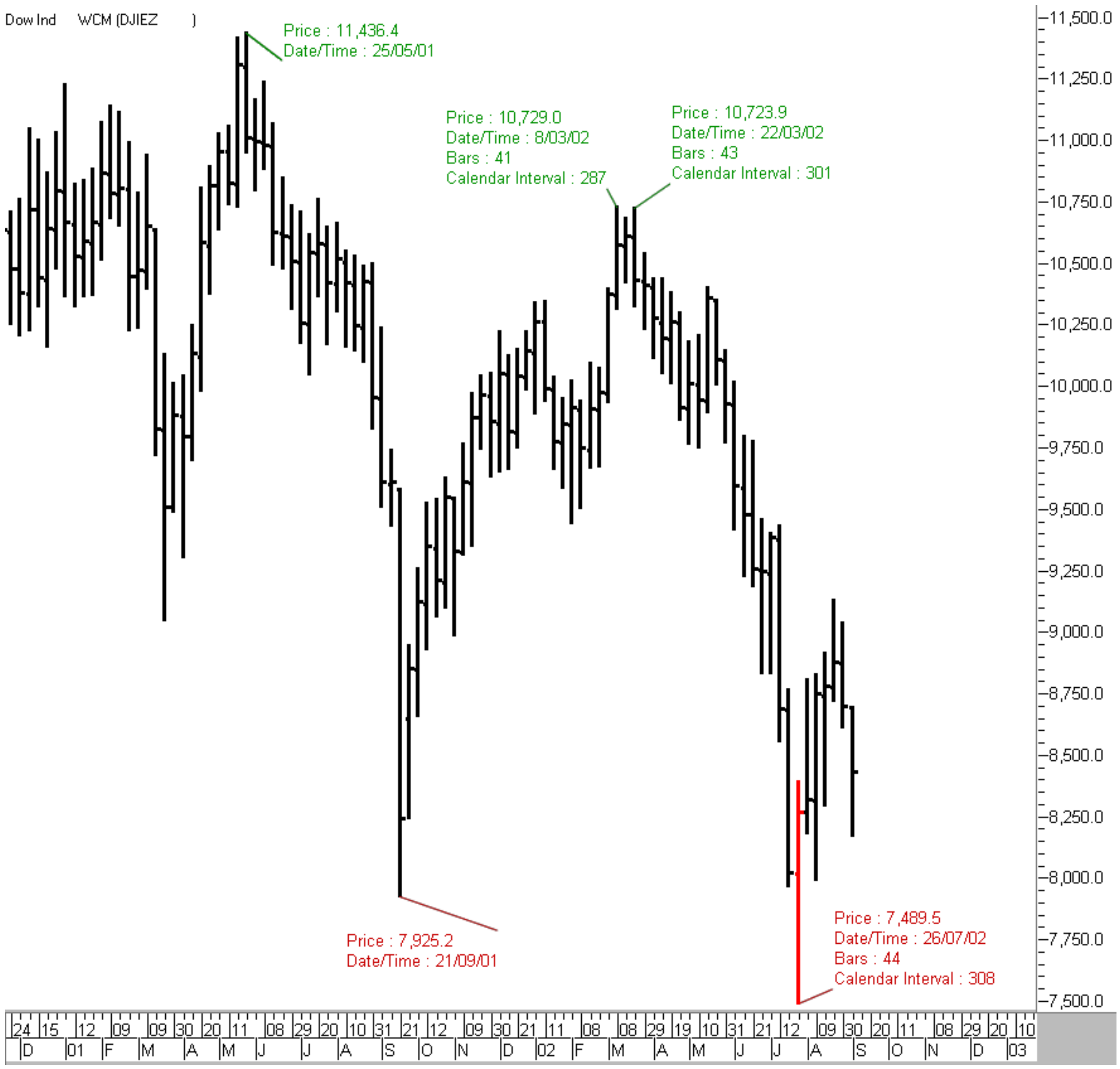
Analyst Insight

BALANCING TIME FRAMES

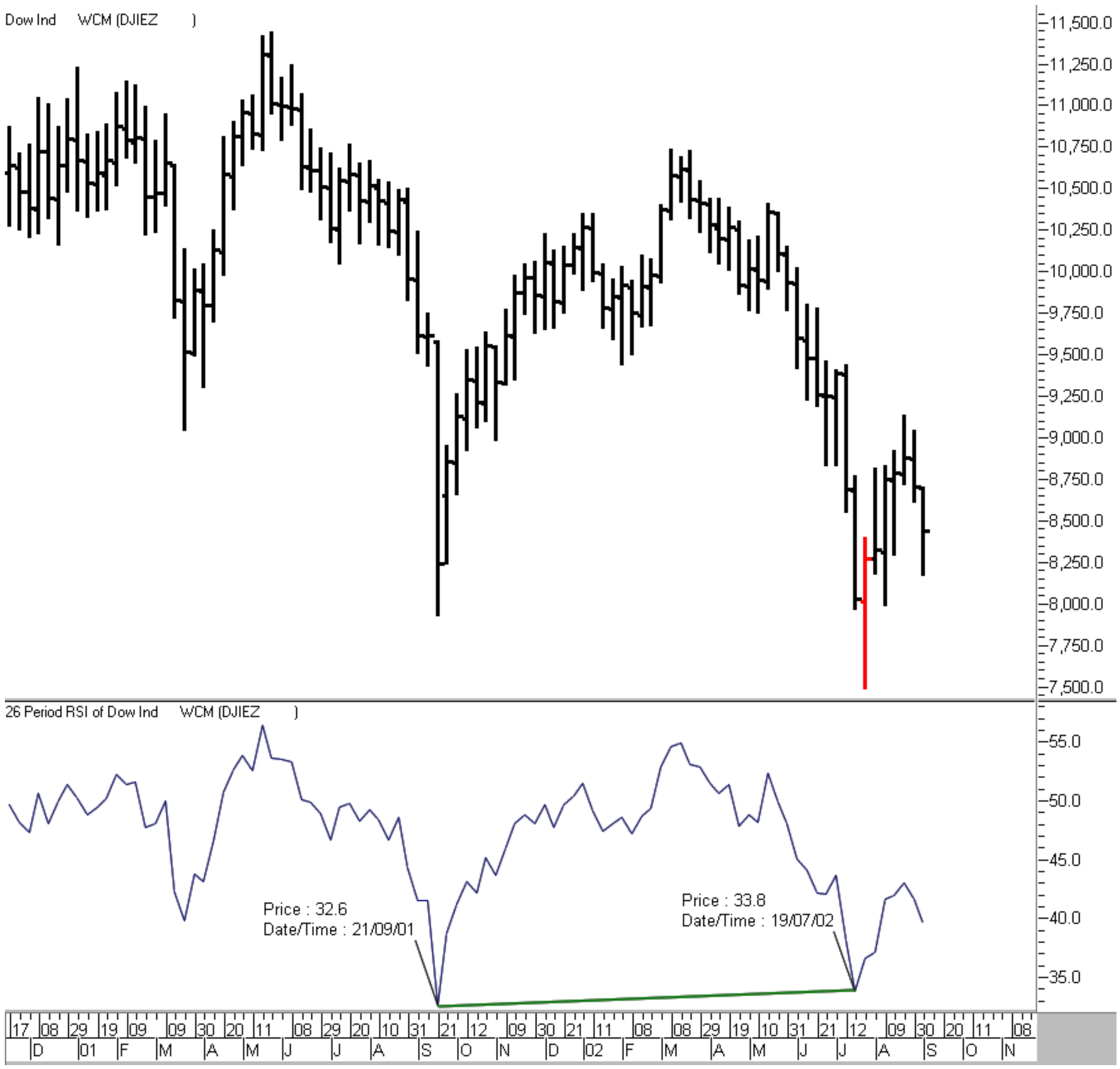
By Jason Sidney

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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