

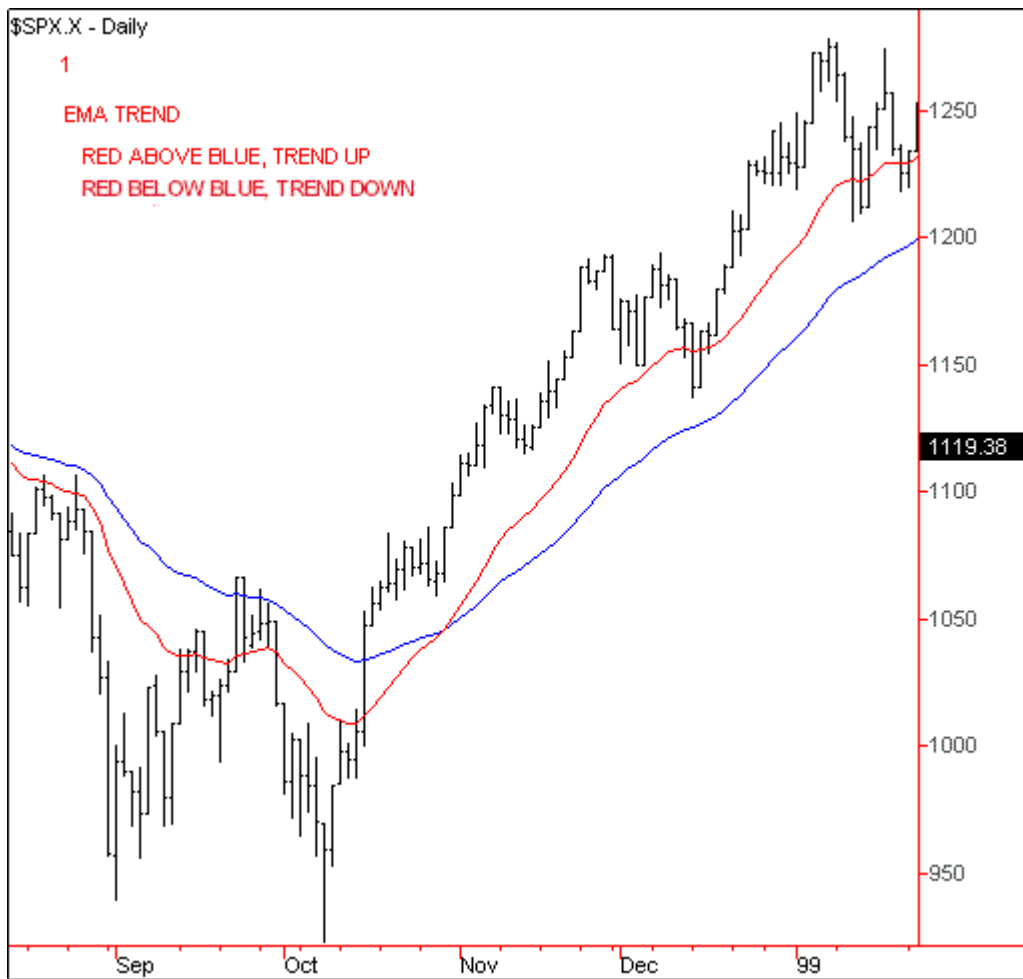
TRADING WITH THE TREND USING PROFIT TRADER™

ProfitTrader™ is a package of proprietary indicators designed to implement a time-tested and proven timing and trading methodology based on cycle analysis. With ProfitTrader™, you can buy bottoms in an uptrend and sell tops in a downtrend... And you can also identify and trade trend reversals at larger cycle bottoms and sell trend reversals at larger cycle tops.

Determination of trend direction is shown by several ProfitTrader indicators, and by cycle analysis. The trend for a trading time frame is determined by the direction of a larger cycle, usually in a different time frame. For example, the cycle direction in a weekly chart determines the trend direction in a daily chart. And the trend direction for a 5minute chart is usually set by the dominant cycle in a 20minute chart.

EMA Trend Indicator

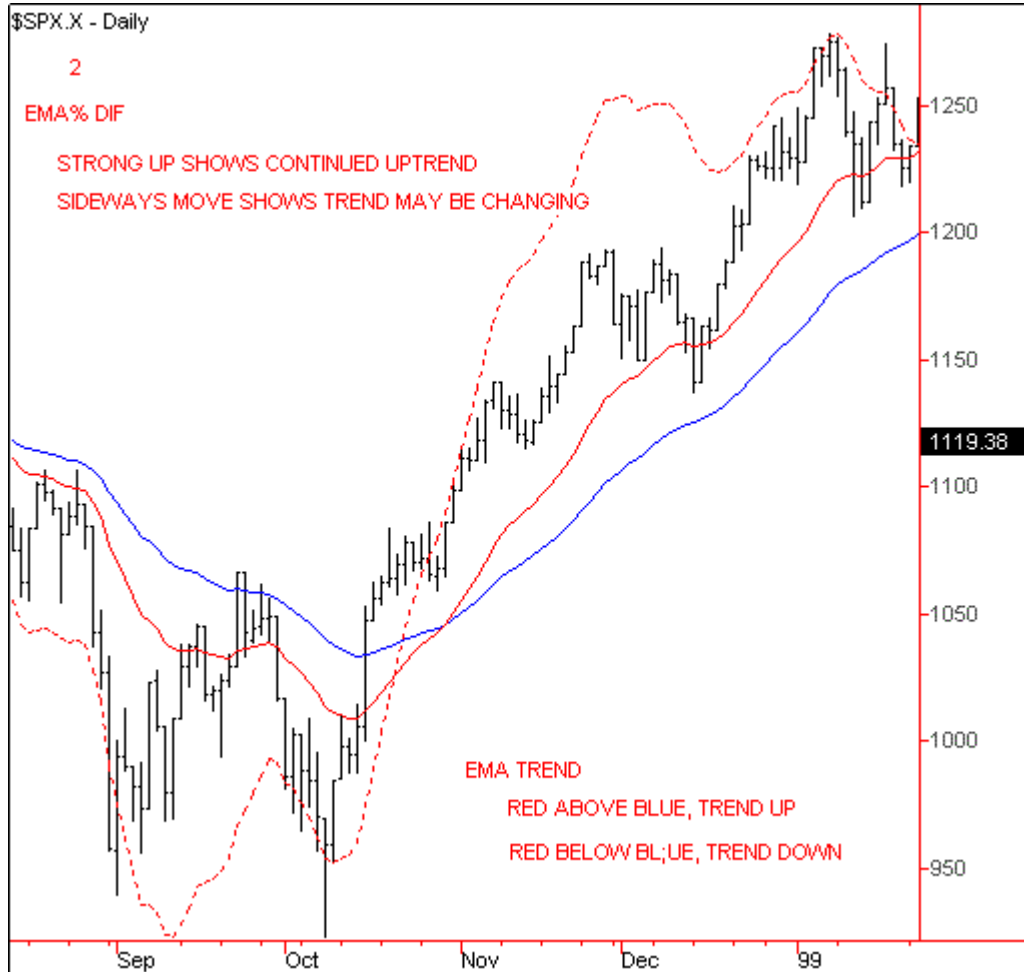
ProfitTrader™ integrates high-powered trading tools with cycle timing concepts to determine trend and trend reversals. The simple, but powerful, EMA Trend Indicator is shown in **Chart 1**.



Trend direction is shown by the interaction of the EMA lines. When the red line is above the blue line, the trend is up; when the red line is below the blue line, the trend is down. Note the lag in trend determination as the red line shifts position from below the blue line to above it, as seen in the month of October in **Chart 1**; and from above the blue line to below it. ProfitTrader 7.0™ includes mechanical trading signals that only show on the chart when the red EMA line is above the blue Buy Signals, and below the blue for Sell Signals.

EMA %Diff

We can fine-tune the trend a bit and add to our knowledge of trend direction by using the EMA %Diff, which plots as a dashed red line in **Chart 2**. It is the percent difference between the red and blue EMA Trend Indicator lines. A disadvantage of the EMA Trend is that the trend does not show as bullish until the red line has crossed above the blue; however, the %Diff indicators often show a change in trend much earlier.



In **Chart 2** there was a divergence in the EMA %Diff at the October low as prices dropped lower than the earlier price low, but the EMA%Diff did not drop below the previous EMA% Diff low. It continued straight up, showing the trend was up. Since the EMA% Dif is more sensitive than the EMA Trend Indicator lines, it will often show a turn before a turn is seen in the EMA Trend Indicator.

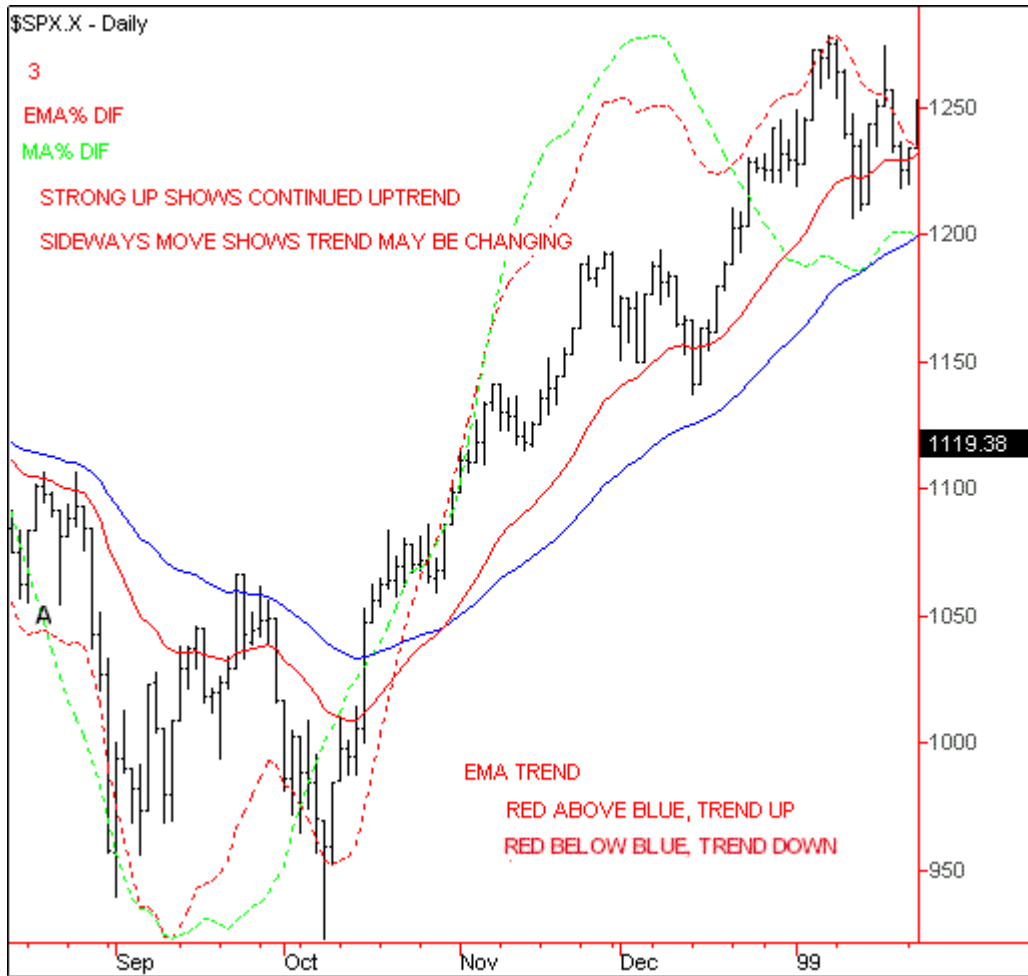
When the red EMA is above the blue and trending up, sideways motion in the EMA %Diff can indicate a market pausing in an uptrend, or at the end of the uptrend. When the red is below the blue, sideways motion in the %Diff can indicate a market pausing in a downtrend, or the end of the downtrend and beginning of an uptrend.

At the beginning of **Chart 2** when prices were moving down, the EMA %Diff was moving down; and while the red EMA Trend Indicator line was still moving down, the EMA %Diff turned up as a warning that the trend may be shifting from down to up.

MA%Diff

The EMA%Diff is calculated using fast turning exponential moving averages and changes direction very quickly. A similar calculation based on simple moving averages is used for the MA%Diff, which is plotted in **Chart 3** as a green dashed line. It turns more slowly and does not wobble as much as the red EMA %Diff. The interaction of the two can be helpful in identifying trend continuations and trend reversals.

For example, in the early part of **Chart 3** the green MA%Diff line is pushing strong down, while at "A" the red EMA %Diff turns up for a price bar or two; then turns back down again. This divergence in the direction of trend indicates *lower prices are likely*.



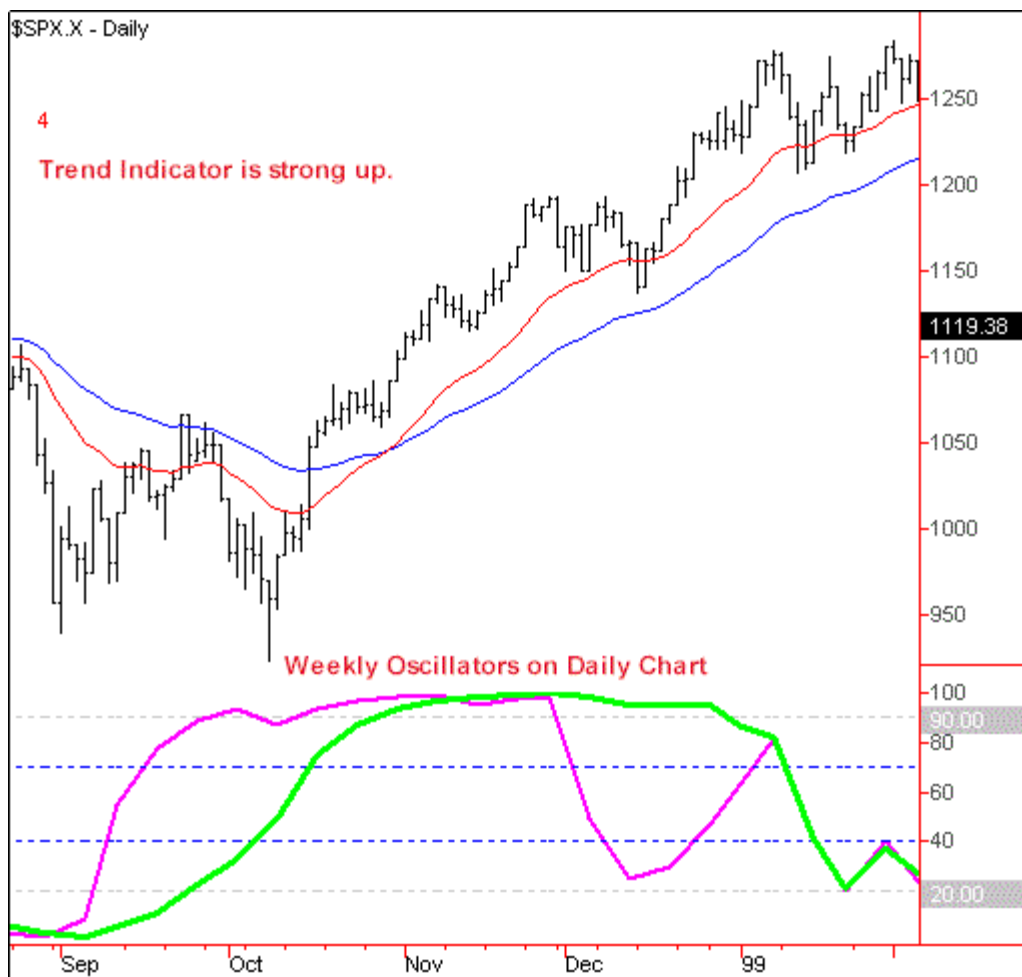
The big upturn in October is a significant pattern wherein the green MA% Diff was strong up; while the red EMA %Diff moved down for a number of bars, then turned strongly up while the green MA% Diff was still moving up in what is usually a very bullish signature.

The pattern of the EMA% and MA% lines at the top of the chart is typical of congestion. The %Diff lines do not move together in a strong trending direction as they did from the October bottom, but cross in a sideways movement showing an uncertain market.

Oscillators Also Show Trend

In cycle analysis, the trading trend is set by the direction of the dominant cycle in a longer time frame. The trend for the daily chart is set by the direction of the cycle in the weekly chart, and the weekly DoubleStoc oscillator generally moves in the direction of that cycle.

In Daily **Chart 4**, the green oscillator is the 10DoubleStoc (10DS) for the *weekly* chart, and the purple oscillator is the 5DoubleStoc (5DS) for the *weekly* chart. Both are plotted on a *daily* chart.

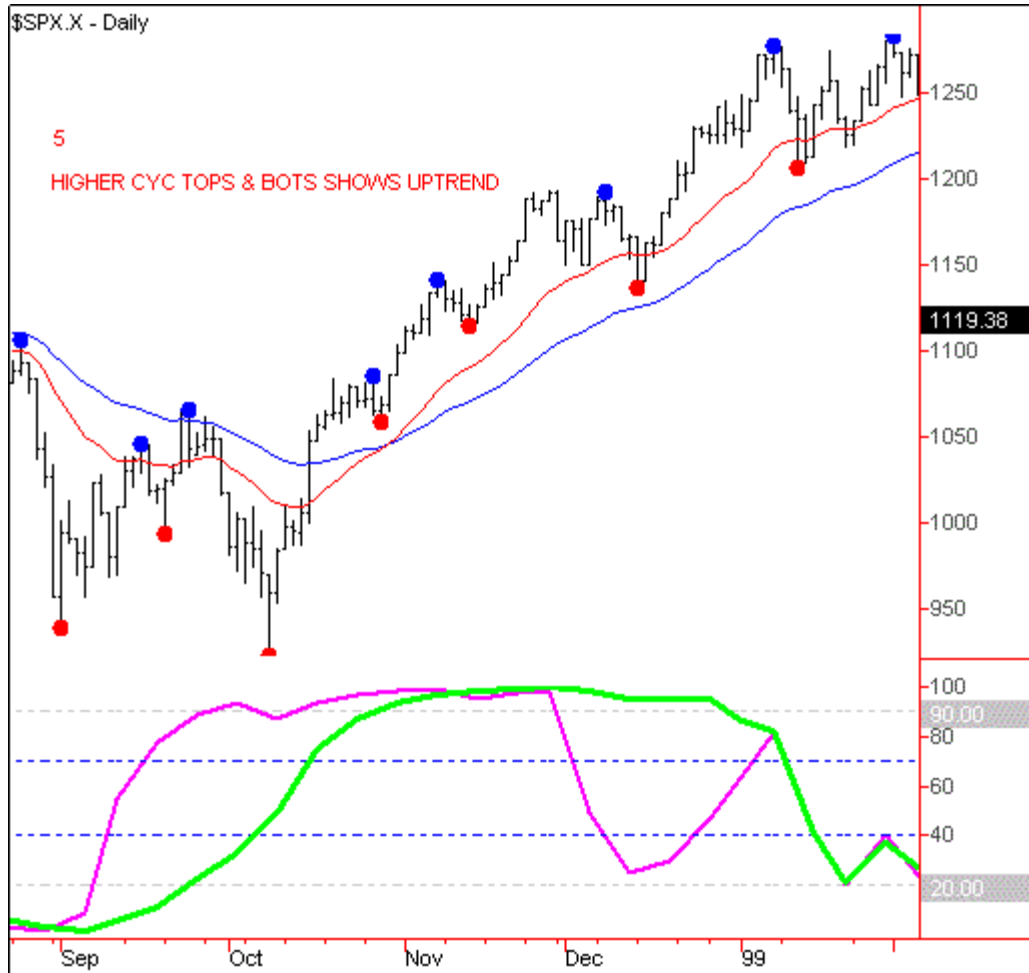


When the green (weekly) 10DS oscillator is moving up, or at the high of the subgraph, the trend is up; when the green DoubleStoc oscillator is moving down or at the bottom of the subgraph, the trend is down. The 5DS is more sensitive than the 10DS and will turn up and down more quickly, showing the end of a trend or a period of congestion sooner than the 10DS. The 5DS turned up quickly in early September to show the trading trend was up. The 10DS also turned up, but did not rise as rapidly. With the 5DS flat at the high of the subgraph, and the 10DS moving up, cycle bottoms shown by the daily oscillators and mechanical buy signals can be bought with a high level of confidence that the trend is up.

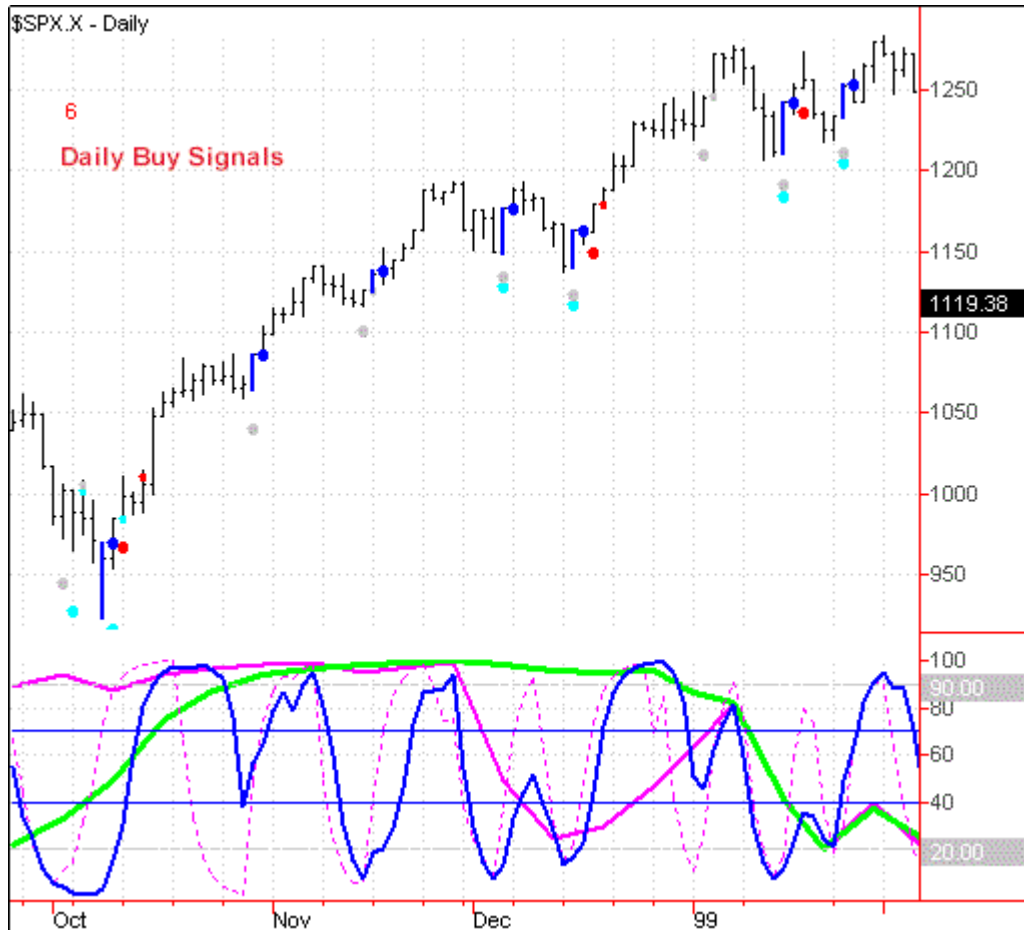
The interaction of price and oscillators with the EMA lines often identifies cycle tops and bottoms with high probability buy and sell signals. In declining markets, a price rally that meets resistance at the red and/or blue Trend Indicator line(s) is often making a cycle top. In rising markets, a price decline that meets support at the red and/or blue Trend Indicator line(s) is often making a cycle bottom.

In mid-November the weekly 5DS dropped, showing the potential for consolidation, or for a possible trend reversal; however, the weekly green 10DS stayed at the highs of the subgraph, and the subsequent upturn in the weekly 5DS indicated a continuation of the trend to the upside, which is what occurred.

Another indication of uptrends is higher cycle tops and higher cycle bottoms. In **Chart 5** the blue dots identify 20day trading cycle tops, and the red dots identify 20day trading cycle bottoms. These cycle dots are plotted after the fact, usually lagging by a cycle and a half or so. Since cycle tops and bottoms are usually accompanied by an overbought or oversold oscillator, the key is to watch the blue 10DS daily oscillator in **Chart 6** rise up to the top of the subgraph -- above 70 and ideally above 90 -- to show a potential cycle high. Cycle bottoms most often see the daily oscillators drop to the bottom of the subgraph -- below 40 and ideally below 20 and 10 -- to show a potential cycle low.



In **Chart 6**, the blue 10DS is the dominant *daily* oscillator; the 5DS is the dashed purple line. The cycle bottoms are identified by the 10DS and/or the 5DS. With the green weekly DoubleStoc at the top of the subgraph, whenever the *daily* 10DS drops below the 40 BuyLine and turns up, the market can be bought with Mechanical Buy Signals. The blue Setup Bars in the price chart are for the 10DS (the blue dot to the right of the Setup Bar indicates an entry), the dots below the price bars identify Setups for the other Buy Signals: red for the BLine, gray for the 5DS, and cyan for the Oversold Buy Signals.

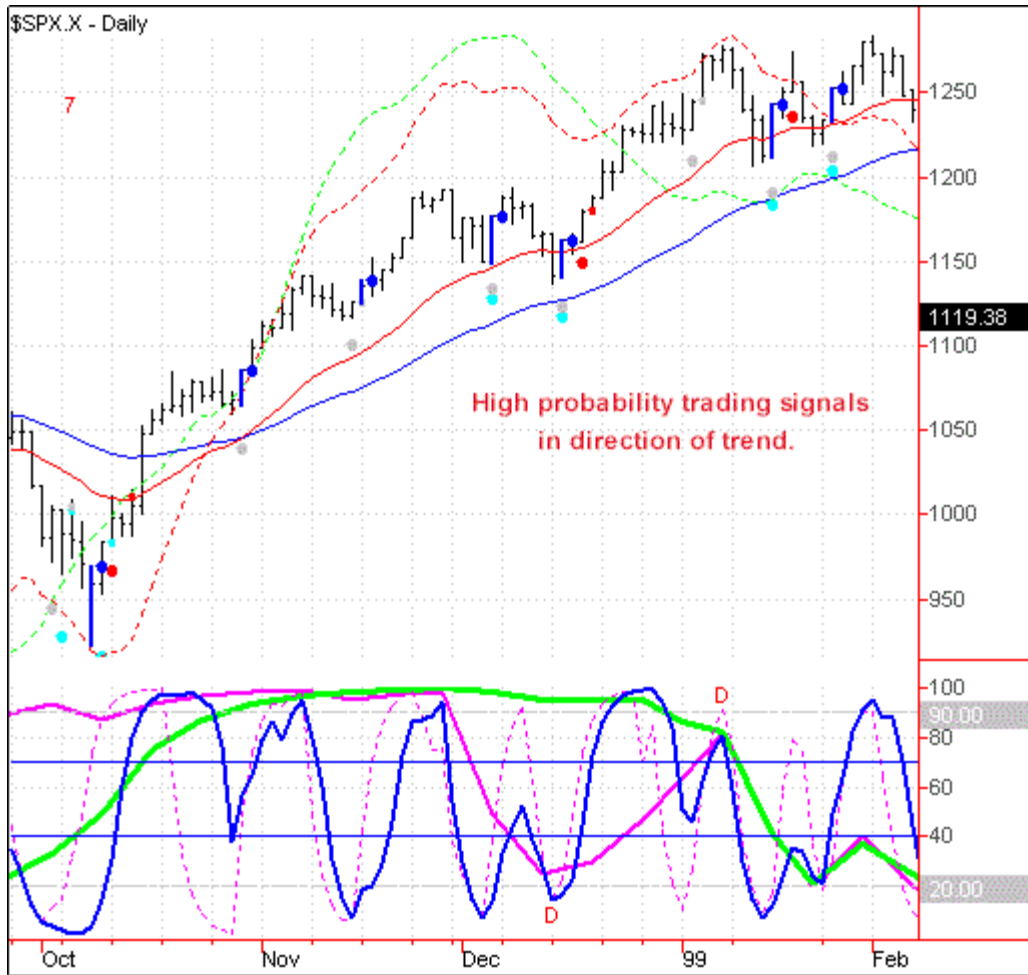


You can see from the position of the Setup Dots that two or more oscillators turning up to generate Buy Signals on the same price bar usually have follow through to the upside. These “groups” of 2, 3 and 4 Setups usually occur at the more significant cycle bottoms and tops. The October low had three Buy Setups -- one 10DS Buy Setup Bar and two Buy Setup dots -- a cyan dot for the Oversold buy signal, and the red BLine dot.

Generally, when the green DoubleStoc weekly oscillator is relatively flat at a high level, the market is trending up and should be bought at almost all 10DS Buy Setups.

In **Chart 7** the EMA Trend Indicator lines, the EMA %Diff, and MA %Diff lines combine *with the weekly oscillators to show an uptrend*. The most tradable uptrend pattern is when:

1. The weekly 5DS and 10DS are moving up or are flat at the high of the subgraph,
2. the red EMA line is above the blue, and
3. the red EMA %Diff and green MA %Diff are pointing strong up.



With that combination, the market can be bought with the Mechanical Buy Signals generated by the 10DS oscillator (blue Setup Bar), the 5DS oscillator (gray Setup Dot), the HAL Overbought (cyan Setup Dot) and/or the BLine (red Setup Dot).

The buy signals in late Oct and mid-Nov are significant Buy Setups as:

1. The EMA %Diff and MA% Diff are strong up, and
2. The red EMA line is up and above the blue EMA line.
3. The purple weekly 5DS *and* green DoubleStoc oscillator lines are rising or at the top of the subgraph.

We see a warning signal in the EMA% Diff and MA% Diff in late November/early December as they start to flatten, indicating the market is slowing down. We also see that slowdown in the downturn of the purple 5DS for the weekly chart, and the failure of the daily 10DS oscillator to rise above the 70 SellLine in early December.

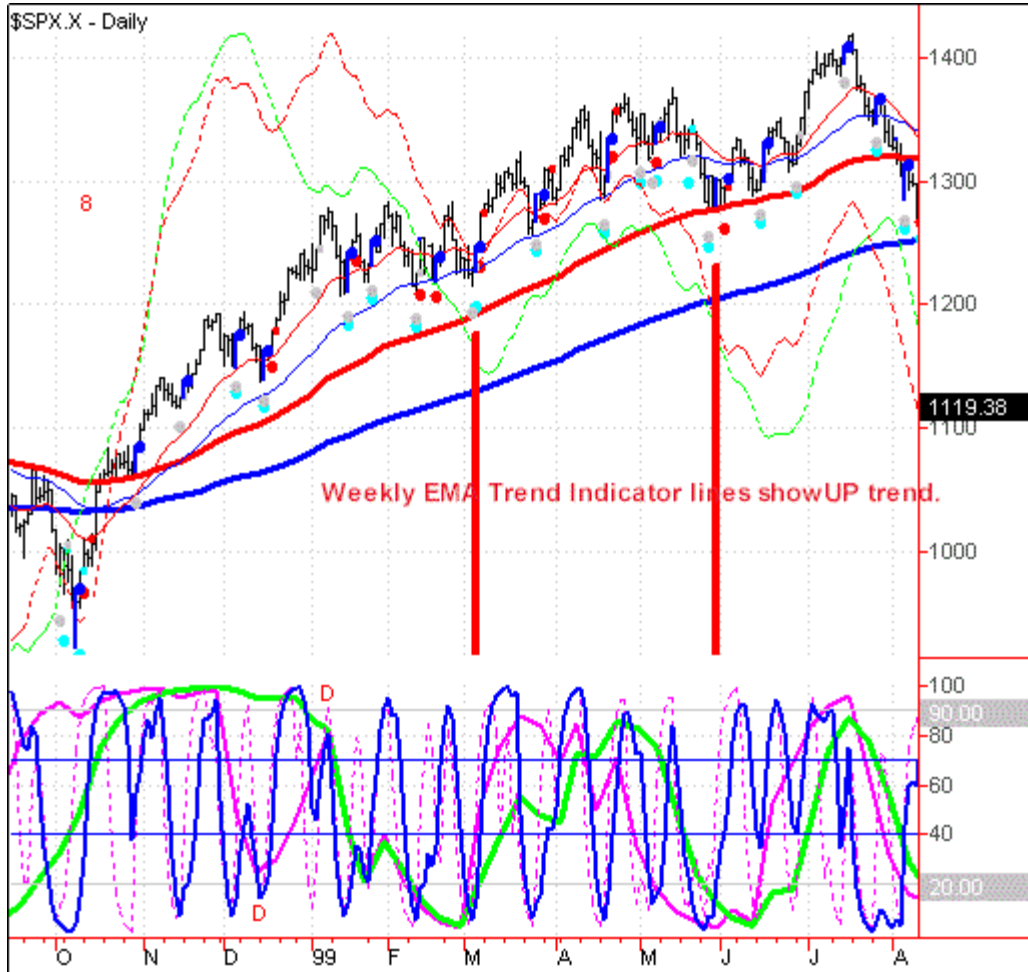
The **D** below the 10DS Oscillator in mid-December shows a divergent bottom of lower prices and a higher oscillator, which is bullish and indicating the market could be bought.

With the weekly 5DS moving down, what is telling us to buy besides the divergence? The green DoubleStoc is at a high level indicating the trend is still up. It is also about time for the 10week cycle to bottom, and prices remaining above the blue EMA line is bullish.

The end of the upmove, and a potential top, is indicated by the divergent high at **D** in early January, as the green weekly 10DS oscillator is now moving down. Also, the EMA %Diff and MA% Diff are opposite each other, showing the potential for consolidation, or a top.

Weekly EMA Trend Indicator

Another powerful trading tool is to plot a set of *weekly* EMA Trend Indicator lines on a daily chart, as in **CHART 8**. In a bull market, the daily prices and EMA Trend Indicator lines are often above the weekly lines. The green DoubleStoc oscillator line calculated from the weekly data generally drops to the bottom of the oscillator panel at the 20week cycle bottoms, indicated here by the thick red lines.



The bigger picture in **Chart 8** shows that the divergent **D** identifying a top in January '99 pretty much called the weekly cycle high as the 10DS oscillator then started moving down...but prices moved sideways to down. Prices moving sideways as a weekly cycle bottom is due, but with the weekly green 10DS oscillator dropping is often an indication of higher prices yet to come *following* the expected cycle bottom... and following the oscillator low the market moved up to make new highs at the top of the next 20week cycle.

A subtle pattern to watch for is EMA/MA divergence, which occurred at **A** in early February. The green MA% Diff was moving down while the more sensitive red EMA %Diff turned up, then back down in the direction of the MA% Diff to signal lower prices. Combine that with the oscillators

moving down and it can be a tradable sell pattern to take profits, or even go short as the weekly green DoubleStoc was moving down, signaling a probable decline into a weekly cycle bottom.

Following the March 2000 low the uptrend continued, with profitable buys occurring at daily cycle bottoms as the daily red EMA line was above the blue, and prices found support at the blue line.

CHART 9 also plots the *weekly* and daily EMA Trend Indicator lines, and the bear picture is easy to see as the red EMA lines for the weekly are below the blue. This chart is as weak as Chart 8 was strong...and where do you think prices are going from here?... Why?

