

How to use the 4 week cycle to pick "swing trades"

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Have you ever wished you could say: "If the beans break out above yesterday's high, we could have a big up move for the rest of the week!" Or, "I want to buy calls on Tuesday if the Hogs are strong. I'll be out by the end of the week." And then end up being right!!

"Kermitt" comes to the COT.
See special commentary below.

A special way to trade the 4 week "Kermitt" cycle

This is an approach to the 4 week cycle that is different. The 4 week cycle has been in the trading literature since the beginning of time. Often it is correlated to the 28 day cycle of the Moon's rotation around the Earth. Or, to the 29 day period it takes for the Sun to complete one rotation. There are many instances of the 28 day cycle in nature and it is a natural thing to expect to see in the price charts of daily markets. Those ARE NOT the way I use the 4 week cycle in this approach.

*I use it only to watch for a possible **repeat** of a recent market movement.*

My approach to the 4 week cycle is very different than what is seen in the cycle trading literature. I don't use it to predict a regularly recurring market movement. I use it only to watch for a possible repeat of a recent market movement. I have observed a big market movement seem to repeat itself 4 weeks later, and then again 4 weeks after that. Rarely do I see the movement come again the fourth 4 weeks after that. And usually another 4 weeks later there is no comparison to the original event at all.

Let me try to explain it with a story. It is like deer hunting season comes and you get your deer on the first Friday of October. On the first Friday of November you again get another deer. In December you again get a deer on the first Friday of the month. Come January, hunting season is over and you don't get a deer on the first Friday of the month, you don't even go hunting. The rest of the year you don't go hunting. The following deer season you don't go out at all and you don't get any deer. The "event" happened 4 weeks apart three times in a row, then never reappeared.

You talk about the story to friends and one summer you get a Musky on the first Friday on June. They say, "can you get one on the first Friday of July?" And you

do. Now, since they all know about your deer story, do you think they might be placing bets on you if you go out fishing the first Friday of August?

Do you see the point. I could use the 4 week cycle to suggest that he might get that 2nd Musky. If he did, I would suggest he might get one again on the 3rd month. Now I wouldn't just blindly bet. First I want to make sure he is going fishing on that day. Then I want to see if he is taking Musky bait with him and that he has heavy tackle. Then I want to see if he is in the right part of the lake for Musky. I want to watch him cast. Then if he gets a hit I want to watch his pole bend, not until then do I want to decide place a bet that he will get the 3rd one on the Friday that is 4 weeks after the second one, which was 4 weeks after the first one.

This is different than the traditional recurring 4 week cycle analysis. This is not saying it happens on the full moon or on the new moon. This is not saying we need the sun spot to rotate around again to make this happen. When he went fishing on Friday I didn't even know what the moon was. I never even asked. It was just the Friday 4 weeks after the previous one where he caught a Musky.

The way I came to the idea of an event coming on a 4 week cycle just a couple of times, then not reappearing, was in studying the daily chart of the Dow Jones Industrial Average from the 1929 crash. I was looking at cycles the more traditional way and wanted to see if there was some way to trace back, in 4 week periods, from the crash of 1987 with the crash of 1929.

After running out of fingers and toes several times, I programmed my charting program of the Dow to do it for me by coloring each week in 4 different colors. (I have been writing computer programs since the sixties and I have written a charting program that charts the Dow Jones Industrial Average daily back to the 1880's)

I ended up with a chart that colored each week, repeating the colors over and over. I look at 1987, and then 1929 and concluded that I had no idea if they actually traced back the way I had hoped.

But in staring at the chart, I saw that the green week at the top of the market in 1929 looked a lot like the pattern of the week of the early October low 4 weeks later. And, that looked a lot like the green colored week of the CRASH on October 28th and 29th.

Do you see it in the chart below? Maybe it was there in the green week in August, just a beginning. By the green week in November it fizzles. The green week in December is like "the hunting season is over." The green week in January 1930 doesn't have it. The green weeks in May, June, and July, 1929 don't have it either. It was just that grouping a few times in a row in September and October of 1929. But what a group! Musky, Musky, Musky! (The chart is a daily chart of the Dow Jones Industrial Average in 1929. The numbers at the bottom are the months - 8 for August, 9 for September. etc. The four weekly colors, green red purple and yellow, keep repeating in sequence.)



Charting the stock market indexes. Copyright 1985 - 2001, George Slezak, 1-888-311-3400. see www.futuresfax.com.

I did a lot of experimenting with different markets to see if I could find similar results. Since I trade commodities, I focused mostly on the stock indexes with futures and the general commodity markets.

I learned forecasting the coming week "wasn't easy being green," and nicknamed the trading strategy "Kermitt."

I kept the same color sequence, but set it up so the charts ended with a yellow week. The result was I would be looking at the green weeks to repeat in the coming week which would be green in the cycle. I learned forecasting the coming week based on the previous green week "wasn't easy being green," and nicknamed the trading strategy "Kermitt." (My "Miss Piggy" strategy was a system of the 2 day moving average crossing the 3 day moving average of daily midpoints. Hey, it was the 80's)

Here is a chart from my commodity charting software of the S&P in 1998. I had this chart in a previous version of this memo and it shows the repeating green week cycle.



In my weekly Stock Index commentary at [www. Stock Index Timing .com](http://www.StockIndexTiming.com) (formerly Futures Fax .com) I often begin with commentary on the 4 week cycle. and show a 4 week color cycle chart of the Dow.

But it is not just the stock market that shows the tendency to repeat a few times. I have called some great moves in the Hogs, Copper, OJ, Cotton, Beans and many other markets.

caught an UP LIMIT MOVE!

The following chart is the Feb 1997 Lean Hogs. This is one where I called the up swing and caught an UP LIMIT MOVE!



Like I said earlier, "it's not easy being green." After finding a way to "sometimes" predict a big move might recur I learned that I needed a way to see if the pole was bending before I got in a trade.

I tried to use any simple indicator in my recommendations to suggest the trade was beginning. I used stochastics on 10 minute charts. I even used my "Miss Piggy" signal.

Eventually I settled on simply recommending buying breakouts above the high of the previous day, then place stops below the low of the previous day. The "up moves" or series of up days in a row, that happened 4 weeks earlier was what I was hoping for, and I could say the pole was bending if I had at least the first part of an up day - a high above the high of the previous day. Placing a stop below the low of the previous day was a reasonable way to protect myself if it was just a nibble.

I still recommend using the simple breakout from the previous day's range for the trade trigger.

Readers and clients can use any chart service that distinguishes the bars of the daily chart by weeks so they can make their own 4 week cycle chart decide about the swing repeating. BarChart .com shows the weekly designation as well as have a moving curser that identifies the high and low of each daily bar on the chart. Instead of coloring the weeks four different colors, all you have to do is identify the weeks as 1,2,3, or 4 and repeat the numbering.

The following is a recent BarChart.com chart of OJ. You can see that we are in a week 1. The forecast for this week is that it may look like the previous week 1, that had the big up surge to the high. A month earlier I had identified that week as "on watch" for an up swing in my "Short Term Trade Report" because the week numbered 1 back in November had shown a good up move. In fact, based on the weather, I had called that possible trade as my "focus swing trade of the week." It was a smoker!



You can get charts like the above at [Barchart](http://Barchart.com)

I guess the odds of the repeat are only one or two out of ten.

Let me make a point, we don't know that a surge will repeat again 4 weeks later. I guess the odds of the repeat are only one or two out of ten. You NEED a trading trigger strategy to go with the cycle forecast. And a stop. It also helps if you are going in the direction of the general trend based on the fundamentals.

One last point, NEVER MAKE A TRADE IF THE APPROPRIATE STOP IS TOO EXPENSIVE. I believe stops should be placed based on chart points. If the proper stop is too expensive for your account balance, then you shouldn't do the trade. And remember, a stop loss may not limit your loss to the amount intended.

Good luck and good trading!

George Slezak

[www. Commitments of Traders .com](http://www.Commitments of Traders .com)

*"Kermitt" comes to the COT.
special commentary:*

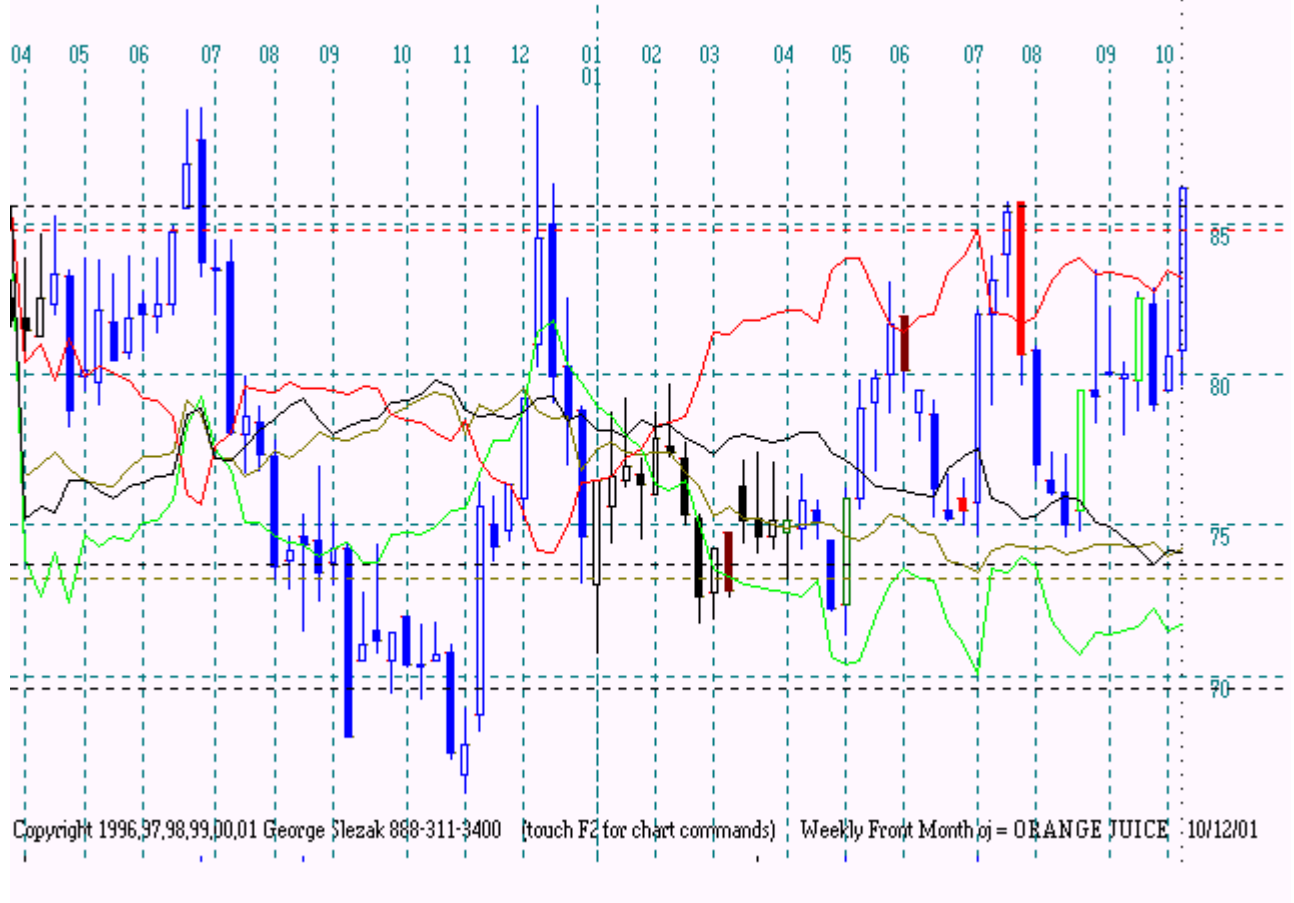
Since I took the weekly "Short Term Trade Report" off my reports at Futures Fax, I find I am missing that "extra little edge" of looking each week for the possible 4 week cycle replays.

The detailed daily charts were a useful tool in focusing, often to the day, on a possible replay of a market surge. But most often, I looked to the report just to get a general flavor of which markets might put in a move.

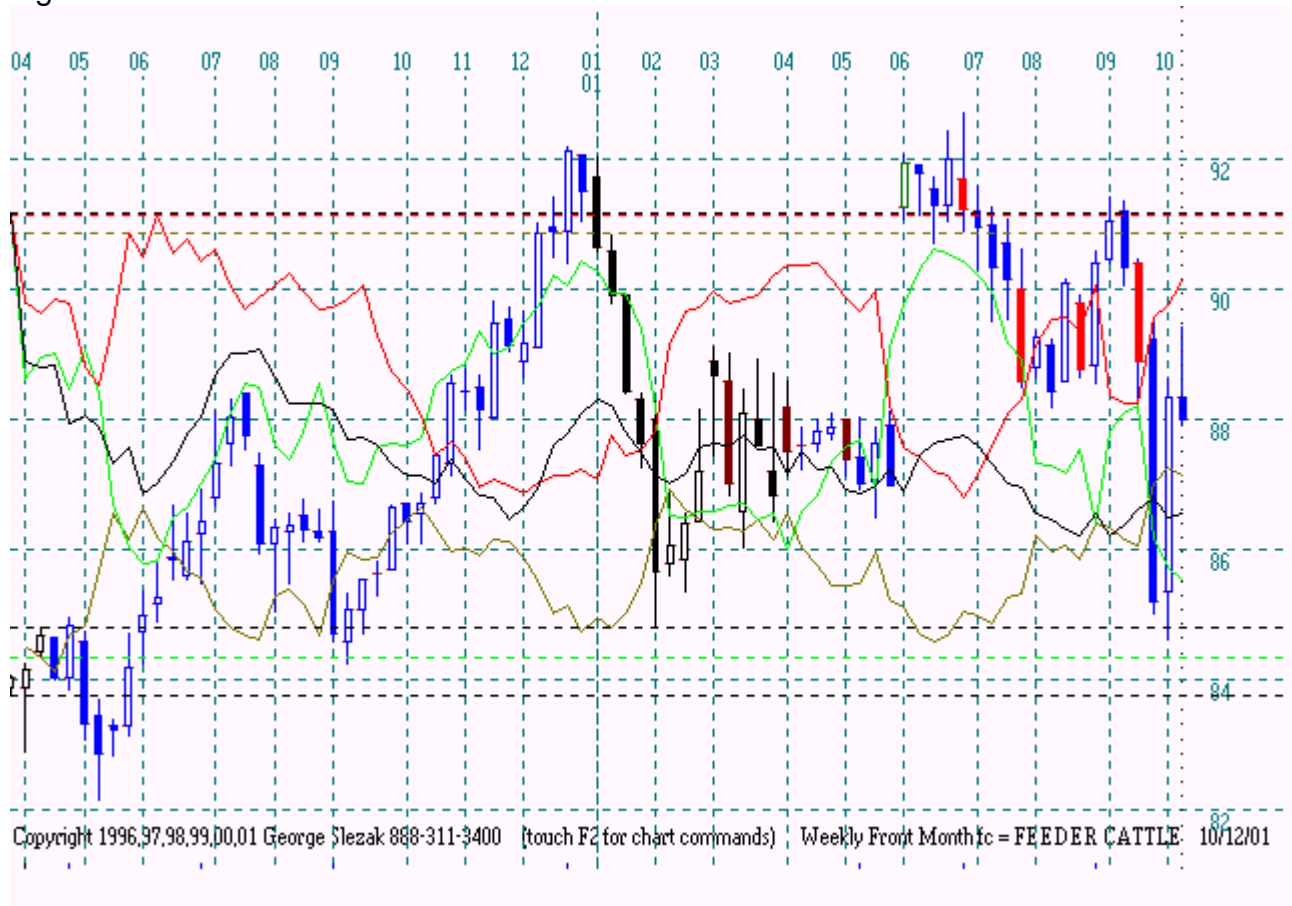
While I was reviewing the weekly "all in one" charts at the COT web site, I decided to add a "Kermitt" feature that might give us that general idea of a 4 week cycle replay. I did a little programming on my weekly COT charts and added a little feature that we can use to get a quick review of the markets to consider where we might find a possible surge replay on the 4 week cycle. The three year weekly charts are weekly candlestick charts and I counted back 4 weeks from the last week on the chart and colored the body of the candle GREEN if the close was higher than the open, and RED if the close was lower than the open.

I did the same for four weeks before that, and another four weeks earlier as well. Now you can look at the chart and see if the past two or three four week's ago periods were similar just by looking for green or red weekly bars repeating. The following weekly chart of OJ shows the market week 4 weeks ago as a green weekly up candle, and the one 4 weeks prior to that is also a green up candle. We might watch the current week for a breakout above the two day high and take a long position. A stop could be placed under the previous week's low. If it hit, it would be the 4th play of the same 4 week cycle (actually the 5th, since the blue week after the low would be 4 weeks earlier) which starts to be a lower probability expectation.

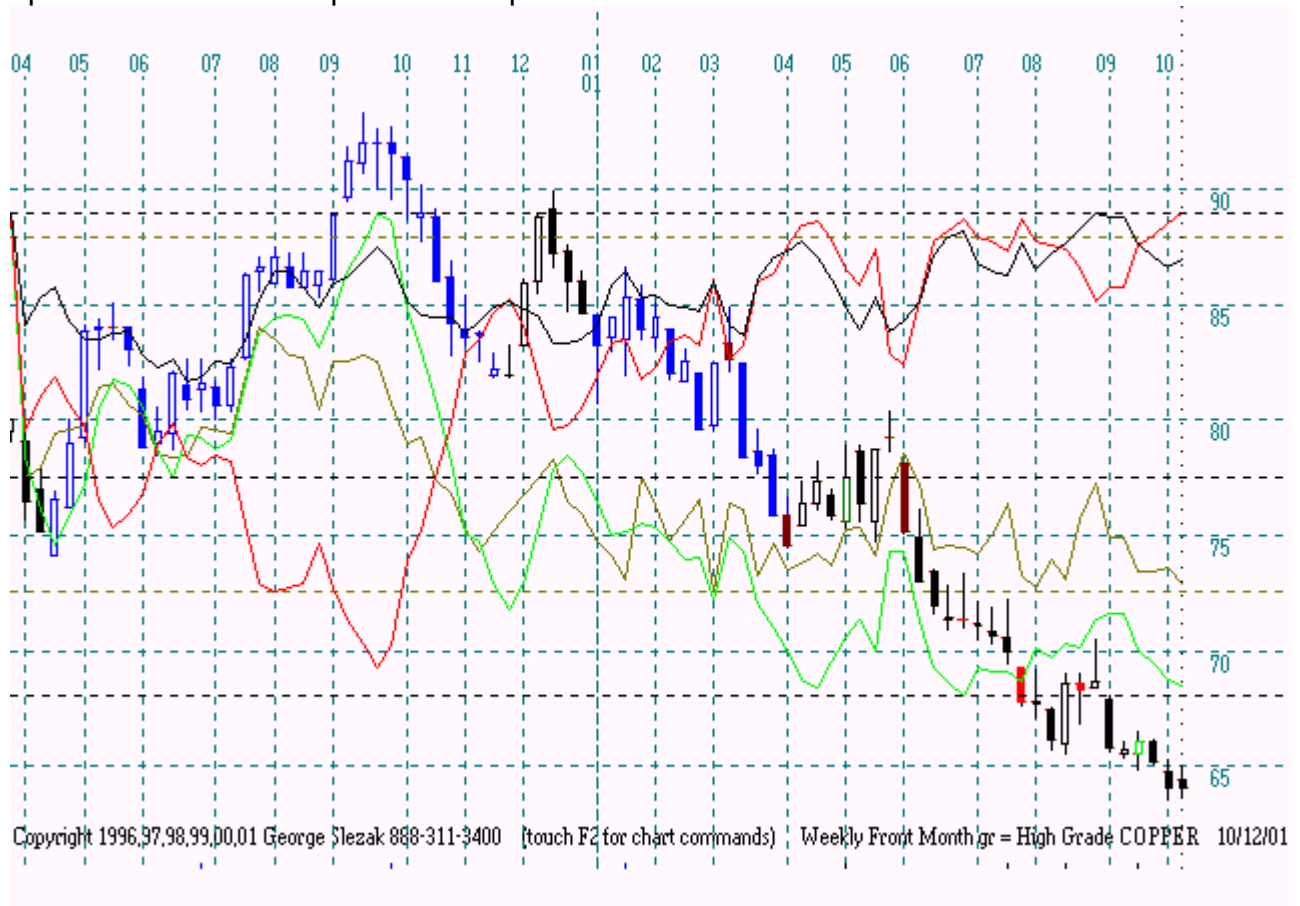
Remember, in the following charts, each bar is a week, so we are just looking for up weeks that are four weeks apart to suggest we may have another up week in the cycle.



The following weekly chart of Feeder Cattle shows the market week 4 weeks ago as a red weekly down candle, and the one 4 weeks prior to that is also a red down candle. We might watch the current week for a breakout below the two day low and take a short position. A stop could be placed above the previous week's high.



The following chart of Copper shows the week 4 weeks ago as green, and the one 4 weeks before that as red. (And 4 weeks before that as red.) This illustrates a market where there is NOT a 4 week cycle replay setup, but a hope that if the current week is an up week, 4 weeks from now we could be looking for another up week that could be part of an important turn in the market.



Conclusion: Considering the 4 week cycle can be a useful tool for a trade decision. Combining it with other trade decision methods might increase you probabilities of a successful trade.

Good luck and good trading!

George Slezak

2/26/2001, partial updates 10/19/2001