Analyst Insight

BALANCING TIME FRAMES

By Jason Sidney

PART ONE:

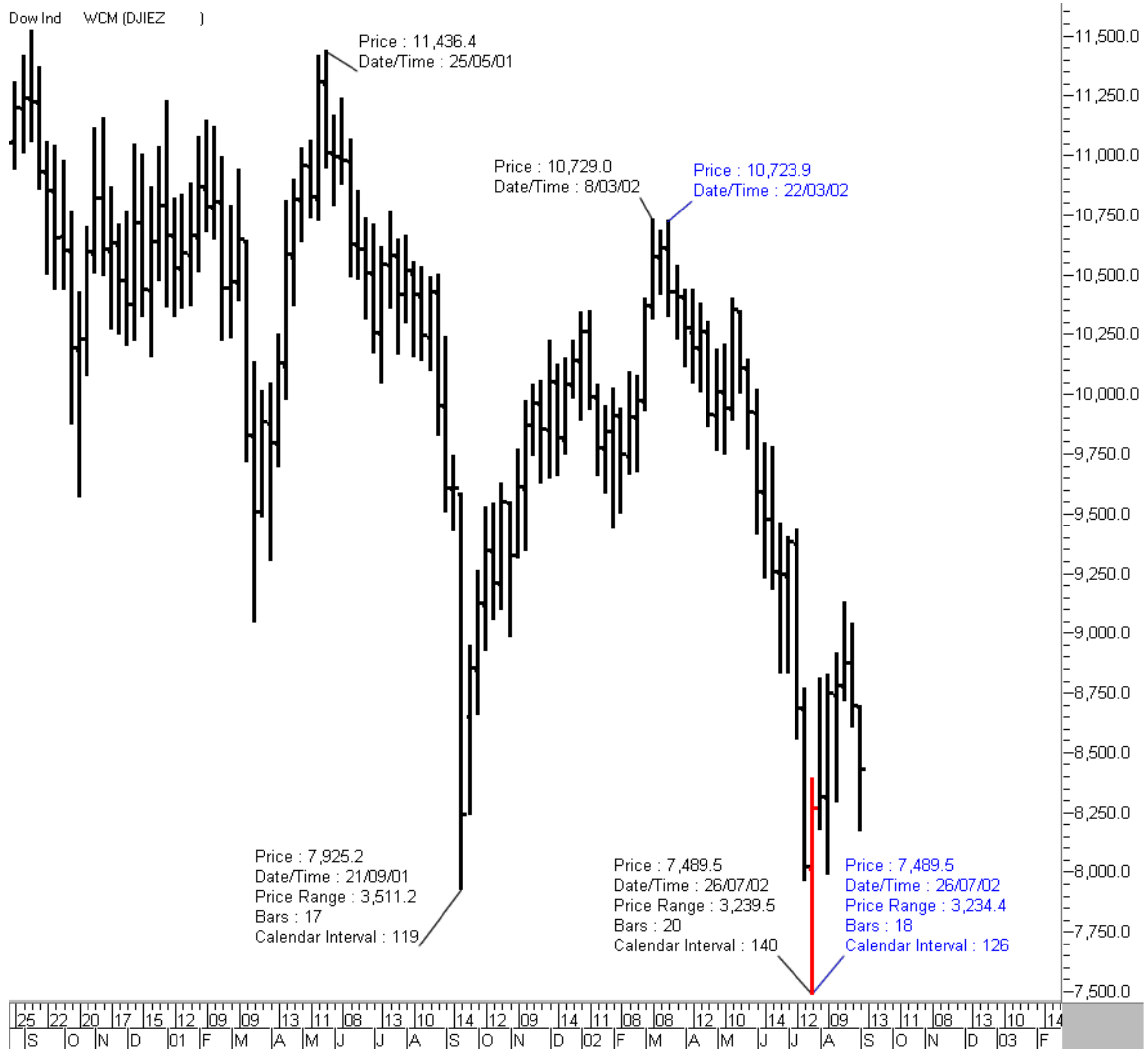
Identifying equal time frames is a great way to demonstrate “order” from the apparent “random” activity found in markets using the basics of geometry or what’s commonly known as geometric charting. The lesson that follows is a summary of the recent lesson I gave to Canadian radio station 580 CFRA in Ottawa, Ontario as part of a live interview for the program they were running at the time on Gann techniques and how they were applied to financial markets. With the recent anniversary of the September 11 disaster, a subject on everyone’s minds at the time. I thought it fitting to compare the recent decline we have all just witnessed in world markets with the decline that was a direct result of the September 11 disaster. While the event itself was a catastrophe, the “order” or balance that has unfolded in markets since that event has been quiet amazing.
There are four main points on a chart you would look at when trying to identify equal time frames, and they are the time frames between swing highs and lows. The swing highs and lows you would look at, are the difference between high to low, low to high, high to high, and low to low. This can be done on any time frame chart, daily, weekly or monthly, depending on whether you’re trying to determine the short term or long term trend.
If we were to now look at the S&P 500 cash market and the Dow Jones Industrial average and compare the run down that occurred during the September 11 disaster with the recent decline we have all just seen, you would find some interesting examples of equal time frames. While the S&P 500 cash market and the Dow Jones Industrial average are very similar markets. The S&P 500 is based on 500 stocks, where as the Dow Jones Industrial average is only based on 30 stocks. I point this out because although they are similar markets, the S&P 500 is made up of more stocks and can therefore have a little more voting power when it comes to determining the direction of the overall American stock market. If we were to now take a look at the S&P 500 cash market and compare the run down it had during the September 11 disaster with the recent run down we have all just witnessed, you will find a good example of an equal time frame.
The high before the September 11 disaster run down was 1316 on the week of 25/5/01, it then continued to run down to a low of 945-21/9/01. The number of weeks between these two points is 17 weeks. If we were to now compare the recent run down from the high of 1174-22/3/02 down to the low of 775-26/7/02, you would find the number of weeks between these two points is 18 weeks. So we have just compared the time frames from high to low on the two most recent swings going in the same direction, and found the most recent decline to be almost equal in time to the previous swing going in the same direction.

If we were to now compare the same declines with the Dow Jones Industrial average we will find similar alignments in time. It's important to remember the date of the recent high before the decline on the S&P 500 cash market, because although they are both similar markets, the S&P 500 cash market actually made its high on a slightly different date than the Dow Jones Industrial average. As you will soon see the date of this high is relevant to the Dow Jones Industrial average in identifying equal timeframes.

Looking now at the run down that occurred during the September 11 disaster on the Dow Jones Industrial average. You can see the high before the decline is 11436-25/5/01 and the low that follows is 7925-21/9/01, which gives us 17 weeks between these two points. If we were to now look at the most recent decline on the Dow Jones Industrial average, the high before the decline is 10729-8/3/02, which then continued down to a low of 7489-26/7/02. The time frame between these two points is 20 weeks. Not as precise as was seen on the S&P 500 cash market. You will notice when looking at this high on the Dow Jones Industrial average, another slightly lower, almost equal high that occurs on the 22/3/02.

The date of this high shown in blue, just happens to occur on the same date as the high on the S&P 500 cash market. So if we were to now use the date of this new high 22/3/02,

and looked at the difference in time from this date down to the low of 10729-8/3/02 you would find the time frame between these two points is 18 weeks. This gives us another good example of an almost equal time frame. So again we have just compared the time frames from high to low on the two most recent swings going in the same direction and found the most recent decline to be almost equal in time to the previous swing going in the same direction.



In the next edition of *Analyst Insight*, I will take this subject further and look at other equal time frames and how they relate to the significance of this recent low and the rally that occurred as a result of it.

Best regards,

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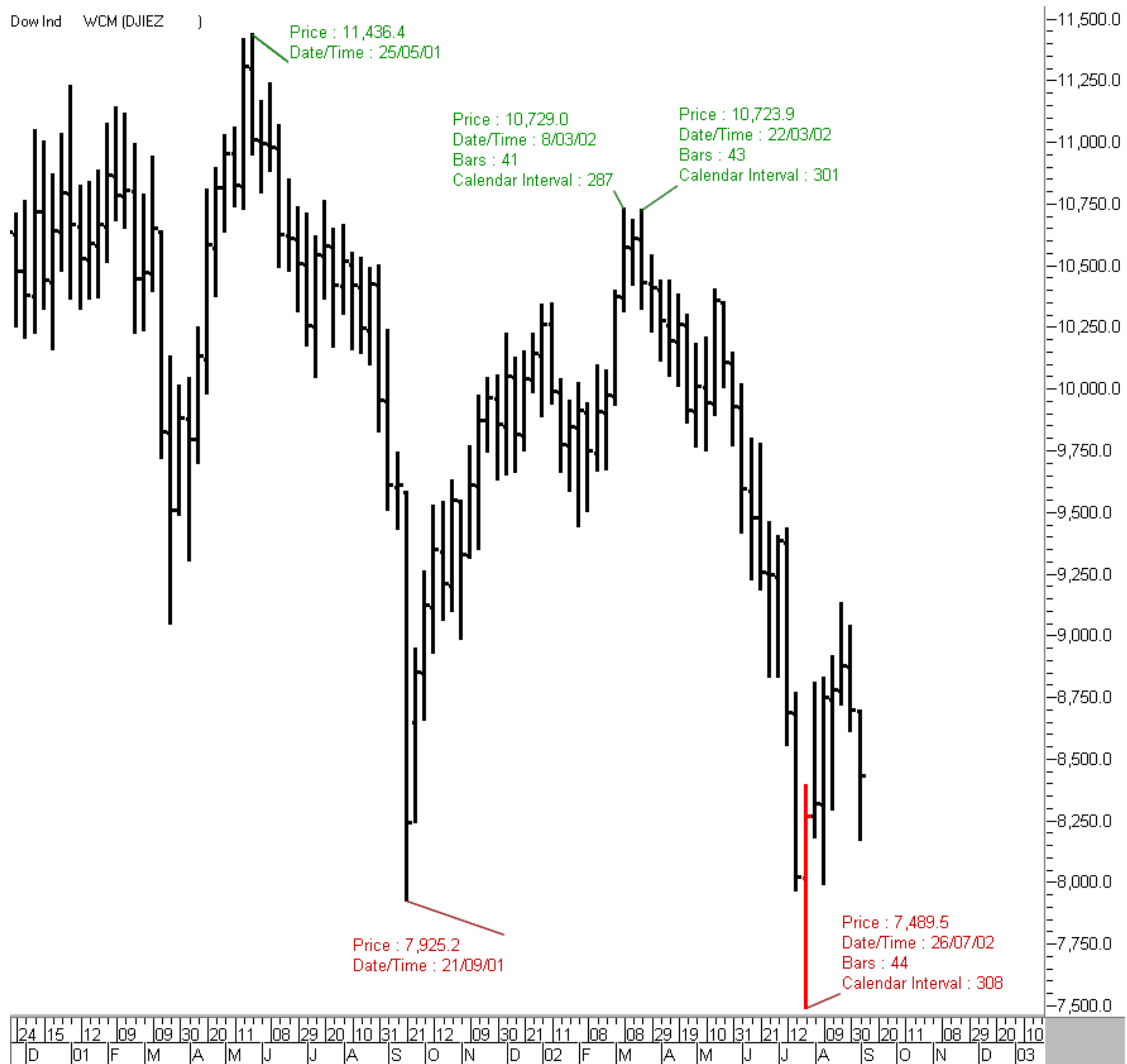
PART TWO:

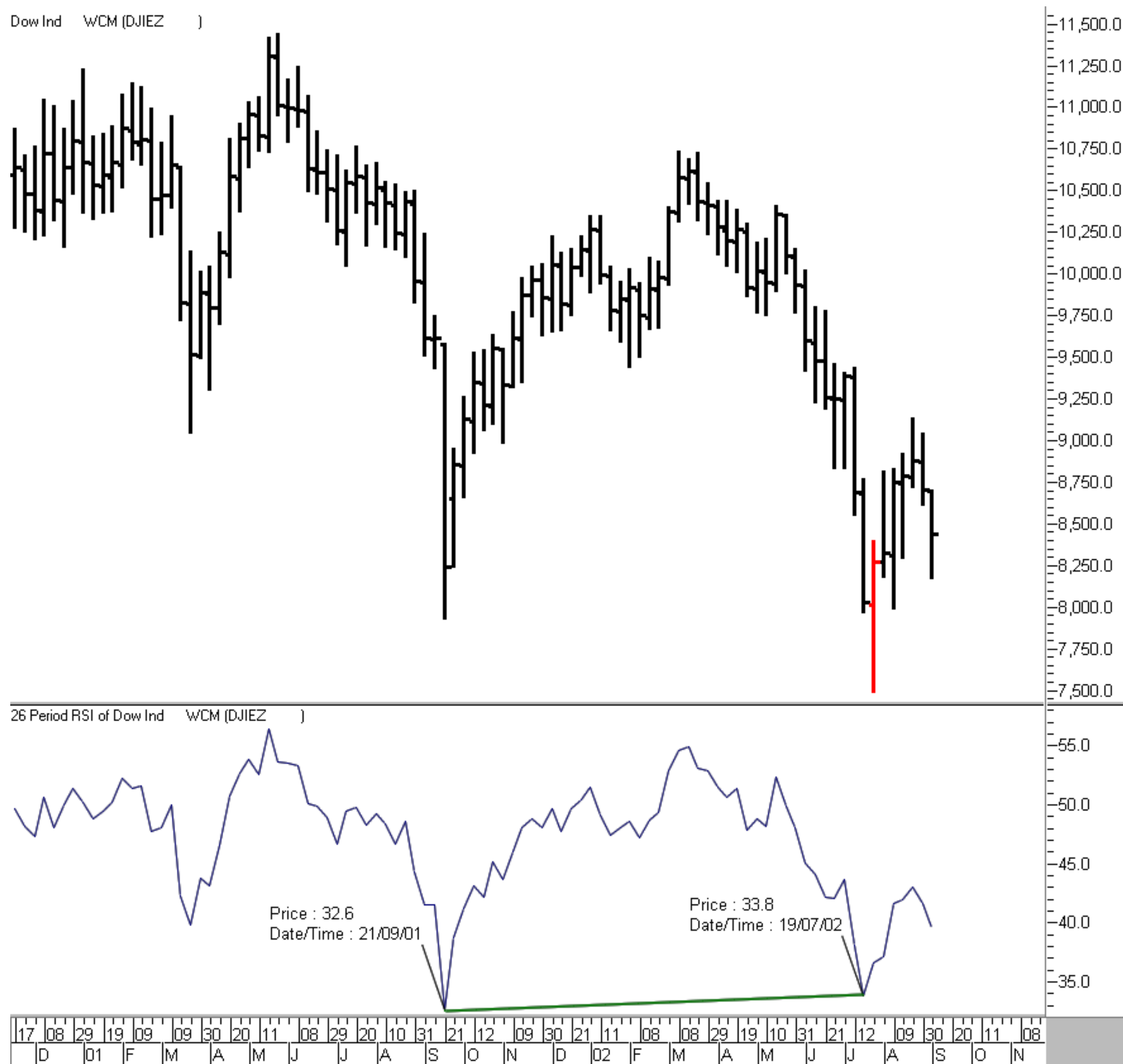
In the previous edition of *Analyst Insight* we examined equal time frames by comparing the decline recently seen on world markets, with the decline that occurred as a direct result of the September 11 disaster. When doing this we found the run down from the swing high to the swing low during both these events was an almost equal time frame on both the Dow Jones Industrial Average and the S&P 500 Cash market. This information helped explain the significance of the recent low of 7489-26/7/02 on the Dow Jones Industrial Average and the rally that occurred as a result of it.
In this edition of *Analyst Insight* we will take this subject further and look at the time frames calculated from high to high and low to low during this period, to see if we can find a balancing of time frames that also coincide with this recent low.
If we were to now take a look at the time frame from high to high shown in green on the following chart of the Dow Jones Industrial Average. You will notice the time frame between the high before the September 11 decline of 11436-25/5/01 compared to the high before our most recent decline of 10723-22/3/02 is 43 weeks. I'm using this high because although it is a slightly lower high, this was also the date of the corresponding high that occurred on the S&P 500 Cash market, which was previously discussed in part one of the previous edition of *Analyst Insight.* If we were to now look at the time frame between low to low during this same period which is shown in red. You will notice the time frame between the low that ended the September 11 run down of 7925-21/9/01, and the low of the most recent decline of 7489-26/7/02 is 44 weeks.
This again makes a good example of an almost equal time frame. The time frame between high to high was 43 weeks and the time frame from the low of the September 11 decline to the most recent low of 7489-26/7/02 was an almost exact repeat of that time frame. Not only did it repeat the time frame of 43 weeks previously seen from high to high, from the low of the September 11 decline. But it also repeated the original time frame of the September 11 decline from its high to its low during the most recent decline. Both these time frames align with the recent low of 7489-26/7/02 and help explain why a rally took place from that point.



While alignments in time can give us an early warning of impending changes in trend, analysts should always look for other indications the trend is likely to change, to help back up or confirm the possibility of a change in trend at your important time frame.

In the chart that follows you can see a nice example of divergence on the RSI indicator aligning with the low of 7489-26/7/02 at our important time frame. You will notice the recent low of 7489-26/7/02 is actually a lower low than the September 11 decline. But the low shown on the RSI indicator aligning with this low, is actually higher than the previous low that aligns with the September 11 decline. This is what's known as divergence, and when combined with important time frames can produce some powerful results.

A closer look at the bar that gives us the low of 7489-26/7/02 also reveals further indications of an impending rally. You will notice even though the low of 7489-26/7/02 was a lower low than the September 11 decline. The closing price on the bar that gives us the low of 7489-26/7/02 actually closes above the low of the September 11 decline. Some analysts refer to this as a "False Break".



Prices tested new lows but prices at the time didn't like the lower levels, so the start of a rally began eventually closing above the low of the September 11 decline, giving you a "False Break" in that direction. So always try to confirm your time frames with other indications of a change in trend. There are plenty of examples out there of markets trading straight through important time frames. Time frames by themselves aren't enough and must always be confirmed by other indications of a change in trend.
While the rally that took place from the low of 7489-26/7/02 was only short lived, the example outlined in this lesson served its purpose in showing how "order" can be identified from what at first glance only appears to be "random" activity.

Best regards,

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