Chapter 27

MARKET MANIPULATION

"*Please, Lord get me out of this trade and I swear I'll never trade again*."

Have you ever found yourself in the position of the noble trader on the left?

"*Why, oh why did I ever get into this trade?? I should have quit while I was still ahead!!?*

Perhaps, like this poor soul, you haven't been properly planning your trades. If you're like many traders we know, you're in a hurry. You rush to trade while exhibiting very little in the way of patience. You probably have no idea of how to plan a trading campaign, and you'll probably lose most of your money before you ever find out. That's too bad, because as with any endeavor, preparation is the biggest part of the job.

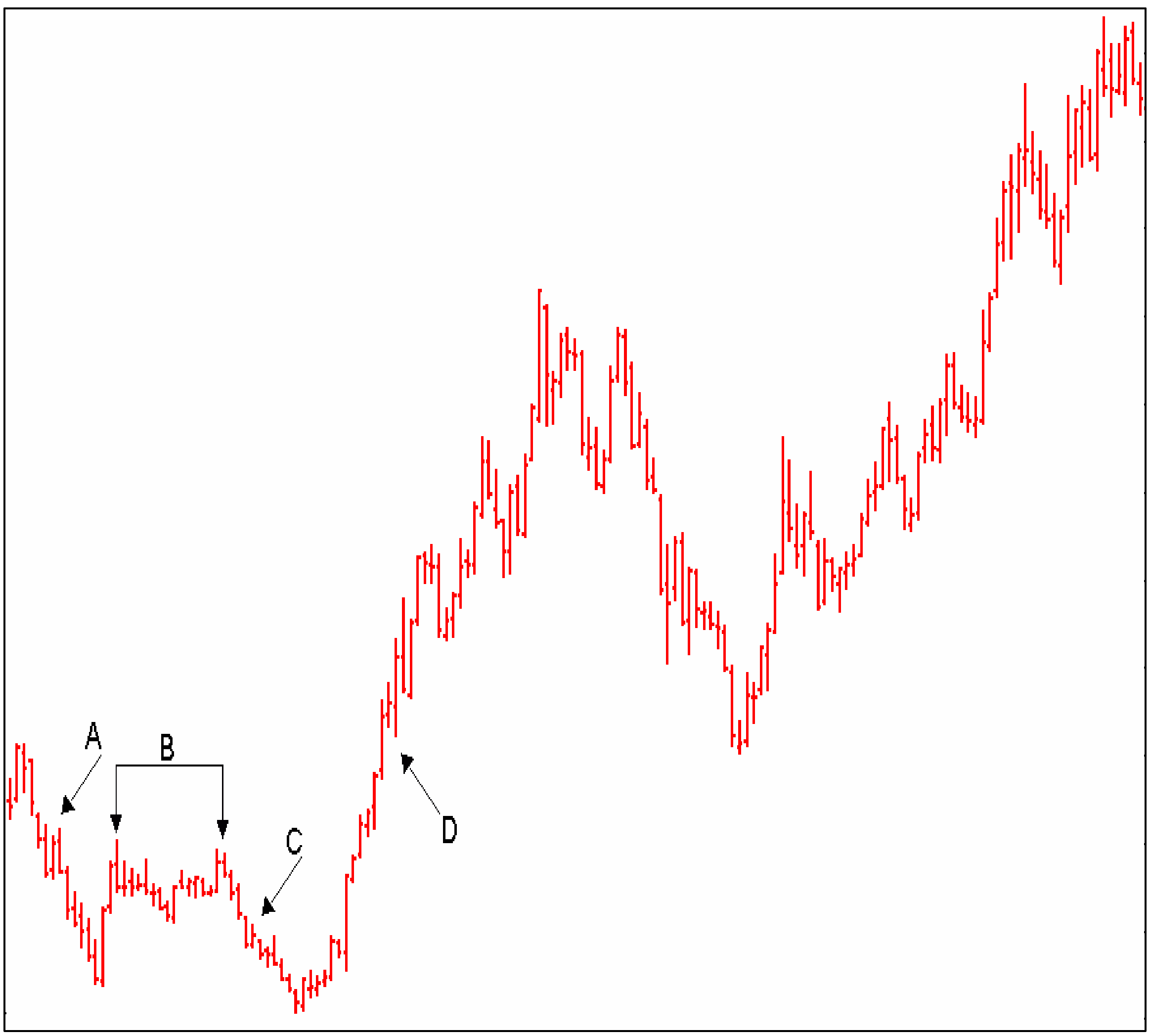
If something is worth doing, it's worth doing well. So, in this chapter let's show you a few more things you need to know to get things done right.

Some of you need some lessons in how to do some long-term trading and planning. It's not all that difficult. We'll start out with a few of the basics of trading.

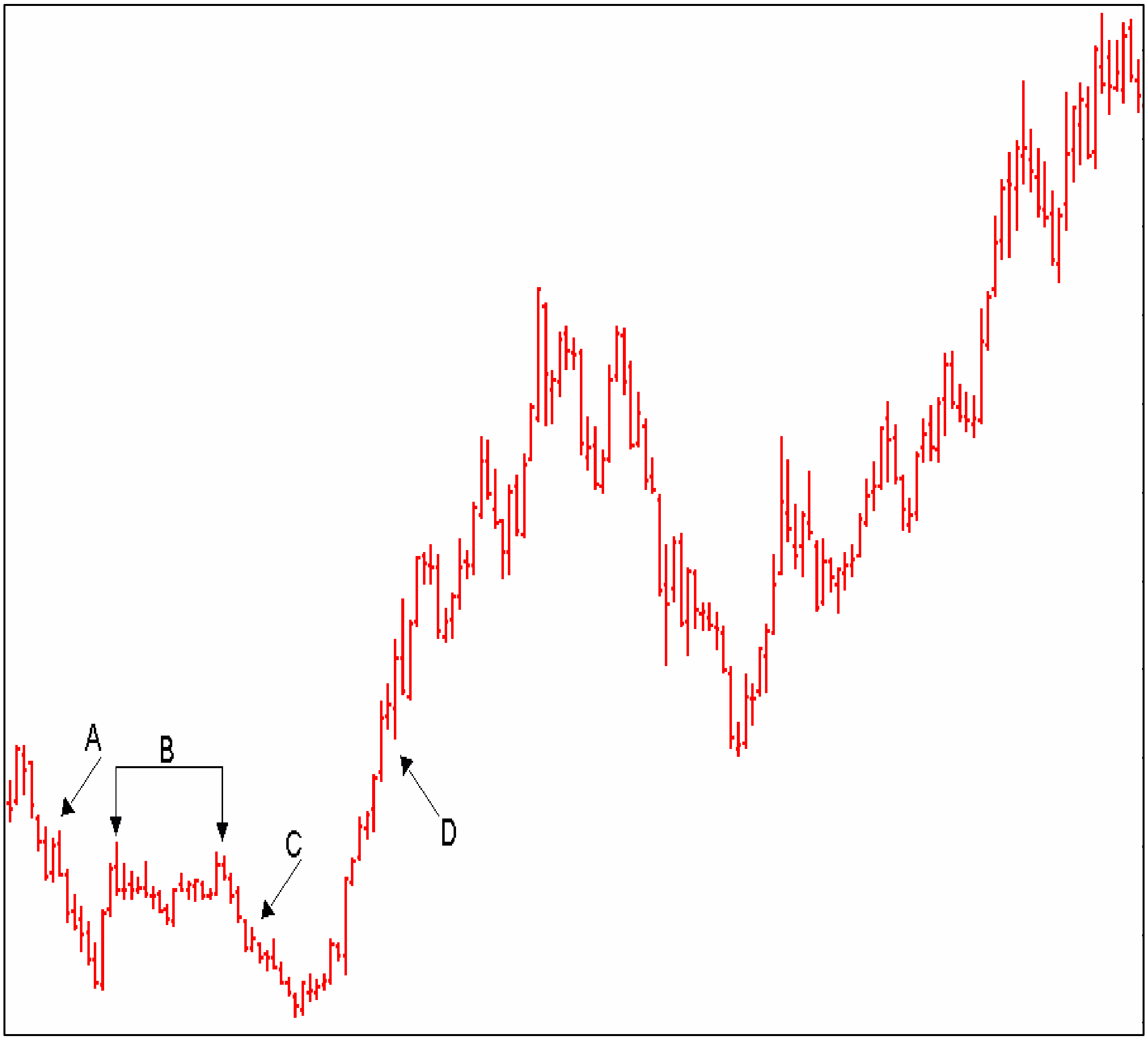
RANDOM WALK?

For years we have denied any notion of the theory of Random Walk in futures prices. The more time goes by the more strong that conviction becomes. It is as we've explained elsewhere, the market is a situation of "weak hands" vs "strong hands." Prices are engineered by the strong hands to take advantage of the weak hands. It's always been that way, and it always will be that way, unless, somehow, human nature can find a way to change without the help of divine intervention.

Let's look at some pictures of engineering by the strong hands. In order to show you some major moves, we are going to move out to daily, weekly, and monthly charts. Even if you are a day trader, you can take advantage of these moves when they occur, provided you know what it is you are looking for. There are ample futures which you can trade, so these situations can be found in many places. All you have to do is look.



MONTHLY PRICE CHART

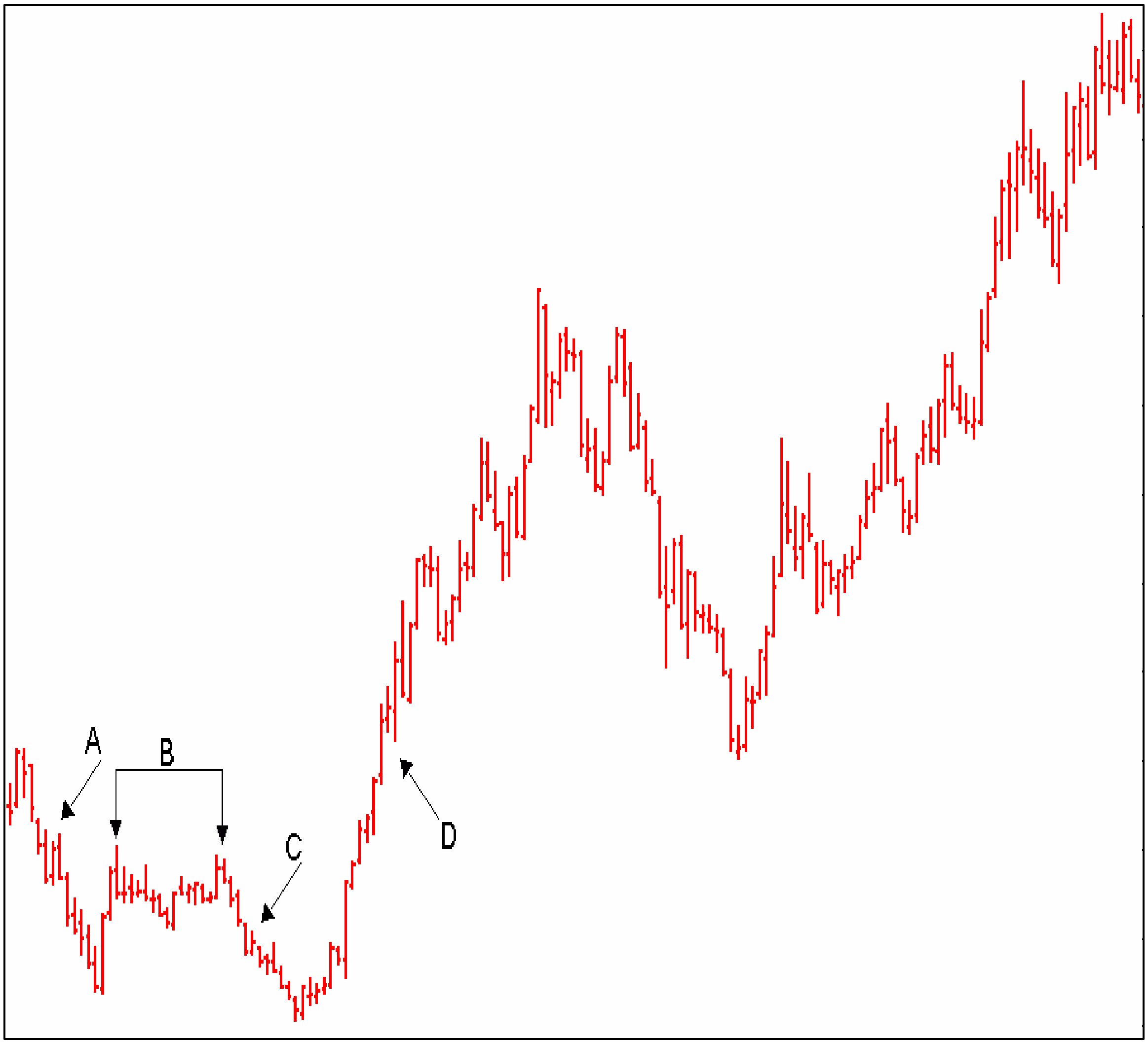


Here’s what to look for:

- “A” – Prices start dropping down into a major low area.

- “B” – Prices consolidate for an extended period of time. (Remember, this is a monthly chart.)

- “C” – Prices are squeezed even lower by the strong hands, sufficiently lower to drive out all of the weak hands. Anyone bullish on this market is now ready to or has already capitulated. During and following the squeeze, the strong hands accumulate everything available at low, low prices. The strong hands now own this market.



- “D” – Since there is no one left to sell, the only thing that can happen is for demand to take hold and prices to rise. The strong hands sell into rising demand. The transfer of wealth eventually changes from the strong hands to the weak.

You can see this same scenario time after time on quarterly, monthly, weekly and daily charts. It also takes place intraday. Only the players and the magnitude of what takes place are different. The driving force, however, is always the same – greed.

The strong players in the market are patient. They can afford to be. They know they need only a few large well-planned moves to make their fortunes even fatter than they already are.

How can you take advantage of a situation such as the one we just saw? You can learn to recognize the pattern of:

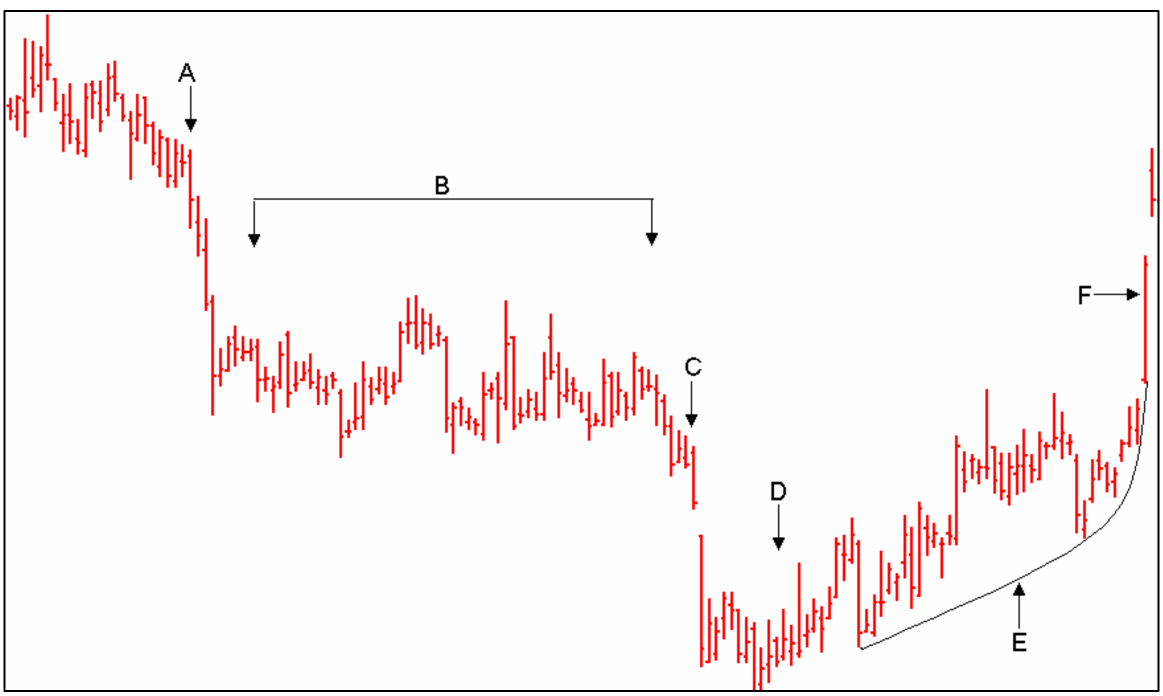
a. descending prices, followed by a leveling off into congestion that appears to be as low as prices are going to go.

b. a surprise further descent by prices (the squeeze), followed by another period of congestion prior to the start of a rise in prices.

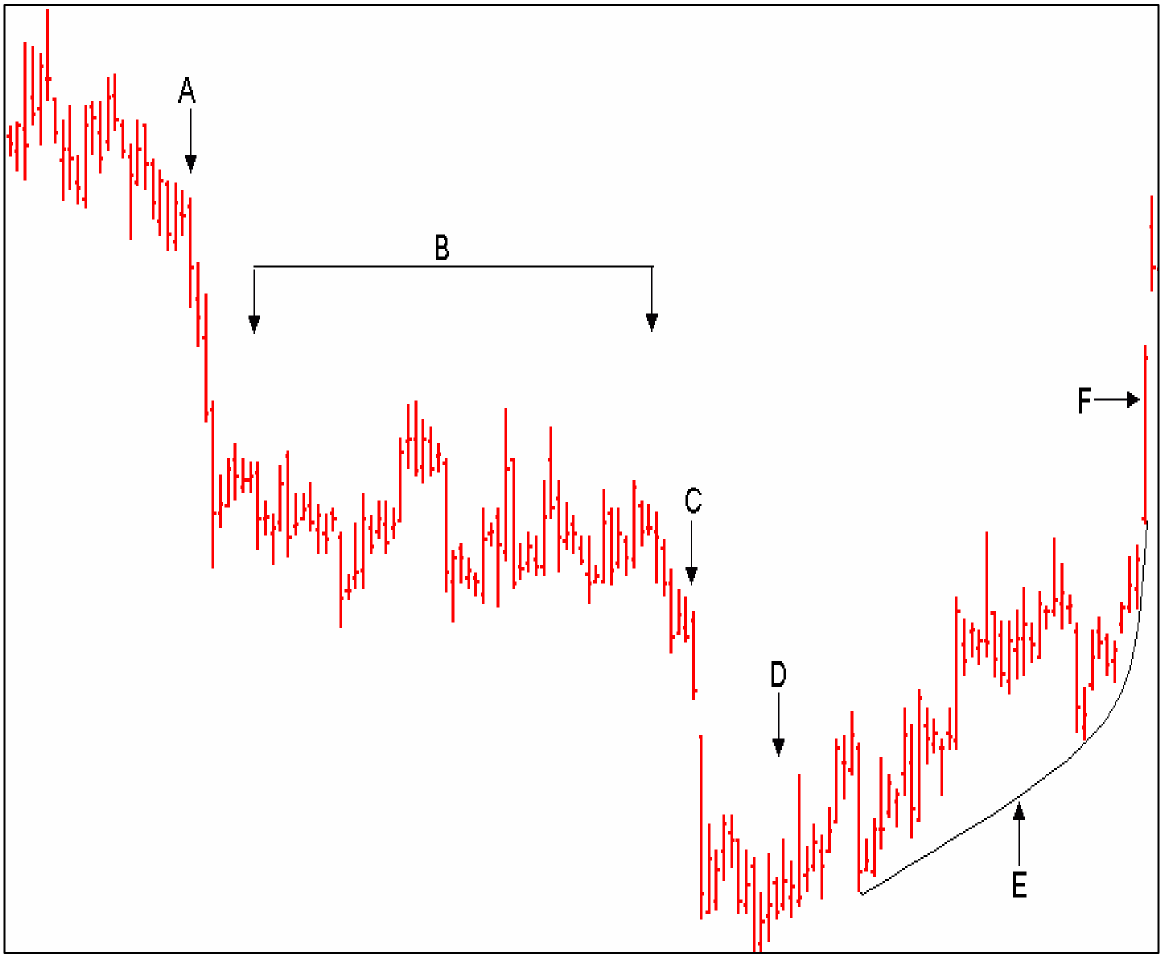
c. a steady rise in prices that eventually penetrates the former congestion

It is in this period of steadily rising prices that you can take excellent trades in a market. You can count on the rise continuing for quite a long time.

Let's look at another chart. This time we'll see it on daily prices.



DAILY PRICE CHART



- “A” – Prices begin a drop to what, at the time, were major lows.

- “B” – Prices consolidate at the major lows in what appears to be a bottom. It looks as if prices will not go any lower.

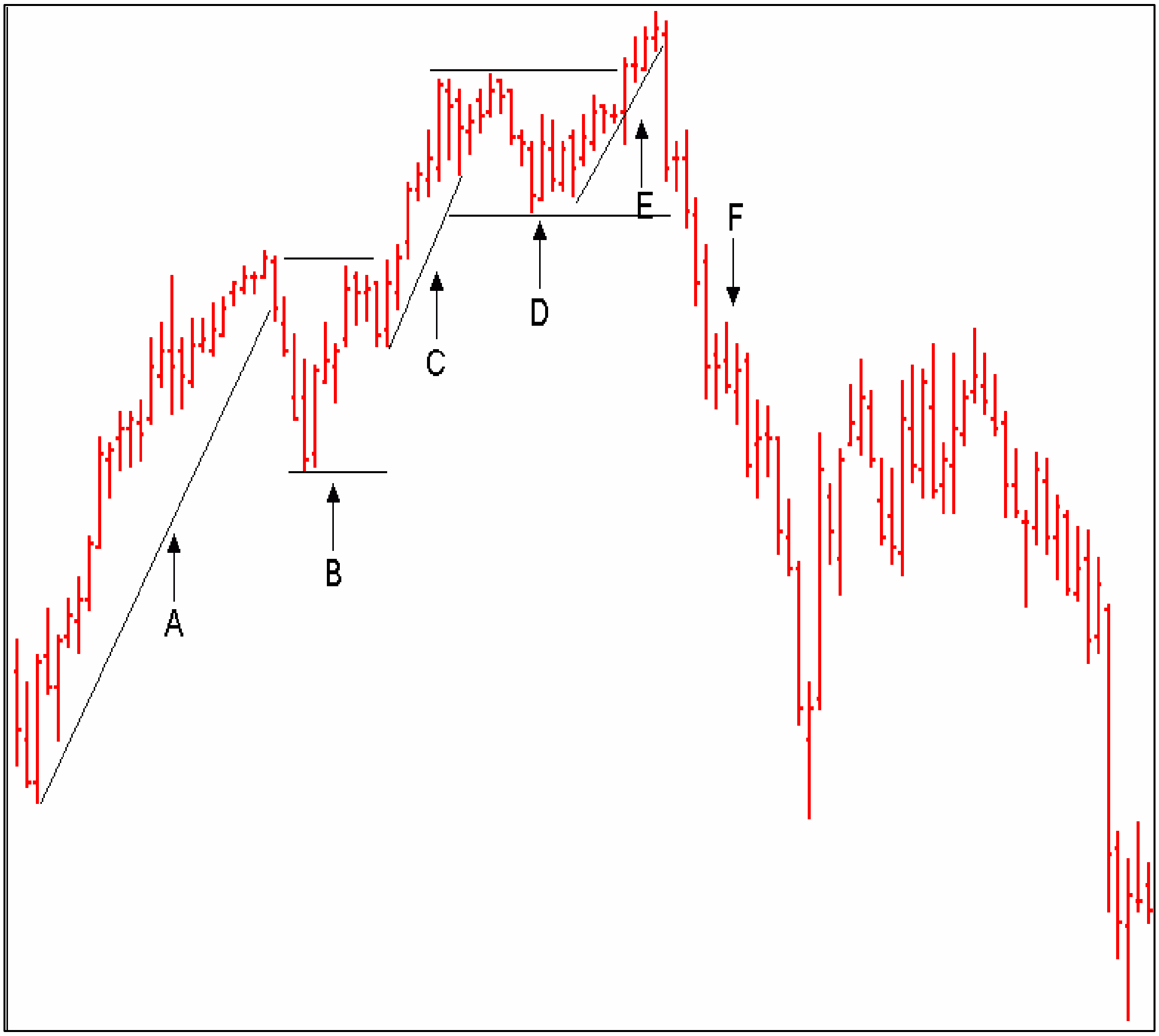
- “C” – To the dismay of anyone bullish, prices do drop lower. The squeeze is on. All weak hands are driven out of the market. It is a complete bullish capitulation.

- “D” – A period of consolidation forms once again. At this point and during the squeeze, we have had accumulation by the strong hands.

- “E” – Prices begin to rise on demand

- “F” – Prices rise higher than the former consolidation.

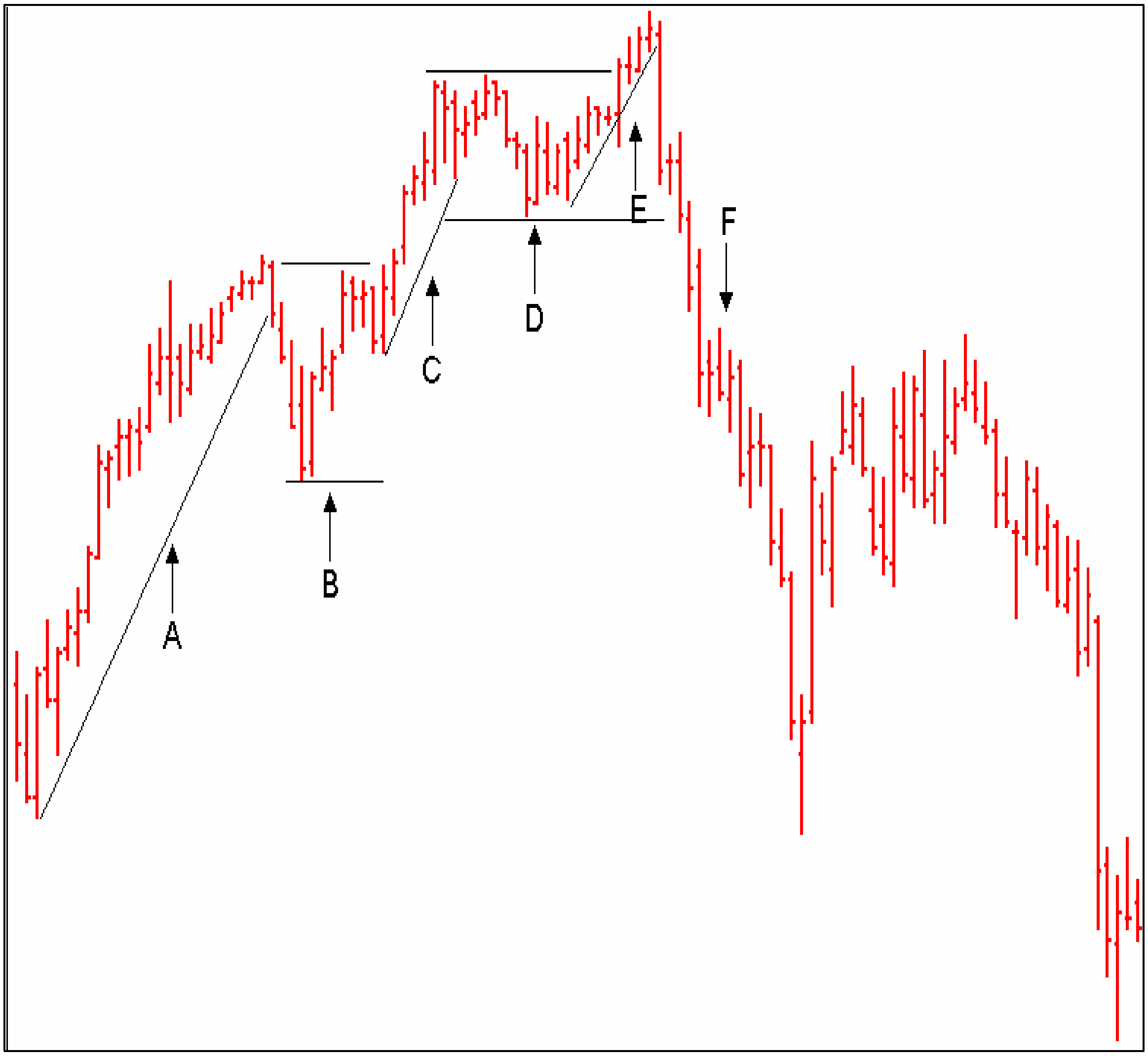
We've been looking at bull squeezes. Sometimes the squeeze can be a bear squeeze. Here's a bearish squeeze. This time we'll use a weekly chart.



- "A" – Prices climb to new all-time highs

- "B" – Prices consolidate, looks like perhaps the end of the bull rise.

- "C" – Prices rise again in an attempt to squeeze out the weak bears.

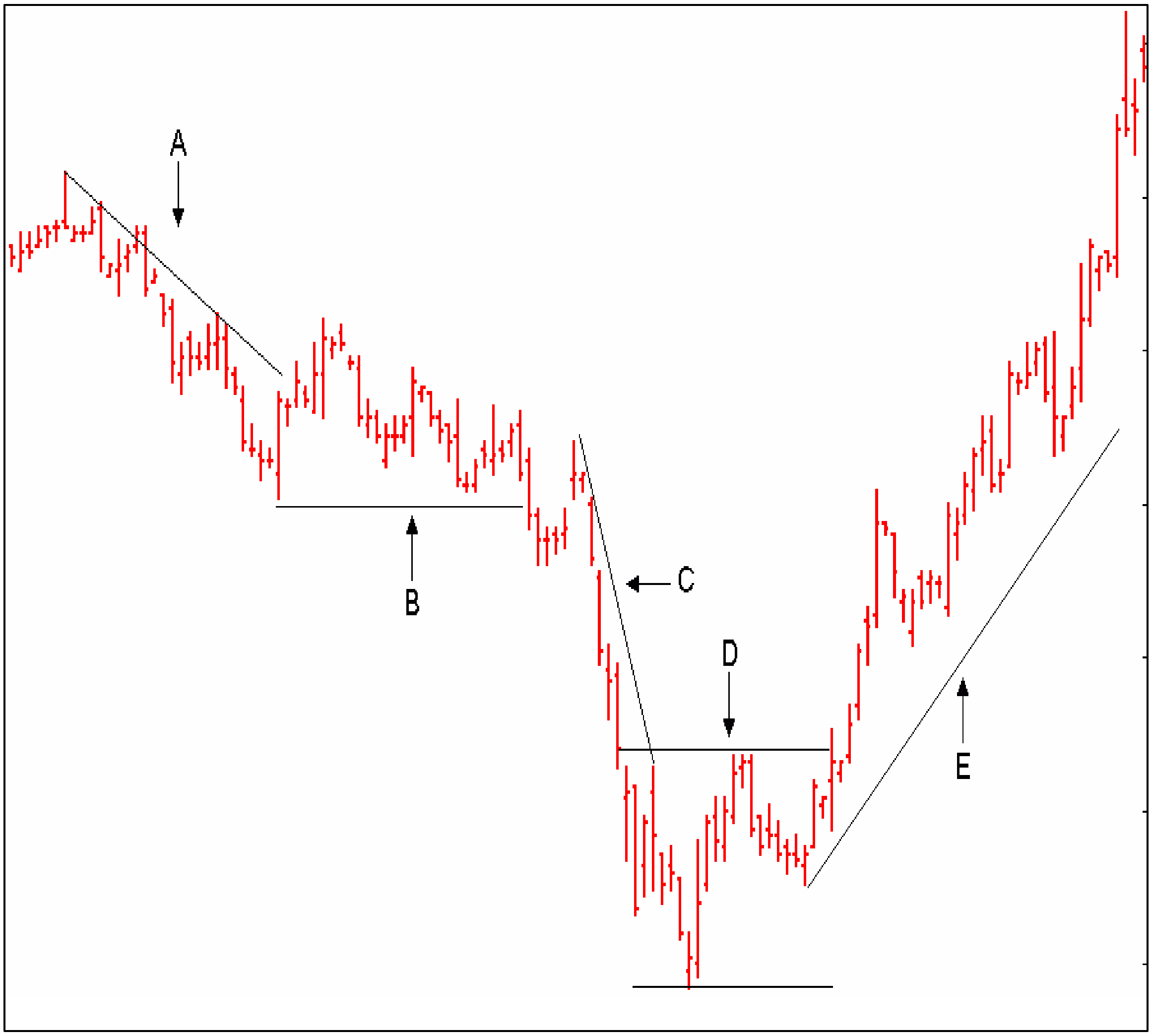


- "D" – Prices consolidate once again. Perhaps this is now distribution and prices will start down.

- "E" – Wrong! Prices make on final squeeze to even higher highs. You now have a complete bear capitulation. The strong hands have driven out the bears. There is only one way prices can now go.

- "F" – That's right! Down!! Past the prior congestion.

We figure you won't rest until we show you that this also happens on intraday charts. So here comes one now.



15 MINUTE CHART

- “A” – Prices dropped to the lowest low in quite a few days.
- “B” – Prices have flattened out compared with the angle of the prior downtrend.
- “C” – The bulls are squeezed hard by a sharp drop in prices.
- “D” – Prices congest once more.
- “E” – Prices rise steadily until they move above the former congestion.

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