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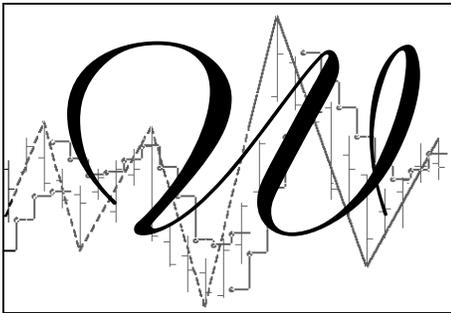
ROBERT  
KRAUSZ'S

FIBONACCI TRADER®

# JOURNAL

Volume 1, Issue 2

## NEW GANN SWING CHARTIST™ DYNAMIC FIBONACCI CHANNELS™



ell, we have survived the first issue, and we are late with the second issue because

I was working with some bankers in Europe. The sudden interest in trading stocks by people who were never before involved tells me to look out for a man with the red flag. In one of our future issues I will cover longer term concepts.

Now for some good news. The 32 bit Fibonacci Trader program is being beta tested. In fact, some of the intraday charts in this issue are screen captures from the new version. The new 32 bit is not only faster, there are other new features as well. The Y2K problem is solved. I hope that the data vendors will be able to say the same thing. This 32 bit upgrade will be free, except for a \$50 charge for shipping & handling, as the manual and the on-line help will be totally redone. Watch for an announce-

ment at our Web site.

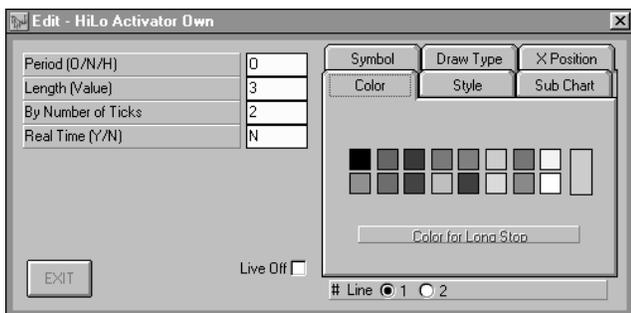
This month the FTJ has two sections. First, is a section on rules for the Gann Swing Charting and second is daily rules and intraday examples following up from the last issue using Fibon Channels.

We will carry on with the same format as most of our subscribers are happy with it.

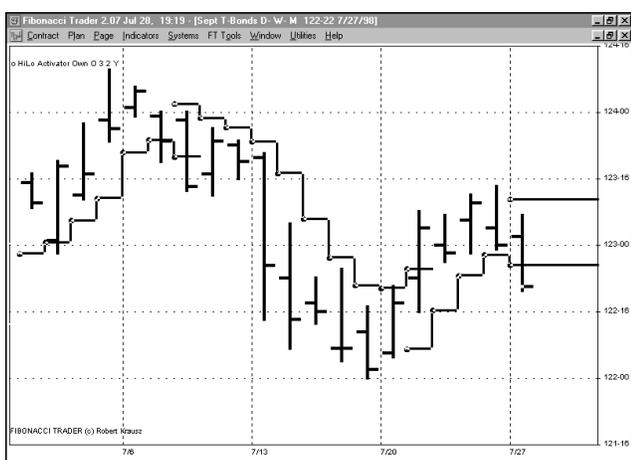
Some of the concepts that I am presenting need detail, therefore some of the future issue may be devoted to just one technique, but will be explored in great detail. Please do some research on your own and find variations on ideas presented here that suit your own mindset. The Gann swing Plan, as shown here is doing well. We are up 80% on capital. I will be sending all subscribers a full report. The returns are based on the Professional Plan. This plan will be covered in issues to come.

I wish you excellent trading,

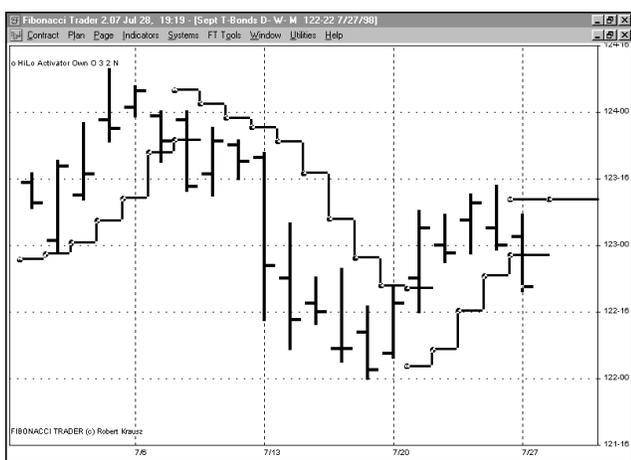
Robert Krausz, MH, BCHE



**HiLo Activator:** From the Edit window you can set the HiLo Activator colors, lookback period, and to plot Real Time or End-of-Day.



**Real-Time HiLo Activator:** The plot is a horizontal line on the live or current bar. You can see the plot follows the market higher until the market closes below the sell stop, and then the buy stop line appears.



**End-of-Day HiLo Activator:** Click "N" in the Real Time (Y/N) and the End-of-Day version is applied to the chart. Now the horizontal line is plotted one day forward, and is a fixed value for the entire next day. The sell stop switches to a buy stop if the market closes below the sell stop line.

## THE HILO ACTIVATOR

This simple tool will act as our basic entry trigger as well as a trailing stop. You will see the application of this indicator when we look at the rules for the New Gann Swing Chartist Basic Plan.

The HiLo Activator is a simple moving average of the highs or lows plotted in an unusual manner. The sell stop is calculated by adding the last three period's lows together, and then divide the sum by three. The result is then plotted in step formation, that is, once the calculation is found it is plotted as a horizontal line below the market. If the market closes below the HiLo Activator sell stop then the horizontal plot will switch to a buy stop, based on the three period average of the highs, and follows the market down. With practice you will see that the HiLo Activator will indicate that the market is in an trend, following the market higher or lower in the step formation.

For Real-Time the plot is a horizontal line on the live bar. For End-of-day, which is the setting used in the Basic Plan, the HiLo Activator is plotted one day forward, so that we have a horizontal price point to act with tomorrow.

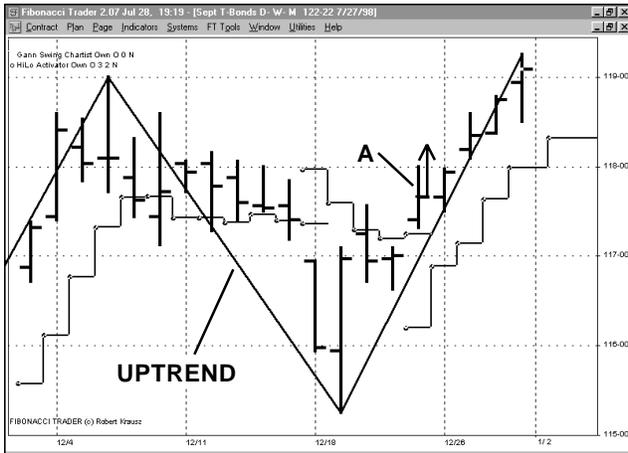
## NEW GANN SWING CHARTIST BASIC PLAN

The Basic Plan, originally published in my book *A W. D. Gann Treasure Discovered*, is presented on the next three pages. There is an example of each of the long or short entry rules, and the specific rule is presented below the example. This plan trades only with the trend. That is, for long positions the Gann Swing Chartist must show an uptrend (solid line) and for short positions the Gann Swing Chartist must show a downtrend (dashed line). For an explanation of an uptrend and downtrend see the first issue of the FIBONACCI TRADER JOURNAL.

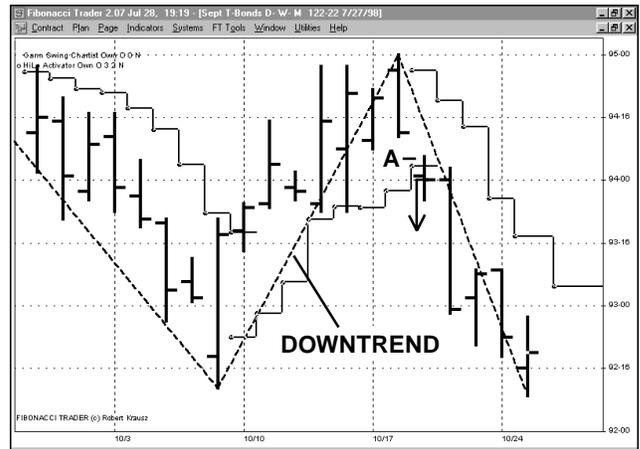
There are three sets of entry rules for longs or shorts, and two sets of exit rules. In this plan you use whichever rule is activated first. Occasionally, more than one rule applies. Before I continue discussing this plan I want to take a moment to discuss the importance of developing a trading plan.

Let me ask you: Would you consider building a house without an architectural plan? Of course not! The lack of a plan would lead to chaos. The same lack of planning by the neophyte trader leads to the same results, except in this case the chaos leads to a complete loss of trading capital. Of course, you may believe that the markets seem to be changing everyday and cannot be viewed within the framework of

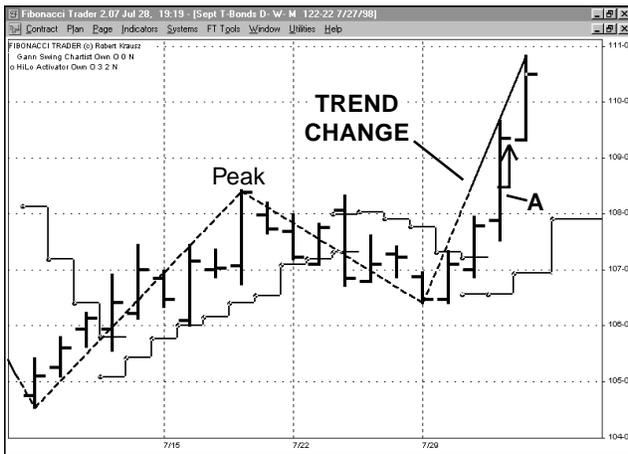
# ENTRY RULES



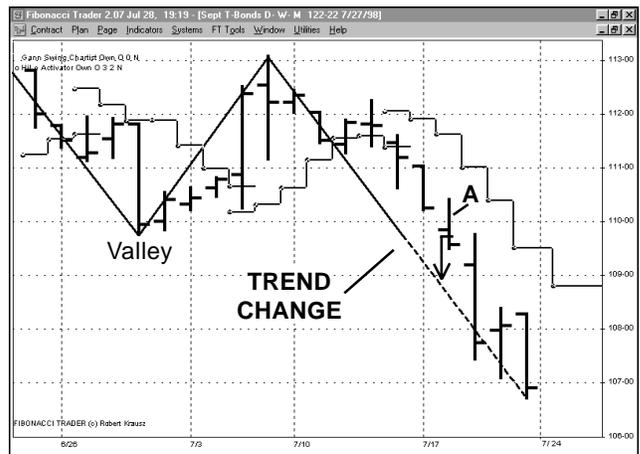
**Buy Rule #1:** Buy on Bar A providing the Gann Swing Chartist shows an uptrend (solid line). The buy signal occurs on Bar A when prices close above the HiLo Activator.



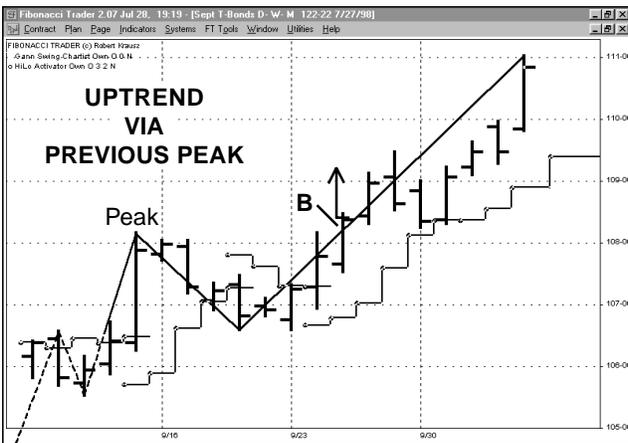
**Sell Rule #1:** Sell on Bar A providing the Gann Swing Chartist shows a downtrend (dashed line). The sell signal occurs on Bar A when prices close below the HiLo Activator.



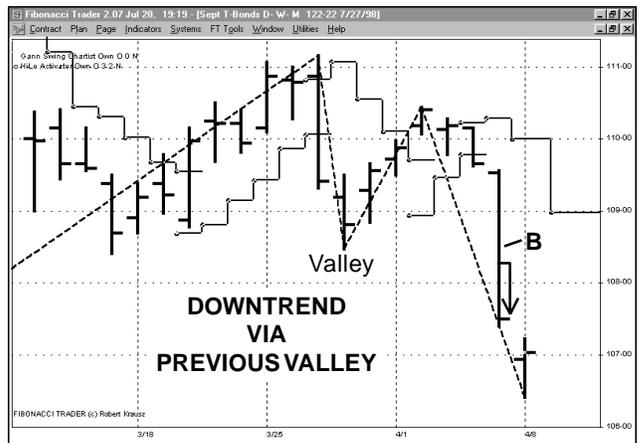
**Buy Rule #2:** Buy on Bar A when prices surpass the previous peak providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a dashed line to a solid line as the trend changes from down to up.



**Sell Rule #2:** Sell on Bar A when prices drop below the previous valley providing the HiLo Activator is below the bars. The Fibonacci Trader program changes from a solid line to a dashed line as the trend changes from down to up.



**Buy Rule #3:** The Trend is up (swing line is solid). You can buy when prices surpass the previous peak providing the HiLo Activator sell stop is below the bars. Action is taken intraday. The buy signal occurs on Bar B. Use two ticks pass the previous peak for the Treasury Bonds.



**Sell Rule #3:** The Trend is down (swing line is dashed). You can sell when prices surpass the previous valley providing the HiLo Activator buy stop is above the bars. Action is taken intraday. The sell signal occurs on Bar B. Use two ticks pass the previous valley for the Treasury Bonds.

a plan. But for me, after 20 years of trading, I find it impossible to trade without a plan that has fixed rules.

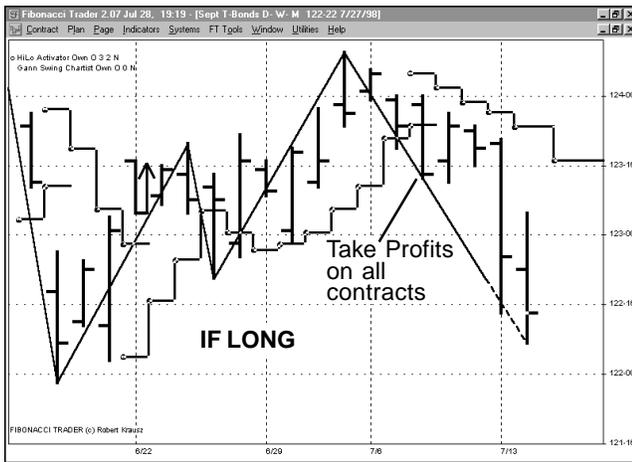
What constitutes a good trading plan? A valid trading plan must have some minimum components to earn the right to be called valid. At the simplest level, a plan must have:

- Market direction ( for example, the overall trend).
- Tradable trend ( the immediate swing).
- Support and resistance levels.
- Action points (entry-exit-pyramid rules).
- Money management techniques.

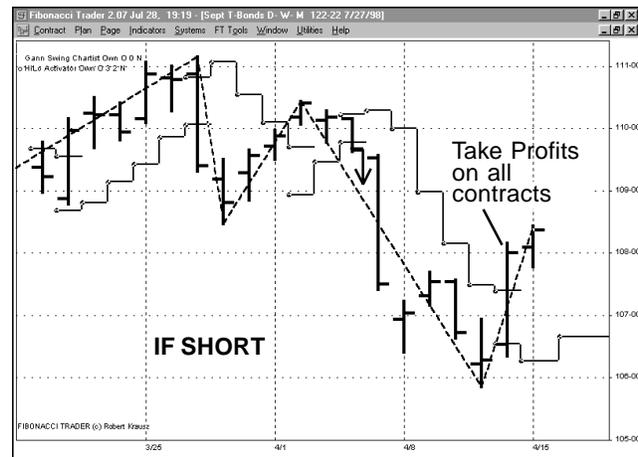
The money management should include capital requirements, stop loss and stop/reversal rules, as well as profit protection rules.

Reviewing each of the examples and rules of the Basic Plan on these pages you will see that we use the definition of a trend based on the Gann Swing Chartist method. For example, Buy Rule #1 requires the Gann Swing Chartist to be in an uptrend, and we use the HiLo Activator as our action point. The HiLo Activator is set to End-of-Day for all of the rules in the Basic Plan. So we have the market direction, the

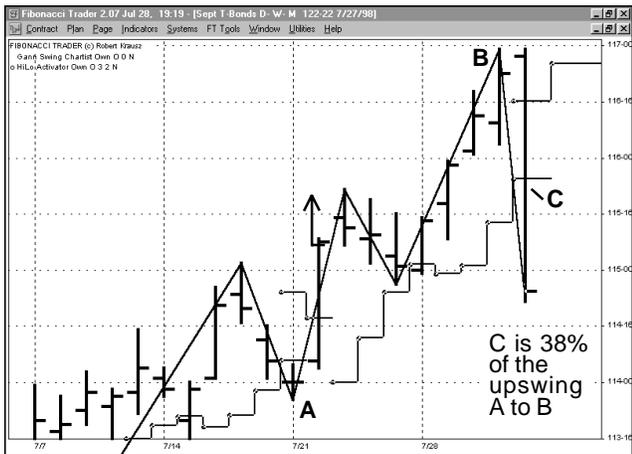
## PROFIT PROTECTION RULES



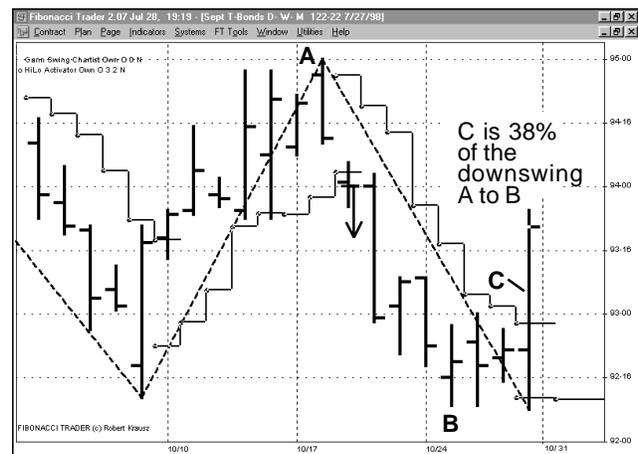
**Profit Protection If Long Rule #1:** If prices close below the HiLo Activator Sell Stop then close out all long positions. This happens on Bar A.



**Profit Protection If Short Rule #1:** If prices close above the HiLo Activator Buy Stop then close out all short positions. This happens on Bar A.



**Profit Protection If Long Rule #2:** If prices retrace 38% of the upswing A to B then close out all existing positions at point C. The price must be below the HiLo Activator Sell Stop by two ticks. Do not wait for the close of the day.



**Profit Protection If Short Rule #2:** If prices retrace 38% of the downswing A to B then close out all existing positions at point C. The price must be above the HiLo Activator Buy Stop by two ticks. Do not wait for the close of the day.

tradable trend and the action point. Now, for our stop loss or profit protection rules we use the HiLo Activator for exiting the trades for the first set of exit rules, and for the second set, we add a percentage retracement factor. Again, use whichever rule applies first.

The last concern is the amount of capital required, and for this plan we trade three contracts, and our starting capital is \$30,000. There is no pyramiding in this plan. Now we have all of the components for a trading plan.

Here, I have presented a set of fixed rules for entering and exiting the market. Why is this that important?

Because now we can take the set of rules and back test the rules over the last five years or more of market history and determine whether or not the trading plan is valid. I know that just because the plan worked in the past is no guarantee that the plan will work in the future but I do guarantee that if the plan failed in the past then it will not work in the future.

Take these rules and check it out for yourself. You can use it as a stand alone system or you can blend it with your own plan and tools. Next month I will walk you through some recent trades from the Professional Plan.

## DYNAMIC FIBONACCI CHANNELS

First, we will begin with discussing the application of the Dynamic Fibonacci Channels™ (DFC) using daily bars of the September S&P 500 futures contract. In the last issue of the FTJ I pointed out that one could use the DFC concept for the daily bars as well as the intraday bars. To use the DFC for the daily bars you can plot daily, weekly, monthly channel lines but the daily and weekly channels will suffice (use the default settings for both, and of course set the period to "N" to plot the weekly channel). Chart 1 is an example of the daily and weekly plots of the DFC.

So what do we look for? Watch for the daily and weekly DFCs to come together as a potential sell situation. Note, I said look to sell, not selling Gung Ho just

because the daily and weekly DFC top bands have touched. Why? Because in a strong uptrend, as in Chart 1, the daily bars can slide along the weekly's top band for an extended period. Therefore, what is needed is some kind of indicator that not only tells us that this is in fact may be a price extreme, but the same indicator should trigger an entry for a short sale.

For this we will borrow the HiLo Activator from the Gann Swing Chartist plan. How will we combine the HiLo Activator and the Dynamic Fibonacci Channels? In an up trending market we look for the upper bands of the channels to touch and then act only if prices close below the HiLo Activator sell stop. On Chart 1 this occurs on bar Y.

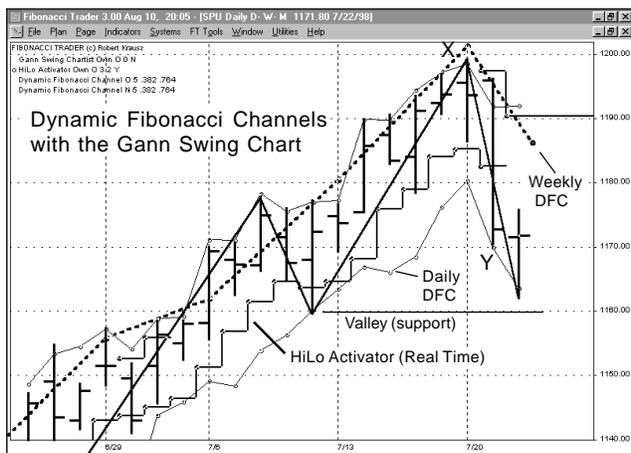


Chart 1: S&P 9 Minute Bars. On 7/21 the weekly Dynamic Fibonacci Channel (DFC) smashed down and the day closed below the HiLo Activator Sell stop shown on bar Y.

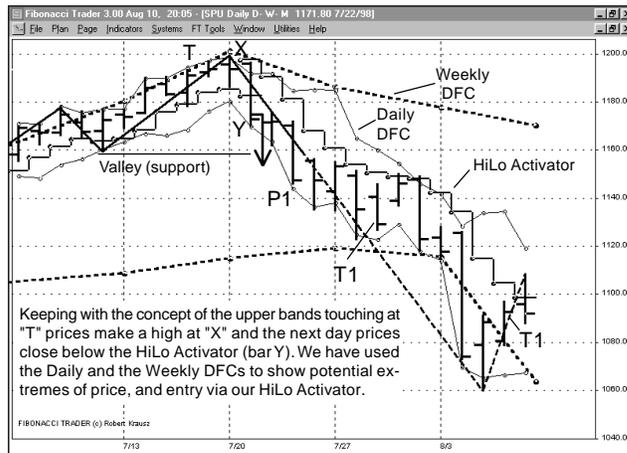


Chart 2: S&P 9 Minute Bars. Combining the tools in the FT program can be useful. In this case, we combine the Gann Swing Chart Professional plan as per my book: A W. D. Gann Treasure Discovered.

Please note the weekly DFC's very sharp change to a down direction on this very same bar. This is a useful confirmation (for the moment) of a potential end to the trend run up. We will borrow not only the HiLo Activator but use the Gann Swing Plan (Professional Plan rules from *A W. D. Gann Treasure Discovered*) in combination with the Dynamic Fibonacci Channel™ Strategy.

On Chart 1 the market formed a peak at point X, and on 7/21 prices engaged the HiLo sell stop, closing below it at approximately the 1172.80 level. This was a possible short, but if you were following the rules of the Gann Pro-Swing Plan you would sell three contracts on the next day when prices took out the low of 7/21 by two ticks at approximately the 1170.50 level, depending at what price you were filled.

Still following the Gann Swing Plan you could have pyramided (added) one contract on 7/23 as prices passed the previous valley (at approximately 1159, point P1 in Chart 2), which changed the trend from up to down. This action is based on the Pyramid Points Rule #1 from the Professional Plan. Now we are short four contracts.

We hit a target via Target Rule #1 on the close of 7/28 and took profits on one contract at 1135.50, marked as T1 on Chart 2. We are still short three contracts. Note how the HiLo Activator buy stop holds the high of the days 7/30 and 7/31 as well as the daily DFC on 7/31.

As the market proceeded downwards was there any way to reenter with more short positions? Yes. But we will cover that subject in the next issue. Returning to Chart 2, the market makes a low on 8/5 and the slope of the Gann Swing Line turns up. On the close of 8/6 we hit an additional target level (Target Rule #1) at the 1029.50 level and cover an additional contract. On the close of Friday 8/7 (as I write this), the plan is still short two contracts. The short positions are protected by Profit Protection Rules #1 and 2.

All of the Gann Swing Rules applied here are from my book *A W. D. Gann Treasure Discovered*. Except here in the FTJ, I introduce using the

rules applied to the S&P 500, which was not covered in mybook. This month I also will show how to use the Dynamic Fibonacci Channels. You can see from these three weeks of activity in the September S&P 500 futures contract the potential from combining tools in the Fibonacci Trader program. By the way, my book has received great reviews in the newsletters *Financial Cycles* and Cliff Drokes *Leading Indicators*. To them I say many thanks. Now, let's look at some intraday techniques.

## INTRADAY TRADING THE S&P

First, make sure your settings for the Dynamic Fibonacci Channels is set up as detailed in the first issue of the FTJ. Chart 3 is a 9/45/Daily plan of the September S&P 500 futures contract. At points 1 and 2 the upper bands of all three DFC's channels are touching. This is a potential sell setup. Point 3 is not as good as the daily channel was not touched. The market peaked at approximately a 50% retracement of the decline from point 2 to point F.

As I stated earlier, referring to the daily charts 1 and 2, we can't place trades simply because two or more of the upper or lower bands have touched each other. We need an additional tool to use in combination with the Dynamic Fibonacci Channels. Let's begin discussing one technique with a look at chart 4.

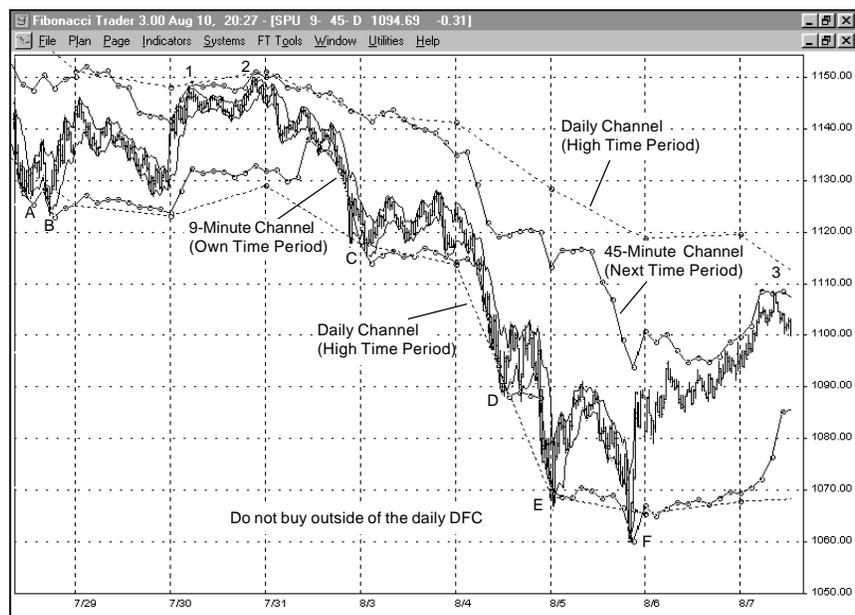


Chart 3: S&P 9 Minute Bars. At points 1 and 2 the upper bands of all three channels are touching. This is a potential sell set up. Points A through F represent potential buy set ups as the Next DFC touches the High DFC.

When trading a short time frame, such as the 9 minute S&P or the 10 minute T-bond bars you are very likely to see a lot of vibration or noise. A directional filter becomes necessary to define the trend so you can set up rules to trade with the trend or counter trend. Trading with the trend or counter trend is a personal choice. And yes, I know that if I wait for specific set ups, I will miss some nice moves, but that is my choice. If I miss a nice move occasionally, so be it.

For identifying the trend direction I will use the High Time Period Dynamic Trio (DT) plotted in step formation. This is the Daily Dynamic Trio in the 9/45/Daily plan. When the market closes below the Daily DT sell stop the DT buy stop appears above the 9-minute bars. At that point the emphasis of the trading plan should be to trade from the short side. In chart 4 this occurs on 7/21. And in fact, as I write this on 8/8 the daily DT is still above the market. This situation indicates that we should sell the rallies. We use the Dynamic Trio (Next), i.e., the 45-minute DT as an entry trigger, and as an exit action point for profits or to limit losses.

Looking at chart 5, we show chart 4 again except both the Next and High Dynamic Trio, as well as the High (Daily) Dynamic Fibonacci Channel are plotted. You can see that rallies labeled 1 and 2 met the Daily DFC upper band. At point X the 9-minute bar closed below the 45-minute Dynamic trio sell stop, and it kept you in the trade until point Y.

At point Y you may reverse to a long position because the lower band of the DFC was touched at point F.

Both trades were profitable, but the long position established at Y after point F is a contra trend trade. Why?

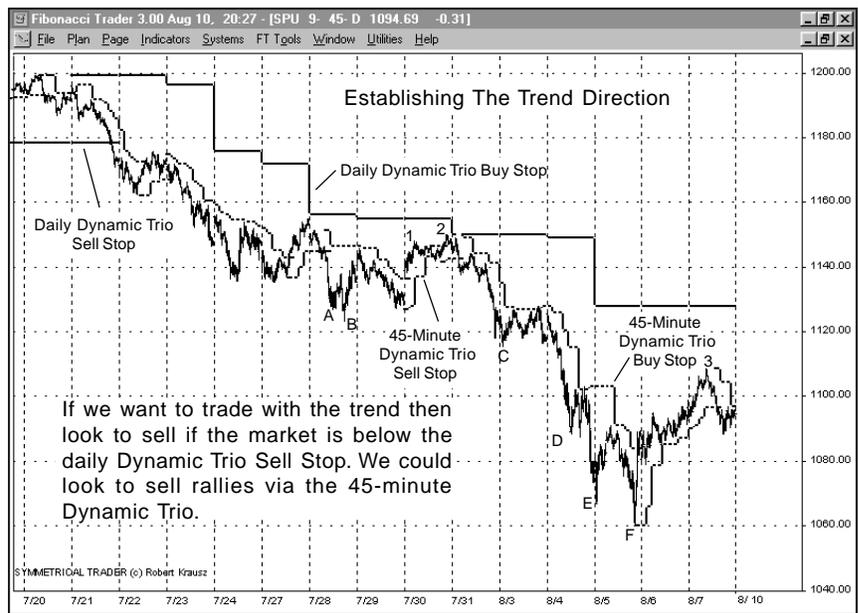


Chart 4: S&P 9 Minute Bars. To establish the tradable trend plot the Daily Dynamic Trio (High Time Period). On 7/21 the S&P 500 closed below the Daily Dynamic Trio Sell Stop and the Buy Stop appeared.

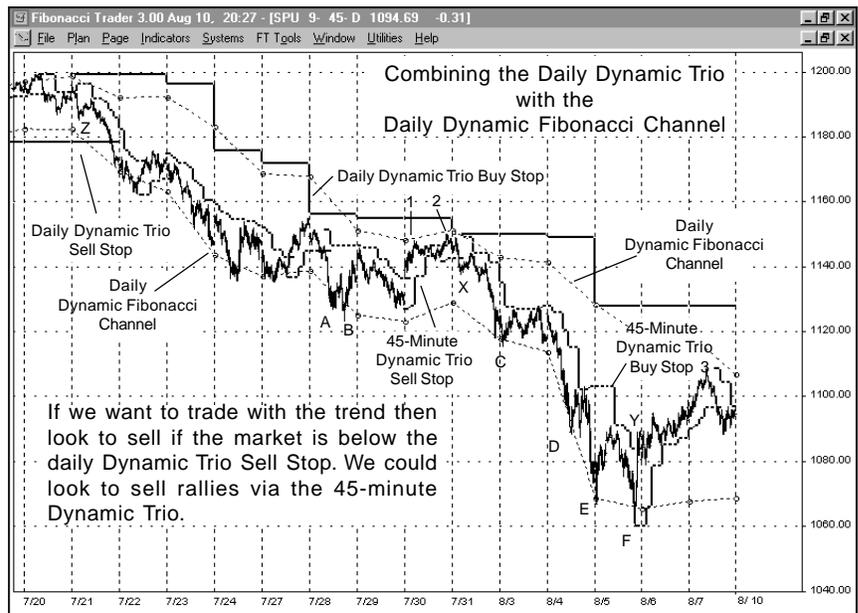


Chart 5: S&P 9 Minute Bars. If you place the Daily Dynamic Channels along with the High and Next Dynamic Trio one can easily see where the retracements occur. As prices bounce off of the upper band of the Daily Dynamic Channel we may look to sell when the 9-minute bar closes below the 45-minute DT.

Because the market was still trading below the directional filter, i.e., the Daily Dynamic Trio buy stop.

Chart 6 shows two additional contra trend trades at points K and Z, as well as the trade at point Y. Look

carefully at trades K and Z. For both set ups the Next and Daily Dynamic Fibonacci Channels had touched, and the 9-minute bars closed below the Next Dynamic Trio. The trade labeled K on 7/20 was a loser. After the two channels kissed, and the 9-minute bar closed below the 45 minute DT sell stop the market rallied during the latter part of the day and closed back above the 45-minute DT buy stop.

At set up point Z (7/21) the upper bands had touched each other and the 9-minute bars closed below the 45-minute DT signaling a short position. By the end of the day the market traded lower, and with a close below the Daily Dynamic trio sell stop a down trend was indicated.

Chart 7 shows a closer view of the trade at point Y. We went long on the close of 8/5 at approximately 1088.50. The trade was a contra trend trade as the Next and High DFC touched each other at point F, and the market closed above the 45-minute (Next) DT. I tend to take profits (or losses) on the first close of the 9-minute bar below the Next (45-minute) DT sell stop. This occurred at point M on 8/7 at approximately 1095.50.

So the routine should be clear:

- 1) Wait for the two upper bands or two lower bands to touch each other, especially for a contra trend trade.
- 2) Enter on the close past the 45-minute DT, i. e., wait for the DT buy or sell stop to flip directions.
- 3) Use the Daily DT (High period) to define the trend and pay attention to it as a trend filter. For example, you may choose to only trade with the trend.

More details will be presented in the next issue of the Fibonacci Trader Journal.

I wish you super trading.

Robert Krausz, MH, BCHE

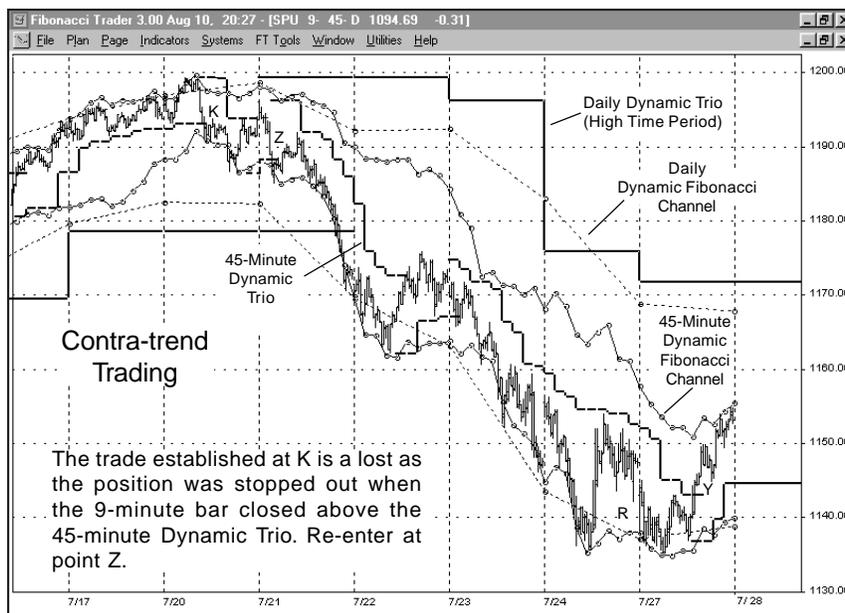


Chart 6: S&P 9 Minute Bars. This chart shows two contra-trend trades at point K and at point Z. Both times the 45-minute Dynamic Channel touched the Daily Dynamic Channel and the 9-minute bar closed below the 45-minute Dynamic Trio Buy stop.

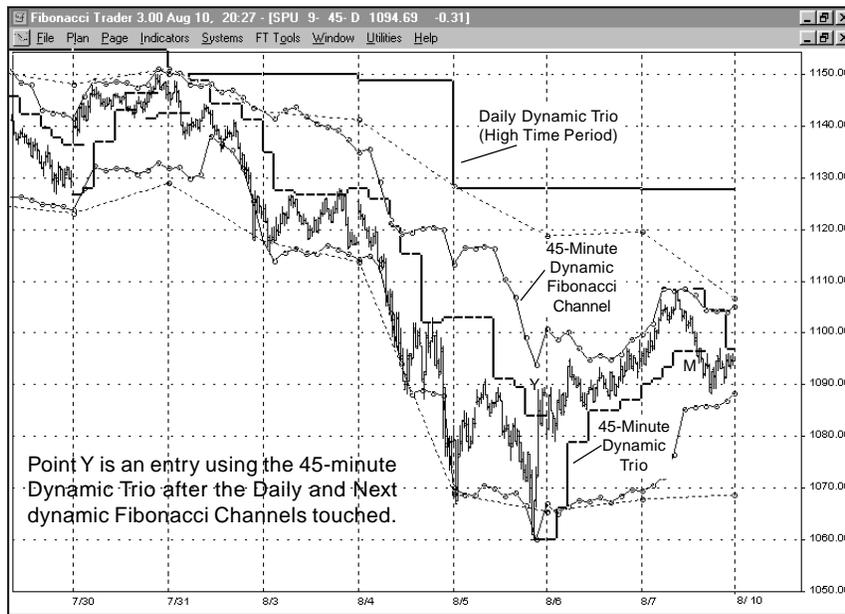


Chart 7: S&P 9 Minute Bars. Wait for the two upper or lower Daily and Next Dynamic Fibonacci Channels to touch before a contra-trend trade.

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