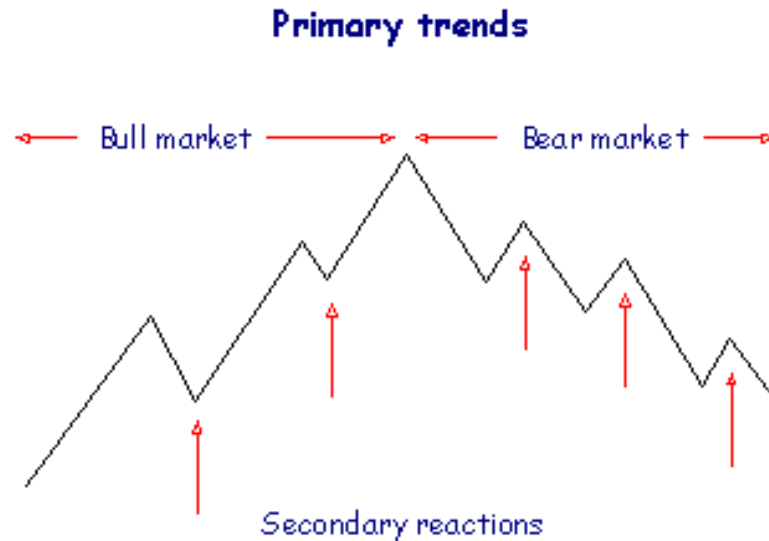


Finding Trends and Anticipating Trend Reversals

Trends

- Trends tend to unfold in waves.
 - There are many theories of Waves including Dow Theory and Elliott Waves.
- The waves consist of moves supporting the primary trend and short countertrend moves.



Thinking About Trends

- Buyers make prices go up and sellers make prices fall.
 - The relative intensity of the two groups determine the direction of the primary trend.
- Uptrends end when we run out of buyers.
- Downtrends end when we run out of sellers.

Sequential Is Designed to Spot Trends

- 9s identify trend initiation.
 - This is expected to be followed by 1-4 days of consolidation or pullback and then a push to new highs.
- 13s identify trend exhaustion.
 - This is expected to be followed by a reversal.
- There are many complex rules associated with this indicator, but they can be reduced to simple ideas.

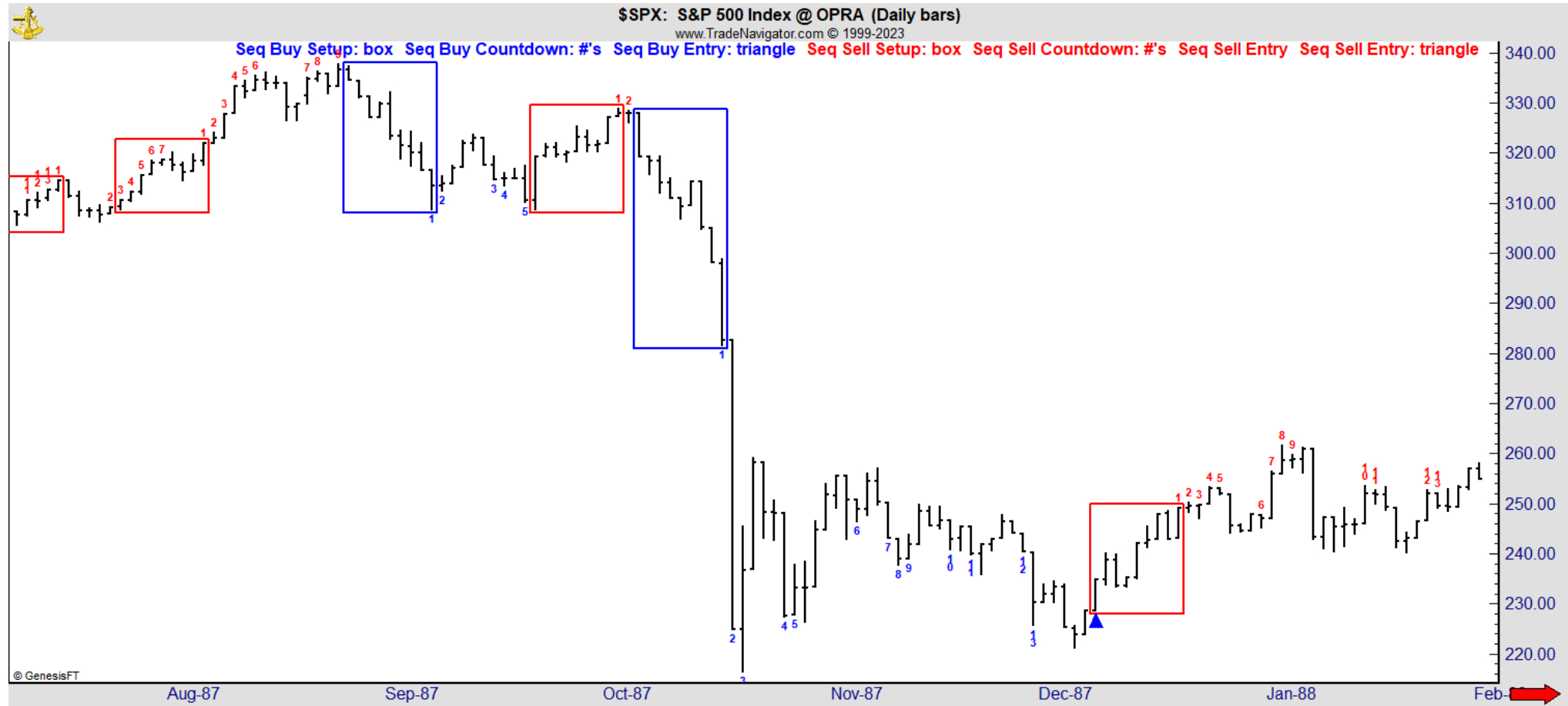
Trade 10s

- For buying calls, 9s consist of 9 straight days where the close is higher than the close four days ago.
 - Note that we use days in this description, but the idea applies to any time frame.
- For buying puts, we look for 9 straight days when the close is lower than the close four days ago.
- After the 9, we look for the signal.

The 10

- 9s are typically followed by 1-4 days of consolidation or pullback.
- We want to wait for confirmation that the trend is underway.
 - We buy calls when the close is greater than the close two bars ago.
 - We buy puts when the close is less than the close two bars ago.
- There are variations.
 - We can compare the close to the close four days ago.
 - We can require the price to top the high or undercut the low of the pattern.

Example



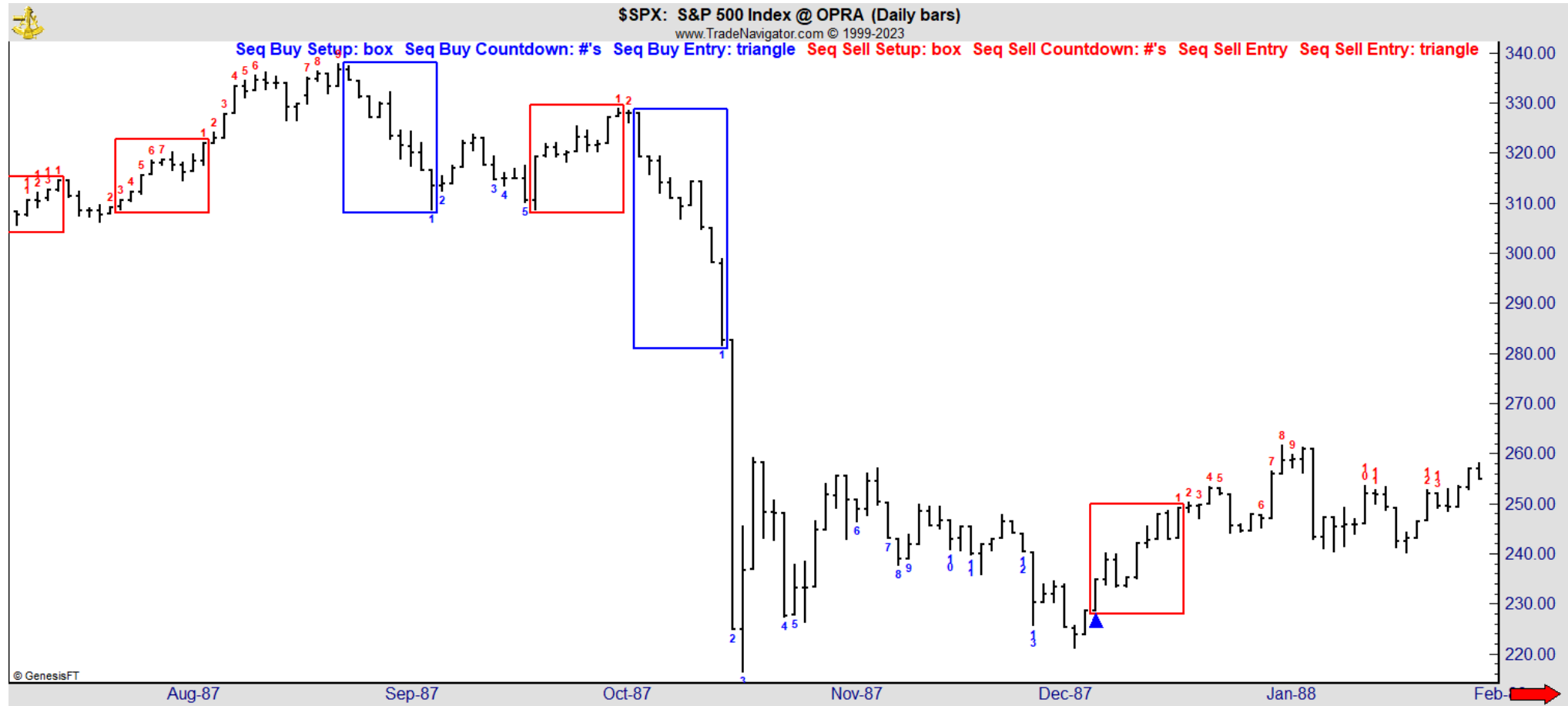
Trade 14s

- After the 10 confirms your signal, you should expect a strong trend to develop.
- The trend is expected to reach a 13 count where the count increases each time the close is greater than the close two days ago.
 - For downtrends, we look for the close to be less than the close two ago.
- These do not have to be consecutive.
 - If a new 9 count develops, the 13 is abandoned.

Trading After the 13

- After we reach 13, look for a price flip.
 - That occurs when the close is higher than close 4 bars ago to signal the end of a downtrend or lower than the close 4 bars ago to signal the end of an uptrend.

Example



Specifics

- When we see 9 consecutive closes greater than the close two bars ago,
 - We wait for a close greater than the close two bars ago and buy a call.
- When we see 9 consecutive closes lower than the close two bars ago,
 - We wait for a close lower than the close two bars ago and buy a put.
- When we reach 13 in an uptrend,
 - Wait for a close lower than the close four bars ago and buy a put.
- When we reach 13 in a downtrend,
 - Wait for a close greater than the close four bars ago and buy a put.
- Exit with a profit target and trailing stop.

Advanced Concepts (not used)

- Sequential uses highs and lows rather than closing prices in the Countdown (the 13s).
 - In an uptrend, each of the 13 bars needs to have a close above the **high** two bars ago.
 - In a downtrend, each of the 13 bars needs to have a close lower than the **low** two bars ago.
- Testing shows similar results using closing prices so I used closes to keep it simple.

Advanced Concepts (Intersection)

- To assure prices are rising in an orderly fashion rather than bubbling higher, the low of any day on or after the 8th day of the set up must be less than the high of any day 3 or more days earlier.
 - The low of 8 or 9 must intersect the bar of 6, 7 or an earlier day.
- Not needed when we use the confirmation rule described as the 10.

Advanced Concepts (Perfection)

- 9s can be classified as either “perfected” or “imperfected.”
- It’s “perfected” when the 9 is completed and the highs of the 6 and 7 bars have been exceeded.
- Not needed when we use the confirmation rule described as the 10.

Advance Concepts (Support & Resistance)

- Support lines can be drawn based on the lowest true low of the 9-day buy setup.
 - A decline below that level negates the setup.
- Resistance is drawn at the highest true high of the 9-day sell setup.
 - A decline below that level negates the setup.
- These rarely come into play.

Advanced Concepts (Risk Levels)

- After a 13, residual momentum can drive prices higher or lower.
- To find the risk level to the upside, use the highest high in the 13 countdown. Find the true range of that bar and add that to the high.
- For the downside countdown, use the lowest low high in the 13 countdown. Find the true range of that bar and subtract that from the high.