GANN TRADER'S ALMANAC

Issue 400 – 24 July 2021

Introduction

We have arrived at another milestone in the history of the *Almanac*, the 400th Issue. I can't say that 400 is a Gann number, although he does write about the significance of the number 40 in the Bible in one of his forecasting lessons. Nevertheless, in the esoteric tradition known as the Kabbalah, of which there are both Jewish and Christian versions, 400 is a number that represents perfection. It is the numerical value of Tav, the final letter of the Hebrew alphabet, equivalent to the English 'T'.

For those newer readers who have an interest in such things, this might be an opportune time to mention another little 'newsletter' that I write each week. I call it *Food for Thought*, and its aim is to provide information on esoteric subjects that, while in the public domain, is often hard to track down. It originally started as a column in the *Almanac*, during the first year or two, and then I decided to keep it separate, so that I could go into topics in greater depth for readers with a particular interest.

I charge the princely sum of AU $50 for a lifetime subscription, simply to require readers to give something in return. I did have someone refuse to pay once, though! As the title suggests, the articles are not intended to teach anything or to proclaim a particular point of view as 'the Truth', but they do contain the results of study that I have made over many years. Gann, too, was interested in esoteric subjects. If you'd like to find more or to sign up, you're most welcome to drop me an email.

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CONVERSATIONS WITH GANN

Soybeans 2-Day Swing Chart Trading

I almost get a sense of *déjà vu* writing this section today, as this is the chapter I'm currently working on for the book. I thought when I began it that I would use what I had written in the *Almanacs* over the past who-knows-how-many weeks. But when I had copied out all the relevant sections and started trying to edit them, I felt it would end up taking far longer than if I started to write the whole lot afresh. And I'm glad I did that too, for it's all coming together quite nicely.

Last week we studied as far as the low on 6 February, so here is the next section:

This was of 191¼ on November Beans remains the extreme low to this day, and it was 50% of the extreme high price of 383 and hence a very important support level. The 2-day swing overlay will help to follow Gann's commentary.

On 18 February a 2-day swing was crossed for the first time. This is one of the buy signals that Gann gives in the rules. From here the market made higher tops and bottoms on the 2-day chart.

On 27 March price pushed above the high on 3 January, the opening day, which until then had been the high price of this contract. Gann says that this indicated higher prices to come. However, there was a 2-day reaction which made a higher bottom than the previous low on 23 March. This confirmed that the trend was still up, but wasn't yet a buy signal.

Remember that Gann's system in this lesson is to buy around a low price (6 February) and hold on until a high comes. The very latest that we should have been long was on 18 February, and now we are just holding, with stops above each higher 2-day swing bottom. The move higher on 27 March ruled out a double top, so we are still holding on to our long position at this time.

The 2-day swing chart continued to make higher bottoms, eventually crossing the high of 27 March on 22 April. This would be the time to add to the trade. The 2-day chart continued to make higher bottoms all the way to the next high on 3 May. Gann says that from 14 April to 3 May there was no bottom broken on the daily chart. He means bar lows here, and this is so even though you see one swing on 28 April. The swing is drawn in because of the two inside days preceding it, and will come into play in a minute.

Earlier on, in the rules, Gann says that in a situation like this, you should move your stop up 1 cent under the low of each bar (remember this is 8 ticks on Soybeans, which traded in 1/8c increments in those days), or that you can even move it 5 cents below the *high* price of each bar.

He says to do this on 3 May, because this bar was a signal bar. If you look carefully, it was a *doji* bar, opening and closing near the low. In fact, this type of bar is called a *graveyard doji* – you can guess why. In fact, the three bars on 1, 2 and 3 May combined to make a signal topping pattern, and Gann's rule would have had us out of the long trade and in short 5 cents below the high. As it happens, this is exactly the Close price of the bar, so you can see the point exactly. We'll pick this discussion up next week.

TRADERS CORNER

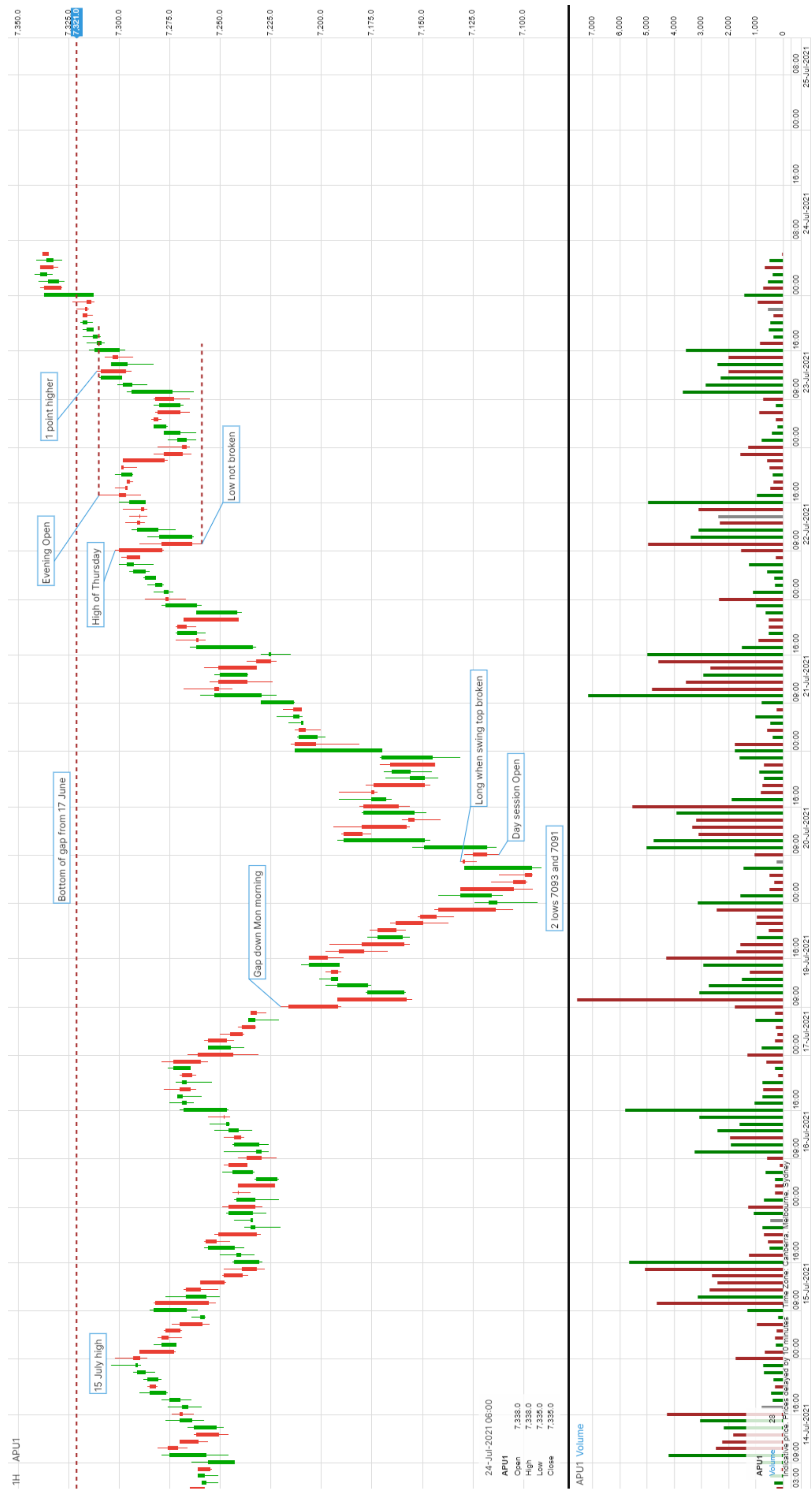
After a month of waiting, we finally have the beginning of a move.

DATE	OPEN	HIGH	LOW	CLOSE	VOLUME
19 July	7267	7279	7155	7197	33,613
20 July	7191	7198	7091	7162	48,670
21 July	7168	7268	7131	7226	46,582
22 July	7234	7302	7232	7295	39,278
23 July	7300	7315	7262	7312	28,329
Overnight	7309	7342	7307	7335	8,390

Today's weekly chart shows the same pattern as last weeks', except that it now appears to have resolved:

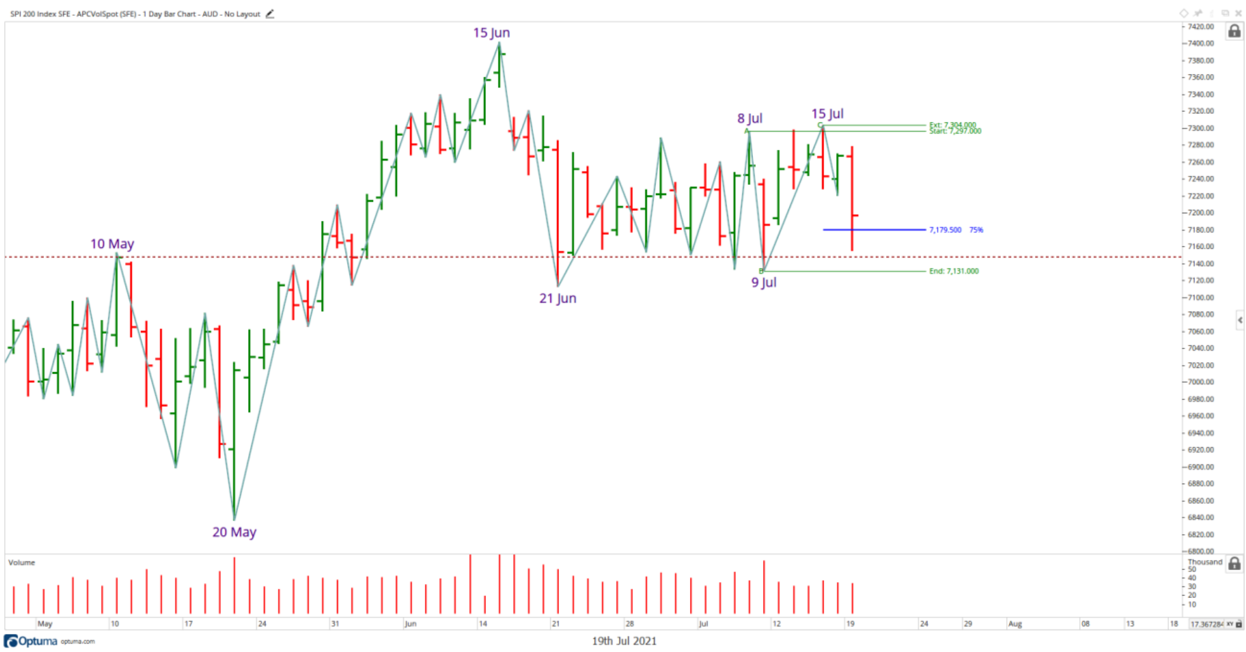
The weekly chart shows consistent support at the levels of the high in February 2020. This week actually made a new high Close – in other words, even though the price high was made on 15 June, the *weekly* bar closed lower than the market closed this week.

With the support holding, this is a very bullish pattern. The market broke an old high and then came back to sit on it. It spent a month testing the support and it held, which shows that this has been accumulation, and so the next move should be a decent one. I expect to see higher prices from here.


1H APU1
15 July high
Bottom of gap from 17 June
Evening Open
1 point higher
High of Thursday
Low not broken
Gap down Mon morning
Long when swing top broken
Day session Open
2 lows 7093 and 7091
24-Jul-2021 06:00
APU1
Open 7,338.0
High 7,338.0
Low 7,335.0
Close 7,335.0
APU1 Volume
Time Zone: Canberra, Melbourne, Sydney
Prices delayed by 10 minutes
Indicative price

MONDAY

Well, Jon's Gods of Financial Return were smiling on us today. Even though I moved the stop to break-even over the weekend, there was no cause for concern. The market gapped down on Open this morning and rushed straight down to our 75% profit target, reaching it during the first hour of trading. This delivered a profit of 7242 – 7179 = 63 points, albeit with some chewed fingernails when the market came within 1 point of our stop on Thursday night.



Now we are flat again, waiting for another signal. The chart shows a horizontal line marking the price of the 20 February 2020 high, only 5 points below the recent high on 10 May. This is the first critical support level. The 9 July low is at 7131, some 24 points below today's low. A break below that price by a few points, followed by a reversal, would give us yet another buy signal. Sooner or later, one of these signals will probably fail, either at the highs or at the lows, but we don't know when that will be, so we have to keep taking the signals and protecting the trade as appropriate each time.

Finally, a quick word on dates. I have written several times about the 20th of each month, and you can see on the chart that 20 May and 21 June were the lows of the monthly bars in each case. Tomorrow will be 20 June, so a reversal at the support levels could prove significant here. What I haven't made much of are the dates about a week earlier than the 20th. 16 February, 16 March and 15 June have been the highs of those month, and so far 15 July is the high for this month. This week should be interesting.

TUESDAY

Sometimes it is uncanny when markets follow the script, but there are always variations to keep us on our toes. Today was no exception.

Although yesterday saw a rally for much of the day session that lasted into the Close, price began falling almost immediately when the market opened for the evening session. The first low, at 7093, was made during the midnight (00:00) bar. This was a break of almost 20 points below the 21 June low, which raised the question whether the SPI was about to break the support level. It rallied straight away, but then came back in the 05:00 bar to make a double bottom on the hourly chart at 7091.

Most traders would have missed one, and probably both, lows, but if you study the hourly chart carefully, the close in the morning left price in a good position if you wanted to get long, with the last high at 7131 and the swing top between the lows at 7142. If you had actually seen the first break, you could have placed an order to go long at 7119 (the 50% level) should price rally, but I'd only want to be doing that if I was able to watch the whole session. I wouldn't like to place a trade like that and then go to sleep to let the market do whatever it liked.

The day session opened with a small gap down, and then began to rally. This made a higher swing bottom, and you could have gone long at 7132, above the last swing top. This is not that much higher than 7119 (the 50% level), but it then allowed you to watch how the market unfolded. It rallied strongly, reaching 7192 over the next two hours. After that, however, it stalled for the rest of the day.

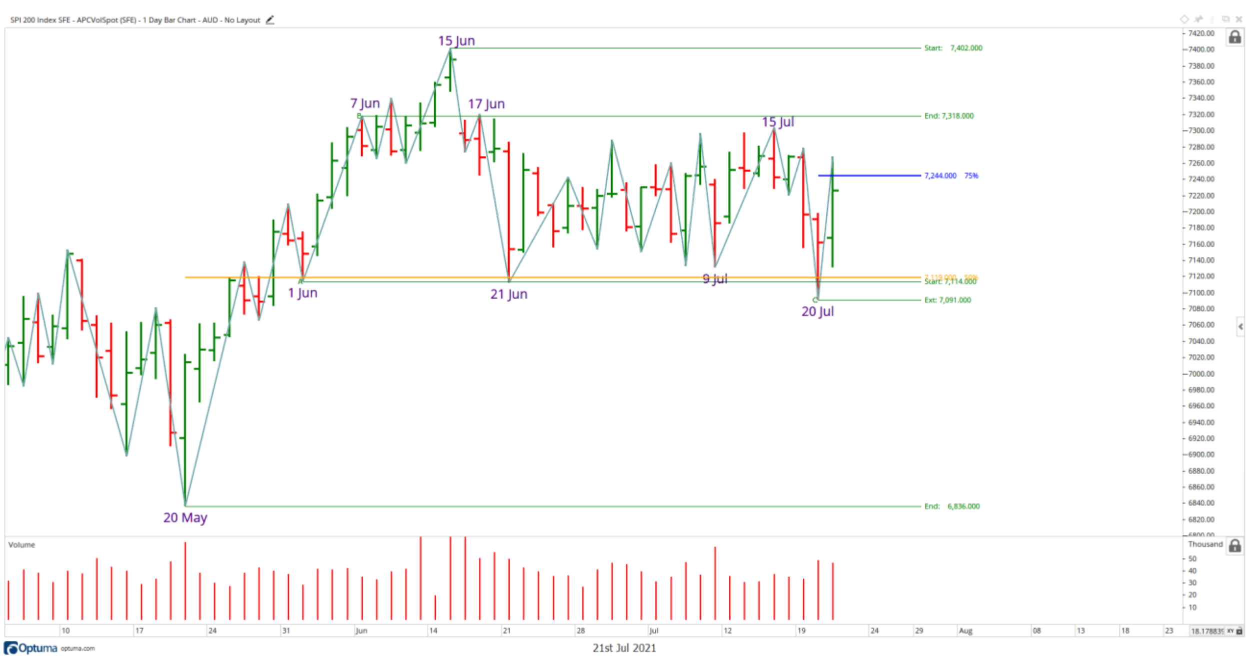
The advantage of the entry on the hourly chart is that, with a stop 10 points below the intra-day low, you would have been long at 7132 with a stop at 7081, a risk of 51 points. If, on the other hand, you waited for the daily bar to be completed, your entry stop would go above the day's high, at 7199, and even if you placed your stop 1 point below the low, you've got 109 points' risk, more than double.

The critical thing will be what happens tomorrow. Looking at the chart above, you can see that the 20 May low rallied strongly on the day and closed near the high. On 21 June it closed low, but the next bar rallied strongly and closed high, making what was effectively a 2-bar reversal. Today's Close was not strong, being in the middle third of the bar. Volume was nice and strong, but less than 20 May and 21 June. This is a triple bottom now, so if the last month has been accumulation, price should advance quickly. If it doesn't, and comes back again, it will be the fourth time at the same level.

Note the date – 20 July – and my comments yesterday about turns at this time of the month.

WEDNESDAY

Another big up bar, with a larger range (30 points) and smaller volume (2,000 contracts).



I was not about to get carried away as I did at the 21 June low and use the over-sized range from the 20 May low. This time (as I should have done last time, according to my own rules), I used the range out of the first of the three lows, from 1 to 7 June. This gave a target of 7244 for this trade, which was reached during the 10:00 bar this morning.

You could have taken this trade off the daily chart, being a triple bottom, and the profit would have been 7244 – 7199 = 45 points. Not bad for 1 day's trading, but your risk was 109 points. Yes, it's a high probability set-up, but risk is still risk.

Consider the difference if you had entered off the hourly chart, when it broke the swing high out of the low, as I discussed yesterday, and placed your stop 10 points below the intra-day low. This gave a profit of 7244 – 7132 = 112 points against a more tolerable risk of 7132 – 7081 = 51 points. There's more work trading this way, but I'm planning to do a session or more in the workshop in November to cover this perspective. The management of risk is a major consideration when markets get volatile, from the point of psychological as well as physical capital. It is much easier to follow your rules when the risk is less, I find.

Today, like yesterday, closed well off the high of the bar. Both days showed strong advances for the morning part of the day session, with prices declining throughout the afternoon. This is not necessarily a problem, but it does seem to show that there are still some sellers around. We are, of course, still within the sideways range that the market has occupied ever since 17 June (which, remember, was the actual high on the September contract), and note that this level (coinciding with the horizontal line from the 7 June high on the chart) is the bottom of the gap which is as yet unfilled.

Note that the SPI is continuing to make higher highs and lower lows on each swing, and the gap will act as resistance. Every time price goes to a new extreme and then reverses, the possibility exists that this is the beginning of the next directional move. Even if it breaks above the 15 July high, it has the resistance level of the gap to contend with (even though the gap exists only because of a contract roll-over).

The low on 20 July had another effect, because it made a new low below the 21 June low, so that now the time period of decline from the 15 June high is 35 days to 20 July. This is a normal period for a mid-year decline, even though it is a little later than usual. The 10 and 20-year cycles do call for a longer decline (3 to 4 months), but it is also possible that price could simply rally from here. It's had a month of accumulation.

THURSDAY

Price has now reached the 15 July high. Today's high was just 2 points lower. While this gives us the potential of a double top, or perhaps a push just a few points higher in the early evening, followed by a reversal, compare today's Close with that of the previous 4 bars to reach this level:

On all the other occasions, price rallied and then reacted to close in the lower half of the bar, or even near the bottom. Today, it closed near the high for the first time. That is a positive sign. A more ambivalent sign is the volume, which was greater than average for the last several days but lower than the previous two days. Tom Williams always compared volume with the two previous bars. This urges us to be cautious, because markets need volume to penetrate resistance levels of previous tops, if for no other reason that other traders are watching those tops and are ready with their sell orders if they sense a reversal. Since we are out of our long trade with our profit in hand, we can happily watch the proceedings and wait for the appropriate signal.

FRIDAY

Yesterday's high was 7302, just 2 points below the 15 July high. In the opening hour of the evening session, price went to 7310, just 6 points above 15 July. This is the sort of signal which often indicates a reversal. At the same time, there was nothing convincing about the hourly bar, and with the high Close on the *daily* chart, we don't want to rush.

The result of the day's proceedings speaks for itself, although price did react, it then rallied again to close virtually on the high. If you study the hourly chart, it never managed to break the low of any reaction. This shows the wisdom of waiting, but it also shows the need for discrimination, between price action on the hourly chart which suggests a reversal is imminent and that which doesn't.

This still leaves us in a very interesting position at the close of trading today. As you can see, volume was very low today, a mere 28,000. Remember that although the high on the continuous chart was 15 June, it was 17 June on the September contract chart, which is the bottom of the rectangle that marks the gap. The high of 17 June was 7321, and today's high was just short, at 7315. We could still get a push up to the bottom of the gap, making a double top with 17 June and then reversing, and for this reason we place a short order below the bottom of today's bar, at 7261.

SATURDAY

There is no question of a reversal as suggested in yesterday's commentary; quite the reverse. Overnight, prices pushed higher, almost succeeding in closing the gap below the 15 June high and the incoming contract. The difference is now only 6 points. While sometimes markets close gaps and then reverse, the strength of the current advance suggests at most a swing top. Price has now broken out of the range it occupied for a month, and therefore higher prices should be expected. Here is the chart showing last night's activity.

SUMMARY

This last month has been a fascinating exercise in how to trade both carefully and aggressively so as to protect capital and extract what profit the market is (somewhat reluctantly) prepared to offer. We need to be adaptable to alter our trading strategy as the character of the market moves changes. Basic swing trading rules – entering following the swing chart using only daily bars – would probably not have made any money over this period, and perhaps would have lost some. Double tops and bottoms helped a lot, but the risks were often sizeable compared to the reward.

But by combining with the hourly chart, it has been possible to reduce the risk without abandoning the daily chart picture. I am considering preparing an exercise on this period of the market for the workshop this November, for the difficult parts of the market are the ones we need to study in order to make sure our plan is workable in all conditions.

Now, however, we need to change again. The current swing up from the 20 July low, including the half-completed bar for Monday, contains 4 bars, greater than any move since the 15 June high. We are now back in a directional market, and one which has just completed a basing pattern. So we must switch, and stop trying to trade both sides of the market. Unless we get a reversal signal, we expect the trend to be up from here, and to be taking long trades.

It only remains, then, to consider what the outlook for the coming months is like.

LONG-TERM PICTURE

Back in September 2011, just after the low in August, I prepared an outlook for the SPI in the coming year for a seminar presentation. I was trying to reconcile the different turns on major 10-year cycles:

- September 2001 (the '9/11 low')
- November 1992 (end of a 10-month bear market)
- July 1982 (major low in the All-Ordinaries Index, before the SPI had started trading, which was the higher bottom after the September 1974 low)

From various cycles that I considered, including the fact that I had found out that the Great Depression Low in Australia came in September 1931, almost a year earlier than in the Dow, I felt that the August 2011 low would hold. This proved to be correct. But what about the lows from the other two cycles, which were a year or so later?

I did not know how they would work out, so I just noted the dates, and suggested that they would be higher bottoms. Here is now things actually panned out:

As you can see, all three of the previous cycles produced turns within a month of the anniversary of their lows. But they couldn't all be major lows, so instead they worked out as higher bottoms. I had seen a similar situation in one of Gann's lessons, where he produced a forecast that turned out to be a higher bottom but was still a major turn.

I face a similar issue when producing an outlook now, in July 2021. It is pretty clear now that we have already made our major low in March 2020. This will most likely be the low for the decade, and is probably unlikely ever to be broken. There's no great genius in making that prognostication; stock indexes have an upward bias due to the continual replacement of bad-performing stocks with new up-coming ones. And the major bear market lows since 1983 have almost all been higher bottoms.

Only on three occasions have previous significant lows been broken:

- The March 2003 low broke the September 2001 low
- The August 2011 low broke the May 2010 low
- The March 2020 low broke the lows of 2018, 2016 and 2013.

Based on previous cycles, I was expecting a significant low around September this year:

- August 2011
- September 2001

There was no corresponding low in 1991, because the low that year came on 16 January. I should have paid more attention to it, because the low in 2021 appears to have come already – on 1 February. So it looks rather like the 30-year cycle is a better fit than the 10 or 20-year cycles.

The first question now is: does our low on 20 July 2021 match the low on 9 August 2011? I'm inclined to think that it does, as the difference in time is only 20 days. That leaves us with 24 September 2001, which at the moment looks like it will produce another higher bottom.

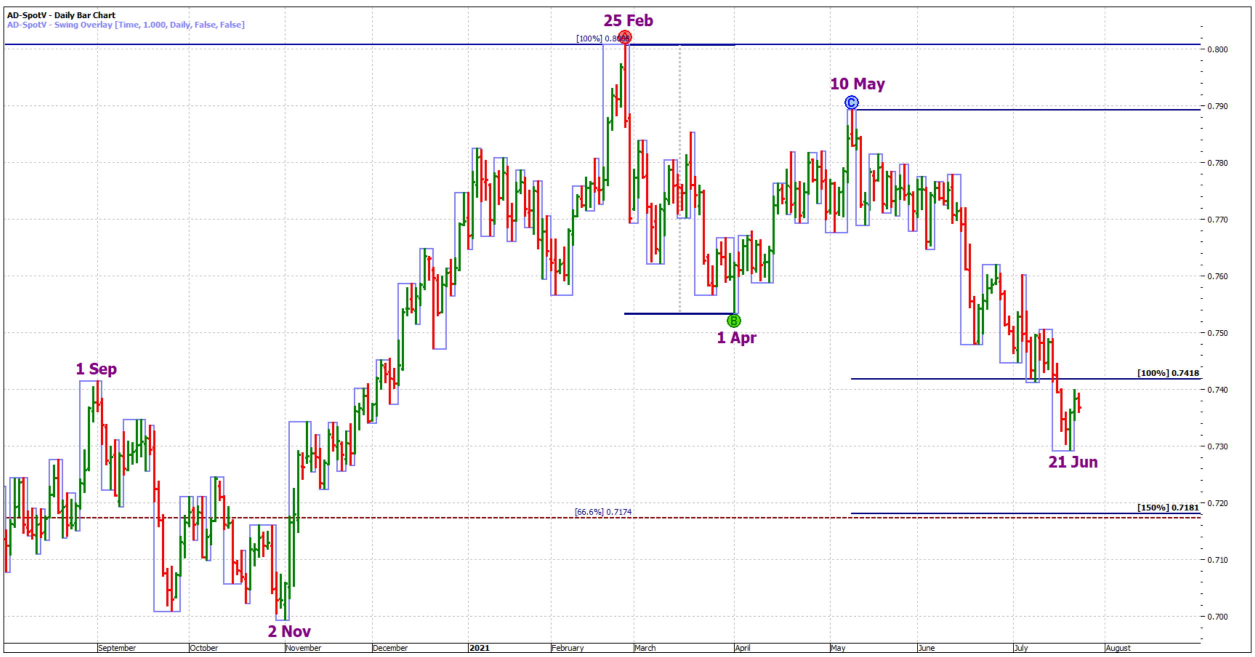
The 30-year cycle from 1991 saw a bull market that lasted from 16 January 1991 to 6 January 1992. This was followed by a bear market that finished on 16 November 1992. Other years (in the Dow) with major lows in Year 2 are July 1932, April 1942, June 1962 and August 1982 (July in Australia). This would give a window from April to August (i.e. around the middle part of the year) that we might expect a significant low. And perhaps another one in November.

All of these suggest that the trend in the second half of 2021 is likely to remain up, although recent behaviour on the SPI has seen short forward bursts followed by longer periods of consolidation. Early 2022 might see a correction, but that will be followed by a higher bottom and the next advance.

GETTING STARTED

The Australian Dollar

After breaking the support level last week, the Aussie Dollar continued its slide this week. Its trend this year has thus been largely opposite to the SPI, which recorded the low of the year on 1 February and is currently edging towards new highs.



The next support level is around 72 cents, which is 150% of the range down from 25 February to 1 April and also 66⅔% of the range from the 2020 low to the 2021 high. After that, the next support is the 2 November low at 70 cents.

I'm starting to wonder whether a system more like Gann's *Mechanical Method* might be more appropriate for this market than the one I use on the SPI. As I indicated last week, trying to trade each swing and exit at 75% seems to cause difficulties because of the size of the bars, which make the risk to large relative to the potential profit.

Gann's *Method* would have had us short at the 10 May high and trailing stops above each swing high. He never placed stops 1 tick above swings, but rather used around 8-10 ticks. To have held into this move during late May and early June, however, we'd have needed a 20-point stop. Using a 2-day swing chart during the sideways move would have fixed this though, and we could switch to the 1-day when the move started.

GANN ON INVESTING

Leading Stocks – Health Care Sector

The Health Care sector is dominated by one company, CSL, whose market capitalisation of 131bn is greater than at least the next 20 companies combined. This creates a severe limitation in the sector index, which is going to largely mirror this disproportionately large member. So for our discussion now, we'll leave CSL out of the picture, since we have effectively covered it already when we looked at the Index chart.

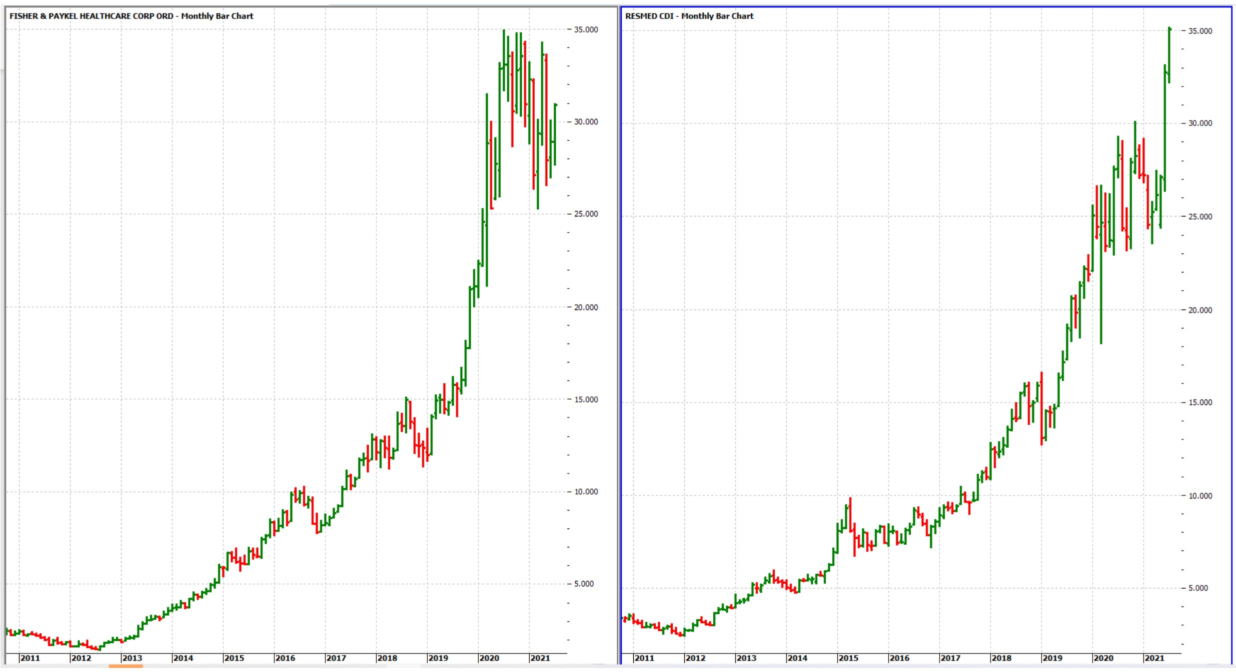
Interestingly, CSL has been far from the best-performing stock in the sector over the past year. Its big run ended, at least for the present, in February 2020, and it is still well below that price level. Meanwhile, some other stocks have gone well past their highs, as the following summary will show:

	HIGH FEB 2020	LOW MARCH 2020	CURRENT PRICE
CSL	342.75	242.67	293.48
SHL	32.07	20.06	40.10*
FPH	22.59	21.07	30.90*
COH	254.40	154.60	246.07
RHC	80.93	46.12	64.64
RMD	26.60	18.10	32.15*
PME	30.37	14.50	58.34*

Of the leading 7 stocks, 4 have moved to new highs, above their February 2020 highs, while the other 3, which include CSL, have not. Also, when you're looking for stocks to invest in, are you better off with a $20 stock or a $200 one?

More to the point, how do you choose a stock? In March 2020, you might have checked for those that had suffered the smallest retracement, or held above previous lows. That would have led you to CSL, which made a higher bottom than its last low in 2018. However, you would have been much better off with Sonic Healthcare, the number 2 stock in the sector. It has doubled in price since March last year, but it broke its 2018 low, albeit not by a lot. COH made a double bottom with its 2018 low, and the return has been good since. RHC would be off the radar, for it made its top in 2016, and February 2020 was a lower top. RMD and PME also held above previous lows.

If you picked the stocks which were first to break their February 2020 highs, you would have picked FPH, and then RMD. FPH is Fisher & Paykel Healthcare, which I associate with a company that makes washing machines. It made a good running early on, but has stagnated since mid-2020 and is now stuck in a sideways pattern. However, this might mean that it is accumulating for another move. Here is the chart.



The real time to have bought these stocks was in 2012, when both were trading under $5 a share. The price scales for the two stocks are matched, so you can see the returns are roughly similar. But if you were looking to invest today, which one would you pick?

I would go for Fisher & Paykel (FPH). The fact is that we have missed the bus for Resmed (RMD). It would have been a great buy early this year when it made a third bottom just below 25. But now it's up at 35, and where would you buy? It could go higher from here or come back again.

FPH, on the other hand, barely registered the decline in March 2020. Unless you stare hard at the chart, you won't even be able to see it, for it was an outside bar, and green, rather than red, which means that the month closed *higher* than February. In fact, consulting the daily chart, it made its high on 5 March, declined for barely a week to the 13th, and then took out the high on the 17th! It rallied until 31 March and declined to 30 April, and the low in March 2021 was a double bottom with that low.

That would have been the place to buy, around $28, above the weekly high.

Postscript – A Day Out

There haven't been many days out for any of us lately, with lockdowns for the renewed Covid-19 outbreaks confining many readers to barracks. Even though we're free to move around here in Chiang Rai, I'm spending most of my time in the office, which is good, because I have this thing called a book to write…

The other day, though, I ventured out to my favourite restaurant, whose hospitality one or two readers who have visited me here have experienced.

This was a slightly sad day, however, because it was the last day they are open for the time being. The largest slice of their clientele are tourists, either from places like Bangkok, which is in lockdown at the moment, or from overseas. International travel is almost non-existent at the moment, and even the Thai government's attempt to open Phuket as a safe bubble, known for some reason as the 'Sandbox' has fallen flat. Tourism is a major part of the economy here, but not yet.

Meanwhile, my building work has been on hold, because it has been raining for two weeks straight at the property. I'm not complaining about that at all, seeing the devastation in parts of Europe and in China. And it's probably good to see what the effects of heavy rainfall in the area are, although I think we are safe from flooding.

I know these are tough times for just about everyone, and I hope this little picture reminds you to remember that the sun still shines, and that even a small thing like a trip out for lunch can be an opportunity to recharge the batteries. Humanity has been through far bigger trials before, and we will come out fighting after this one has passed, as it necessarily will.

And by the way, that's a tempura prawn that I'm about to stuff in my mouth!