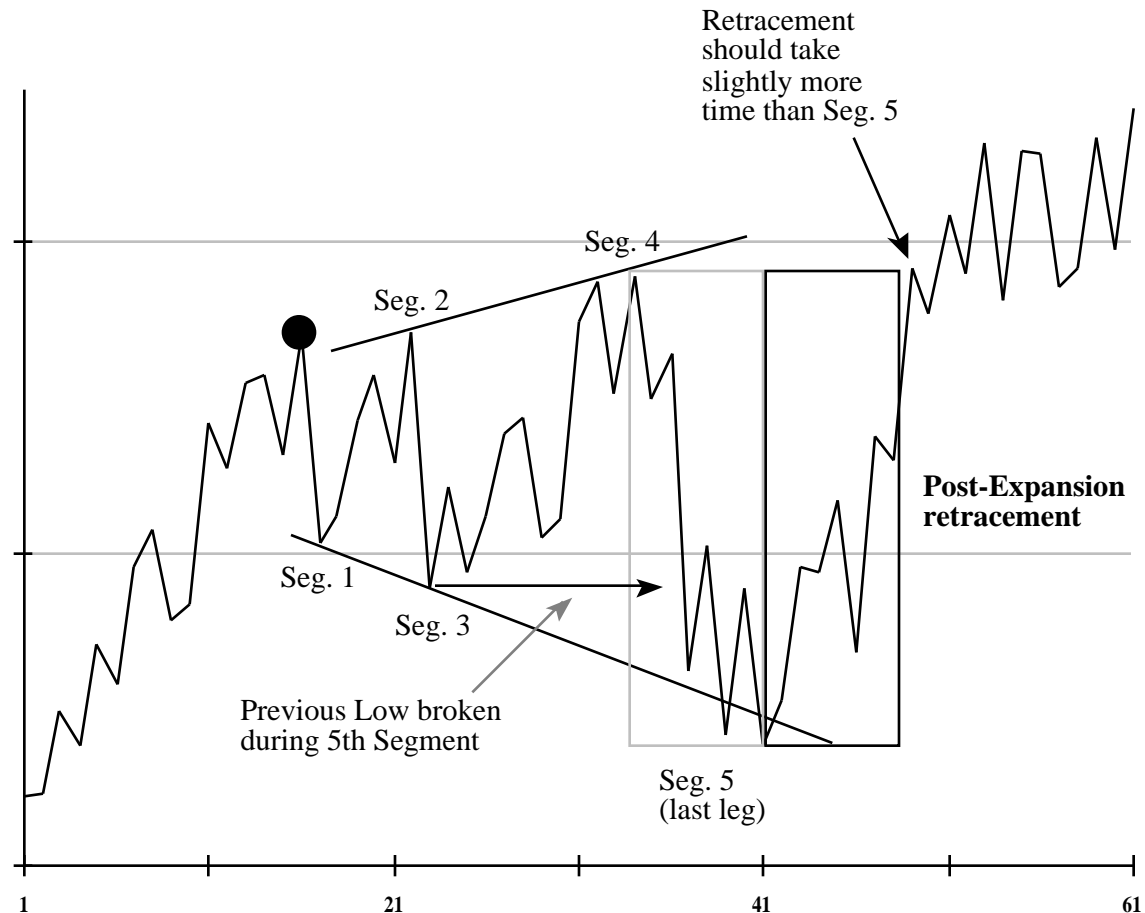
Price action following a Contraction (which contains 5 segments) will usually approximate the width of the largest segment during the Contraction. In this real-time example, Gold went through a multi-month contraction. Once the pattern was over, the initial “thrust” was approximately equal to the width of the Contraction in a period that was approximately half the time consumed by the Contraction. When trading such a situation, you would want to exit some of your position when the “thrust” approaches 100% of the width of the Contraction. If you think the “thrust” is going to END the trend, you should exit all your positions. If you think the trend is going to continue, only liquidate part of it.



Forecasting • Post-Expansion

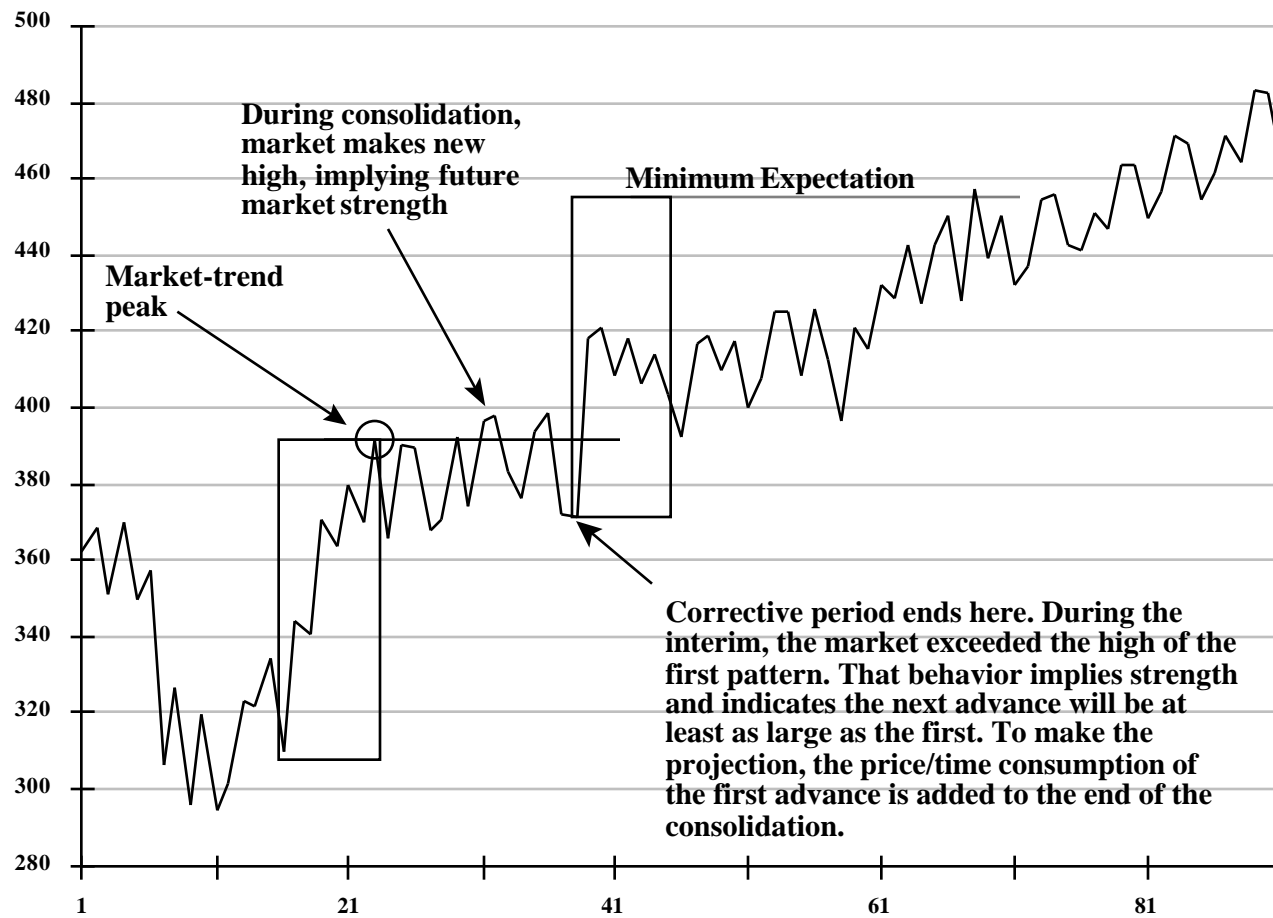
Expanding environments are composed of five (5) segments. As the expansion becomes more obvious, you can predict its END (and the start of the new trend) by making sure five segments are present **and** that the last leg breaks beyond previous high or lows,

Unless you understand wave theory and know exactly what the expansion is part of, it may not be possible to predict exactly what will happen the expansion. The most important characteristic to remember is, if the market is going to completely retrace the expansion, it will take more time to retrace Seg. 5 than Seg. 5 took to form.



Forecasting • Post-Trending

If a market-trend's **peak** is followed by a consolidation in which part of the consolidation exceeds the **end** of the trending period, you can comfortably assume the trend is gaining in momentum (this concept applies equally for situations in which the initial trend is down).



Trading Does and Don'ts

DO - Maintain charts on multiple time frames so you are aware of ALL influences (trends, support/resistance, trendlines, etc.)

DO - Plan your trading while the markets are closed, you will be more objective

DO - Demand MANY positive factors **before** entering, just **one** or **two** to

DO - BUY Options only during “ **dead** ” periods, SELL Options only during

DO - Raise stops on a NEW position to **breakeven** as quickly as possible

DON'T - use arbitrary Stops (i.e., stops based on %'s, specific \$ amounts or rigid time values) - Stop placement should depend on market conditions, not preconceived notions

DON'T - enter a trade when markets are volatile (risk control is difficult - support and resistance levels are usually too far apart to allow for low risk entry)

DON'T - focus on what you MIGHT make if correct, but what you WILL lose if wrong

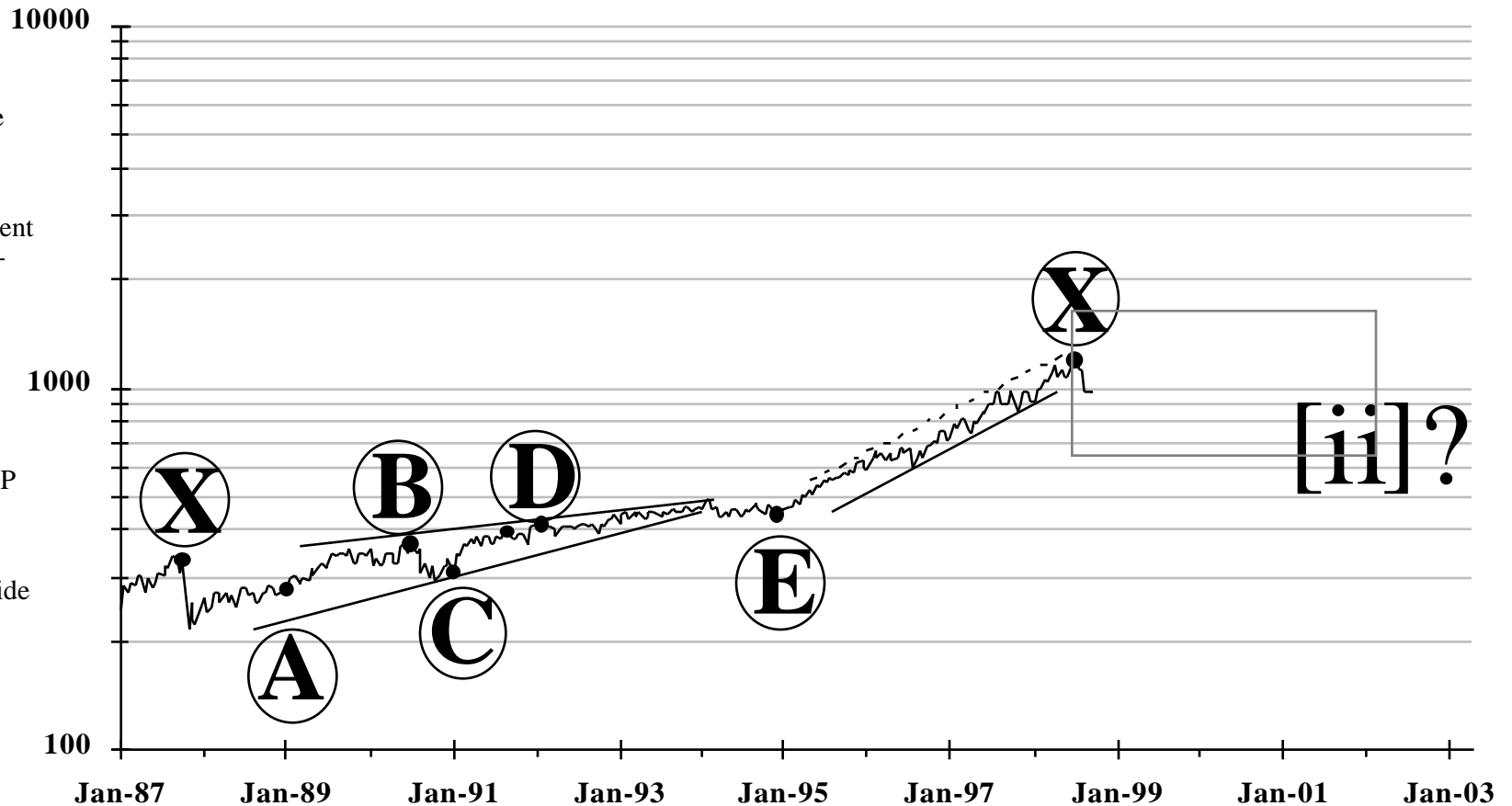
DON'T - exit a winning trade because you **think** you have made enough money, wait for deterioration OR for your stop to be hit **before** exiting

DON'T - risk more than 5% of capital on any one trade (2% is approx. ideal - five losing trades in a row or more is a real possibility, if you are risking much more than 2% each trade, it will be nearly impossible to recover after only a few losses)



S&P 500 - Monthly

Due to the decline in Aug./Sep. of 1998, it has become apparent that the 1994 - 1998 "bull market" was - under N_EoWave™ theory - a corrective pattern. That means the S&P will trend sideways or down for 1-4 years. Downside potential is as low as 700.



S&P 500 - Weekly

The drop off of 1998's high constitutes the largest, fastest in over four years. That clearly indicates the 1994 - 1998 rally was a Complex Corrective rally. As a result, the S&P will trend sideways for at least one year; at worst, the S&P could correct for more than four years and drop below 700.



Gold - Monthly

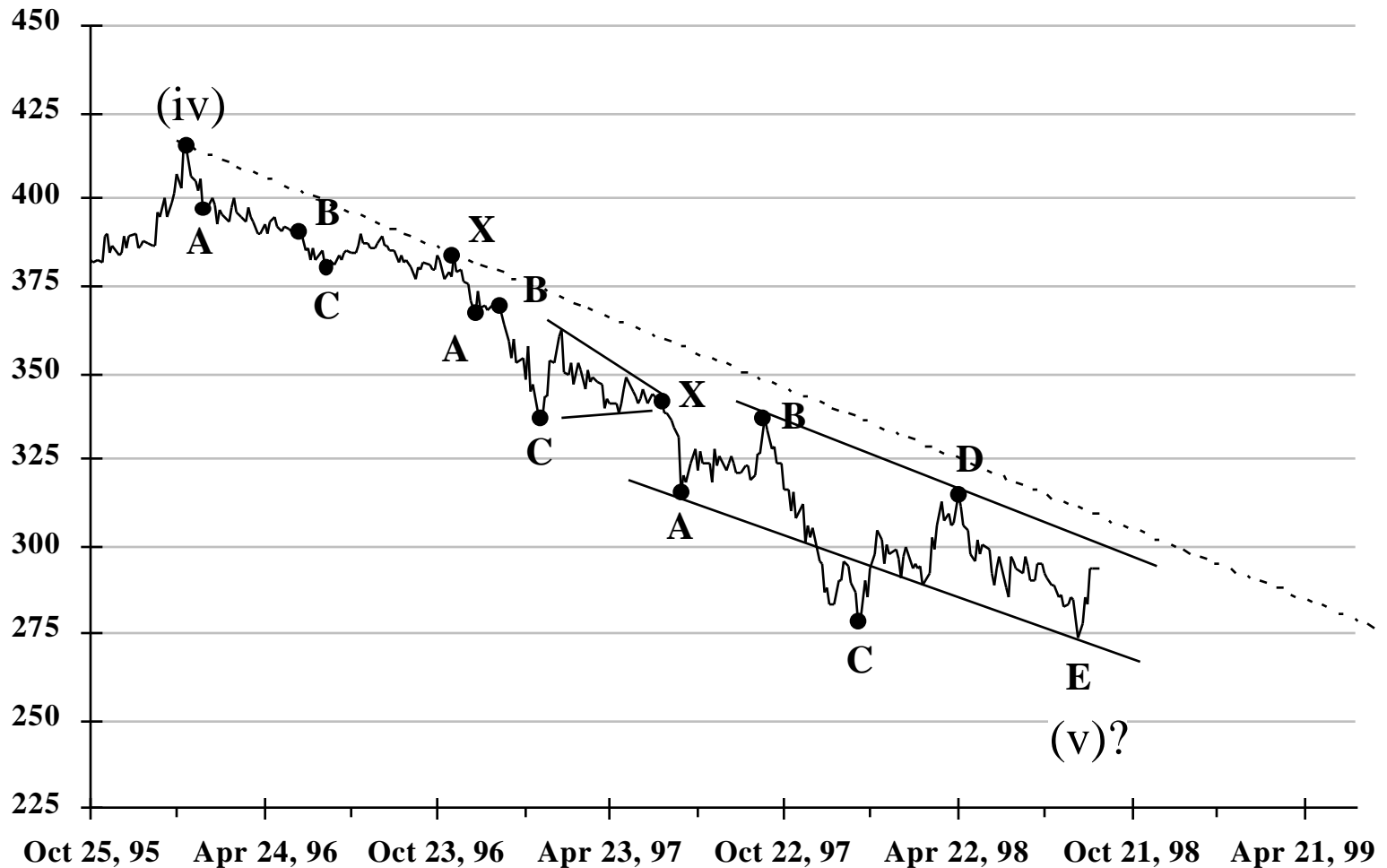
Cash Gold appears to be forming a 5th Extension Terminal from the 1987 high. If correct, Gold is on the verge of its largest advance in years. A move above \$312 cash is needed to make this count a strong possibility.



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Gold - Weekly

A complex corrective decline may have ended with Gold's recent rally. A break of the downward slanting dashed trendline should provide stage-1 confirmation.



Bonds - Monthly

The violent advance seen in Bonds during Aug. and Sep. of 1998 indicate the 10+ year consolidation has ended. Wave structure tells us the next move should be a multi-year advance in Bonds, bringing 10 year cash yields to 3% or less!



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Bonds - Weekly

As you can see from the chart at right, BONDS recently broke out of what could be an upward slanting Contracting Triangle. If correct, the recent rally in Bonds is just the beginning of a MUCH larger advance expected for the next 1-2 years.

