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# Ask Slim

## By Steven Miller

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### Dear Slim:

I recently opened an account with an online broker and have been trying to educate myself on the stock market. I want to start doing some day trading and making some fairly aggressive moves. I hardly understand the market and how it works. I've been watching the biggest losers and gainers every day as well as other various stocks. For a beginner like me, what would you recommend I do? I've made about 20 percent on my money in the last month since I got going; but I have only been investing small amounts, as I am not too confident in my picks. -Skyler D., via e-mail

### Dear Skyler,

The good news is you're up 20 percent. The bad news is you're up 20 percent, and you don't have a clue how it happened. The really scary part of your question is that now you "want to start doing some day trading and aggressive moves." You're asking for my recommendation. Ok. If it's not too late, because there is no way you are going to hold onto those gains, close your account, bank your 20-percent profit and then head to the nearest bookstore to begin the process of educating yourself about the markets. Spend a few months learning the basics and language of the markets and then another few months paper trading. Then consider live trading, but only after you have developed an appropriate plan of discipline and risk management. If you are still with it a year from now and get the level of focus and commitment this takes, you might have a shot. If not, the house edge at the craps table is only 1.4 percent on the pass line. You'll have a better chance there.

### Dear Slim,

I have been studying different types of chart analysis. It seems most of what I read is pretty much the same: candlesticks, point and figure, etc. I'm looking for methods that are beyond what everyone looks at every day. Along the way, I have seen references to right and left-hand translation. I have read that it is supposed to help identify trends, but I don't know how to use it. What, exactly, do these terms mean? Will you please explain how this method is used? -Barry W., Chicago, IL

### Dear Barry,

The terms right or left-hand translation is most often used in cyclical analysis. A cycle is a single oscillation on a chart, which is measured from a significant low point to the next significant low point. It is much like the waveforms on an electronic oscilloscope or like the picture of a heart rhythm on an electrocardiogram. It can be said that cycles are the heartbeat of the market.

Cycles can be counted on a chart of any period. An idealized cycle has a rising period and declining period that are equal in length, with the midpoint being the highest level or "crest." If the crest of a cycle occurs before the ideal midpoint, and the chart falls for the balance of the cycle, it is said to have a left-hand translation. If the crest occurs later than the ideal midpoint of the cycle, it is said to have a right-hand translation. This is very valuable information. The reason a cycle tops before or after the ideal midpoint is because the underlying trend is affecting it. Thus, if a chart has a cycle of 12 days and then rises for nine and falls for three, completing the cycle at a point above where it started, it has a bullish

configuration and is signaling that an uptrend is in force. It is then highly likely the next cycle will achieve a new high before it crests.



What follows is a daily chart of the “SPDRs,” an ETF (Exchange Traded Fund) on the S&P 500. Note that I have marked the cycles with vertical lines and have placed the cycle counts on the bottom of the chart. The S&P 500 index had cycle counts of 13 to 17 days. It is quite common to have that kind of variance in counts. The first four cycles on the chart all had right-hand translations. Each time, these cycles rose well beyond the idealized cycle midpoint of around seven or eight days and then had only very short periods on the downside. The message here is that the primary trend was up and remained that way throughout the three-month period. If you were an investor or a swing trader with a long holding period, this information would keep you in your long position without getting shaken out by the minor dips.

The last cycle on this chart is very different than the first four. Notice that the rising period was six days, and the declining period was seven days. Also, the cycle bottomed slightly below the level at which it began. These signals are warnings that buying power has diminished and that the primary trend may be topping. Were the next cycle to have a short-rising period and then begin to fall early (a left-hand translation), it would confirm that the market had topped, and a downtrend was in force.

As you can see, this type of analysis can be very helpful. And, it adds a whole different perspective by adding time into the analysis. My favorite book on cycles is Profit Magic of Stock Transaction Timing by J.M. Hurst. It’s available at Amazon.com. I consider it to be the basic primer on cycle trading for the stock market. Interestingly, it was written decades ago. I first read it in 1975. It changed the way I look at charts forever.

**Dear Slim,**

In your opinion, are there any specific determinants which signal a major price break in a chart as opposed to a minor fluctuation? I’m trying to hold myself back from pulling my “trigger finger” when I notice the slightest hint of a reversal.

–Eric H., San Francisco, CA

**Dear Eric,**

The three most important factors that I look at when determining if a breakout or breakdown of a chart is real or false are chart pattern, time and intensity.

Usually, the more complex chart patterns are the most reliable. My favorite of the larger patterns is the “island reversal.” This pattern is not very common, but when it does occur, it seems to rarely miss. The pattern is made up of a gap that extends in the direction of an existing trend, some period of trading in a range, and then another gap in the opposite direction, leaving the island. Two much more common complex chart patterns I look for are “M tops” and “W bottoms.” These occur when an extended high or low is made. The market tries to reverse, and then the high or low is tested. The second reversal often is the real breakout or breakdown. It’s even better when this pattern is accompanied by a candlestick buy or sell signal. Shorter patterns that tend to be reliable are continuations like flags, pennants and triangles. Interestingly, the most commonly watched reversal pattern, the head and shoulders, I find to be quite unreliable, possibly due to its overuse.

In order to apply the time factor in discerning the quality of a breakout or breakdown, one must have a sense of cycles. I touched on that in another question in this article. Basically, if a chart signals that it is breaking out of a pattern, the more time it has in the cycle to move in that direction, the better the trade. For example, if a stock or commodity has been moving up for some time and seems to break down in the 16th day of a 19-day cycle, odds are it won’t have much more time left to decline, and a more complex top may yet be formed. However, if it breaks down on day 6, with around 13 days left to fall, odds are you have a real short-side trade there. So, having a handle on cycles can really help us enter a trade in a timely fashion and then know when the odds are high to stay with or even add to the trade.

Intensity of a breakdown or breakout is something that you can see and feel. If a chart seems to be bottoming and then quietly eases upward above some important chart point, odds are there is not a lot of upside there without doing some additional work. However, if it gaps up on huge volume, you get a sense that there are a lot of investors trying to get on board through the same small door. A tall, white bullish candlestick pattern and a huge rush of volume frequently accompany those kinds of breakouts. Usually those breakouts head upward and don’t look back. Now that’s a long-side trade I want to make!

As you can see, there’s quite a lot to figure in when assessing the quality of a chart pattern. After you have gone through this process enough times, it will become more intuitive. Generally, as breakdowns and breakouts go, the bigger it feels, the bigger it is.

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