

The Technical Trader

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TTT 293

In our 21st Year!

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The Month Ahead



1. Introduction

My work on binary bets has brought me into contact with a whole new area of trading and that is trading on sporting events. These traders use exactly the same techniques as do financial traders, they apply money management and risk control just like us, and the final arbiters of success are often emotional control and constant research.

Bob Rothman is a well known trader and he trades horse bets. Coincidentally he has been a good friend of mine for many years. His early experiences in the “market” are very instructive and mirror our own experiences in the financial world. The special feature in this issue is a fairly long interview with Bob but I found it quite fascinating and I, as ever, welcome your feedback.

It is my belief that wherever man (or woman) pit their wits against risk be it in the financial world, the sporting world, or indeed outside of those fields and across the card table or over the backgammon board that the winners in all these fields share many common characteristics. They all need an edge, they all need to employ good money management and risk control; they need to tightly control their emotions particularly

Trading Summary

	LONG	TREND MEDIUM	SHORT	RECOMMENDATIONS
FTSE 100	DOWN	DOWN?	DOWN*	SHORT
DOW	DOWN	DOWN?	DOWN*	SHORT
DAX	DOWN	DOWN?	DOWN?	SHORT
US T-BONDS	UP	UP	DOWN*	LONG
NIKKEI DOW	DOWN	DOWN	UP*	SHORT
GOLD	UP	DOWN?	DOWN?	SHORT
* Trend change maybe imminent ?May be corrective action #Monitor Hotline				

in a “game” which can be a lot more exciting in itself than the market or where you can be subject to intimidation tactics as when playing poker or backgammon. Some people use such tactics as their edge.

So, it follows, that we can learn as much from our fellows in these diverse fields as we can from those who trade financial markets. In fact we may learn more as some of their techniques will be different and as the cross over between financial and sporting markets continues we now have a much wider range of options to play with.

2. FTSE 100

The action here has now become a little obscure. I had thought Monday’s low at 5978 may be important but it now looks as if all we have seen is the market attempt to hold 6000 which is failing. ***If so we might easily fall fairly sharply from here and the wave “three” scenario would become favourite.***

For our more detailed analysis see pages 4/5. TRADING TREND. TT is DOWN*.

3. The DOW

The Dow fell back on cue on Tuesday to form five waves down for what is either the fifth wave of “one” or the first wave of “three” – see Chart *3. I now expect some upside and if we are now in

“three” that upside will not amount to much but if “one “ has just ended we could see up to a week with a corrective rally. The second would suit me better as I will be away to Italy tomorrow for one week, but the market will certainly have no regard to that. On the Dow there is a stronger case that we are now in “three” as last week’s rally lasted 2.5 sessions and that is reasonable compared to the previous decline lasting around 5 sessions. ***But it is important to be aware that we are in a downtrend and forecasts of the market going lower have a much higher chance of success than forecasts of bounces.***

For our more detailed analysis see page 5.

TRADING TREND. TT is DOWN*.

4. The DAX

The pattern on the DAX is the least clear of the markets I look at. The decline off the peak at 7231 on 19th May could be a five but it could also be a three. The subsequent rally looks impulsive but has now given way to a possible five-wave decline. Overall the key point for now is the 7000 level. Tuesday saw the DAX probe down to 6962 but then break back above 7000. ***Ultimately the DAX will tend to act similarly to the DOW and FTSE as they all adhere, in their own way, to the global trend.*** But it is still not clear whether “one” is over as yet.





TRADING TREND. TT is DOWN?

5. US T-Bonds

Bonds saw a spike low last Friday and it is possible we have finally seen an important low for the bond market. I continue to look for a rally here which may well coincide with falls in equity markets but in the longer term I think bonds will be swamped by oversupply as Governments struggle to balance their books during a deep recession – **they appear to have spent all the money from the "good" times!**

TRADING TREND. TT is DOWN*.

6. Japan

The Nikkei has remained stable of late and even made a new high for the rally at 14461. The Nikkei is in a very different phase to western markets as it is still 60%+ below its all time high seen in 1989. So it may not have

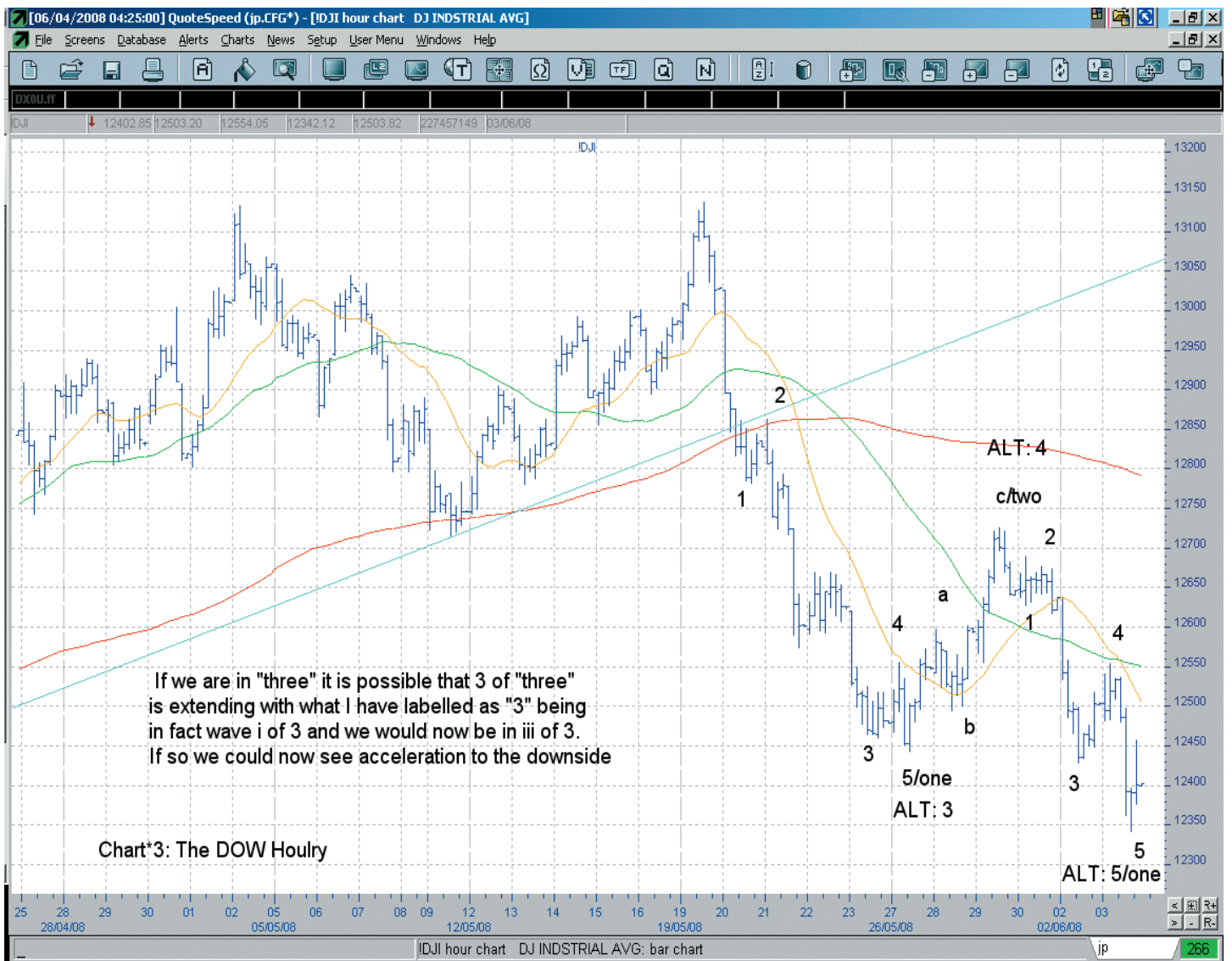
the same need to fall further, but I suspect once the western decline begins in earnest that the Nikkei will follow. **The wave pattern itself is open to interpretation but this latest rally may be a wave 4 which may be about to fail before the wave 5 decline comes in to complete five waves off the June high at 18297.**

TRADING TREND. TT is UP*.

7. GOLD

Gold is dithering just below \$900 and, so far, this decline looks like a mere correction. I had expected more than that but it is important to keep an open mind. Right now we could drift back above \$900 but if that is still feeble expect a sharper sell off towards the end of June or early July.

TRADING TREND. TT is DOWN?



8. FTSE 100

a. Elliott and Market Profile.

On Monday morning FTSE took the low road and tested the key 6000 level. FTSE peaked at 6377 on 19th May and the next day we went officially short in my 3:00 hotline update – btw the 10:00 am reports are available both by email or by ringing 09067 360 360 at £1 per minute. Since then FTSE has fallen back impulsively and we do have some thing of a five wave form – see Chart*2 – either in place or developing. The low at 6048 on 27th May may have been the end of the first leg down but it may also merely be the end of wave 3 with wave 4 taking on the form of an expanding triangle – see again chart. Which is the case will have a fair effect on the current decline which is either wave 5 of leg 1 or a new leg 3 which is, all together, a very different kettle of fish. For now I am inclined to think we are seeing the end of wave 1 with one final

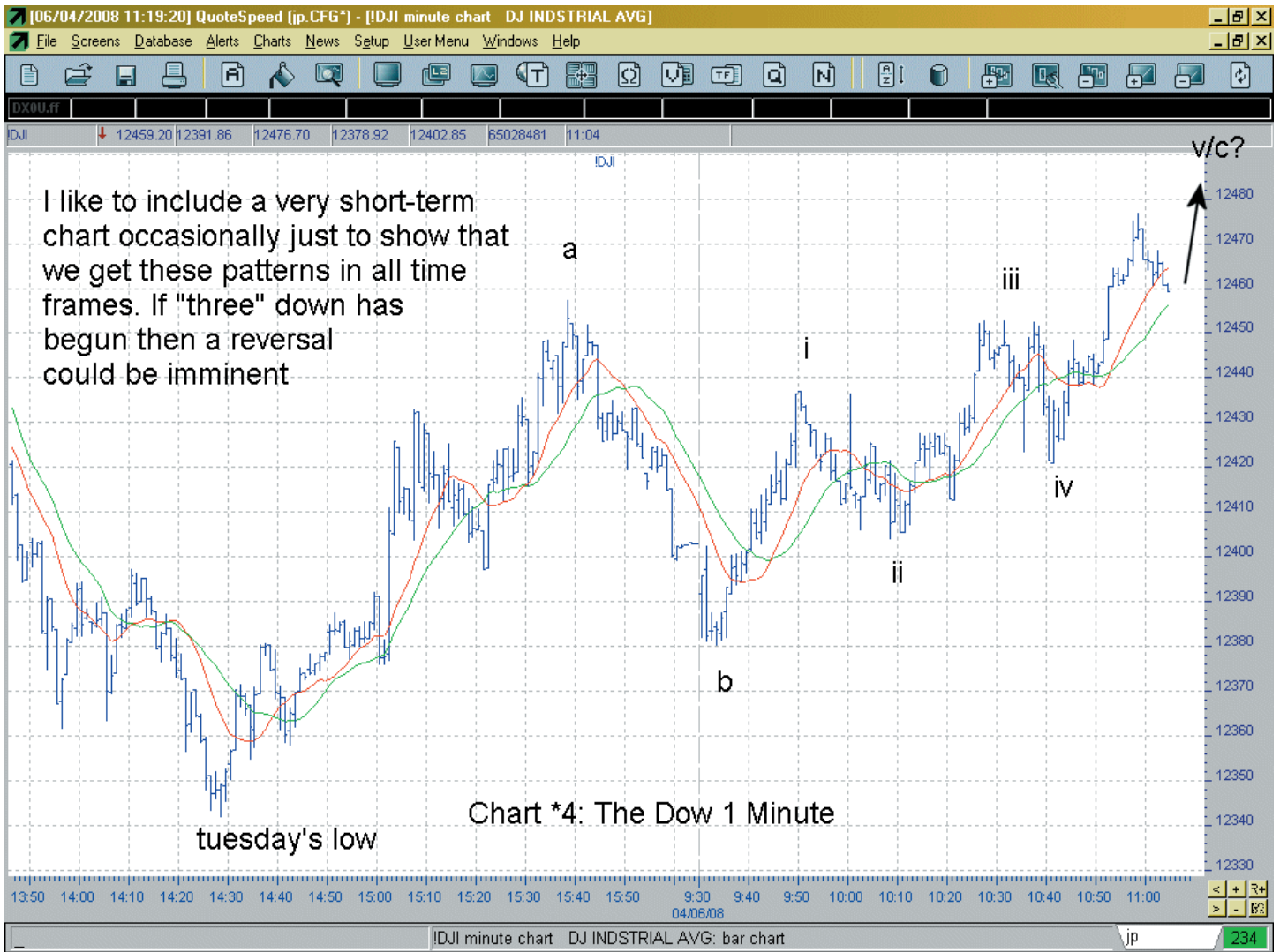
low below 5978 ideally required - which may have come in today (Thursday).

b. Gann Analysis

The Monthly chart is now down, but only just with the May low being seen at 6044, and we would need to see a move above the May high at 6377 during June or this chart to turn down. The Weekly chart is also down and will turn up on any move above 6141 this week, or above this week's high, currently 6060, next week. The Annual chart is now down and will turn up in 2008 on any move above 6754, the 2007 high seen in July.

c. Other

The trendlines are continuing to be useful as shown by Chart *1. FTSE broke above the down-trendline but failed to hold it and in fact was turned back by the up-trendline subsequently. The 200 day moving average (red line) did provide support in the first half of May but the decline off the top



has clearly broken below this. The ascending triangle tried to re-test but failed. The conclusions here are negative.

d. Summary and Conclusion

The decline looks impulsive but it also looks like we are due a bounce but how much is the big question right now.

9. The DOW

a. Elliott and Market Profile.

The Dow also appears to be finishing the first five-waves down off the high at 13136 (19th May) – see Chart *2. You will see from the chart that yesterday's move below 12428 completed what may be the fifth of a fifth. The alternative, as with FTSE, is that we are actually seeing the start of "three" and I have marked this alternative count on the chart. Ultimately it is the strength of the corrective rally that will determine which. If wave three has started then the rally may not outlast the week - see Chart *4 - but if wave "one" is just ending then we could rally for a week.

b. Gann Analysis

The Monthly chart is now down and we would now need to see a move above 13136, the May high, for it to turn up. The Weekly chart is also down and will turn up if we see a move this week above last week's high at 12726; or next week above this week's high – currently at 12638. The Gann Annual chart is now DOWN and will turn up in 2008 on any move above 14198, the 2007 high (seen in October).

c. Other

The latest decline has yet to get going on the NASDAQ 100 and the key here is that the important 2000 level continues to exercise price control and the NASDAQ needs to break away from that to make any progress to the downside. This is similar to 6000 on FTSE and 7000 on the DAX.

d. Summary and Conclusion

The Dow may have seen the low of "one" on Tuesday and we are now due a corrective rally.

Bob Rothman Interview - Horse Trading

Bob would be pleased to hear from you and you can reach him on tradingresearch@aol.com

JP: It is Wednesday 27th May and I am sitting here with Bob Rothman a professional trader with a difference. Bob do you want to explain?

BR: I call myself a professional gambler. I think both terms are more or less the same, one day you're trading the next day you're gambling. It's all fundamentally the same principal. You buy cheap, sell expensive.

JP: Do you mean that one day you are trading in the sense...

BR: I do regard the trading element of gambling as more of the pussy side of things. Where you take a small secure profit, so trading for me is where I back a horse at 5-1, and then lay it at 4-1 to get a sure win. That would be trading. Whereas just backing it at 5-1 is the gamble. Personally I think trading is bad value because you are giving away too much. If you are laying off part of the bet you have to pay a premium or give a premium price to lay it off.

JP: Yes, with binary bets it is the same thing. If you bail out you miss the lion's share of the profit. You may do better on the one bet but if you keep doing it you miss out on the big wins.

BR: The value is to iron out fluctuations in your cash flow and also the fluctuations in your emotional state because it maybe you haven't got what it takes to carry on. By trading you can guarantee you will have some winners all the time but they will be smaller winners. I don't think you will make as much money by trading out of situations.

JP: Yes, I have come to the same conclusions myself. To succeed profits have got to run.

BR: I tell you where I would trade myself and that is to increase value. Say I wanted £1000 on a horse and you "know" it is going to shorten up (meaning get more expensive to back – Ed.)

then I may put £2000 on it and sell £1000 back. So you have increased the value, you have increased your net value on the £1000 that you were willing to bet in the first place.

JP: OK, but say if that does not happen.

BR: Then you have made a bad decision.

JP: You don't bail out if that happens.

BR: Sometimes...

JP: In fact we are getting a bit ahead of ourselves, the first question I was going to ask you was how did you get into this to start with? What attracted you to this business?

BR: Well, I tried a couple of times actually. The first time I tried was when I was a kid I guess about 16 or 17 and I thought it would be cool to be a professional gambler. So I tried it for around three months and I could not make it pay.

JP: This was horses?

BR: Yes, horses. Actually I played a bit of cards and I could win money playing cards among friends. But basically I gave it up as a bad idea.

JP: You were quite good at backgammon as I recall.

BR: Backgammon I loved. I think backgammon is a wonderful trading training game for trading skills. Because backgammon teaches you to be honest about your decisions. There are a few situations where there absolutely is a right and a wrong answer. So unless you perform perfectly in those situations where you know there is a right or a wrong answer you have got no chance of performing when the answer is a bit more ambiguous. I guess the classic one is in the 3 rolls v. the 3 rolls run-off in the end game. The rule is it's a double and it's a drop (meaning you do not accept the doubling dice after a double – Ed.). People only take (the dice) when they are steaming, when they are chasing. So you know, if some one takes the dice, that they have a flaw in their decision making process. Usually its because they are emotionally upset because they are losing. Obviously you get into more complex situations where it is not clear cut and it then becomes a matter of opinion.

JP: When we played together I just felt that you

had a huge psychological advantage over me for various reasons. I am not quite sure what they were. You seemed to be able to read the game much better and were much less affected psychologically by what was going on. I have never played the game that seriously so I guess that is what I should expect.

BR: There are two edges in backgammon. They are that you maximise your winning possibilities by moving your pieces in such a way that, firstly, more rolls are lucky for you and, secondly, unlucky for your opponent. If you do that well and your opponent doesn't do it well the result is that you appear to be lucky more and your opponent feels that he is being unlucky.

JP: Hmm, so I was only playing half the game.

BR: Yes, and if you feel you are not doing well, you start doing worse. Apart from that, the other strength is just in making the right decisions. Take the classic example of the doubling dice. The rule is that you double when you have the advantage and you accept the double if you have no less than 25% chance of winning the game. So at a 25% chance it would be a neutral decision; more than 25% you take it and less than 25% you drop. So, as long as you make the right decision, in other words if you knew you had a 26% chance of the game and you took the cube even though you lost it because you were likely to lose it, as the odds are around 3-1 that you are going to lose, you can be proud of yourself because you made the right decision. It doesn't matter that you have lost. What does matter is that you have made the right decision.

JP: And you compute that mathematically?

BR: Well, you try to. As I say, in backgammon there are only a few situations where it is absolutely clear cut where you can calculate. The others are matters of opinion. When you play backgammon, even with world experts, there will be a range of opinions. They will argue and they will disagree as to which is the right course of action. Generally they will agree but there will be some moves where no one will know which is the best move.

JP: Interesting! To return to your trading now the first time you tried you were 16 or 17 on the horses...

BR: That didn't work and the second time was just as I was leaving the second job in my life...

JP: As an accountant?

BR: No, actually no, the first 9 months was with Price Waterhouse and then 9 months with Olivetti...

JP: My daughter is with PwC now.

BR: Is she really? Good for her. Gosh. At Southward Towers, is the swimming pool still in the basement?

JP: I have no idea, she's been there about 9 months now.

BR: That was the only reason I took the job. I was so impressed with the office. Anyway I was leaving Olivetti, no I had already left and was in business, and my girlfriend, Sandy, broke down on the A3 and got a lift home by a trainer. John Jenkins. He stopped, gave her a lift home with an owner in the car and they saw we had stables and we got talking about horses. This guy, she told me later, he said something like, "back this horse, Sunnybanks Angel, it will win next week." The trainer then said, "shut up, shut up, you idiot!" She explained it much more elegantly than that and I thought, hmm, looks like someone has left something slip and they shouldn't have done. I bet it and I think I went for £1500 which, compared to what I was earning at the time, which was around £500 pm. So I won 3 months salary and I didn't bet again for another 5 years.

JP: So that was your second go, one bet?

BR: I had the second go and I realised that I did not want to bet again without an advantage. I had realised as a child that I could not make it work and the next time, and this was when I really started betting. Sandy and I split up, we had horses at home and they went into a livery yard and I used to go and ride my horse at the weekend. One weekend I was talking to the guy who was the handyman at the stable. We were just chatting and he said "Oh I backed...

(to be continued)

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Jeffrey Gitomer

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