



MMTA Course One – Cycles and Chart Patterns in Financial Markets



Charting Studies to Enhance Cycle Labeling

Module Lesson Sixteen



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Overview

In this lesson, we will examine chart patterns that help identify the completion of a cycle trough or crest including:

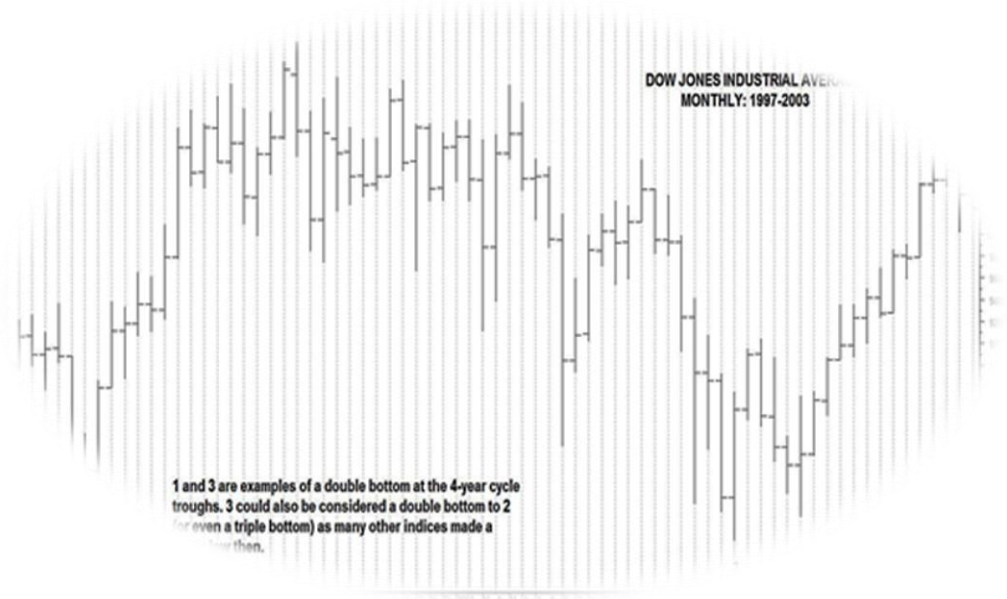
- Double tops
- Double bottoms
- Intermarket bullish divergence
- Intermarket bearish divergence



Double Bottoms

Occurs when market returns to same price area of support where it previously bottomed

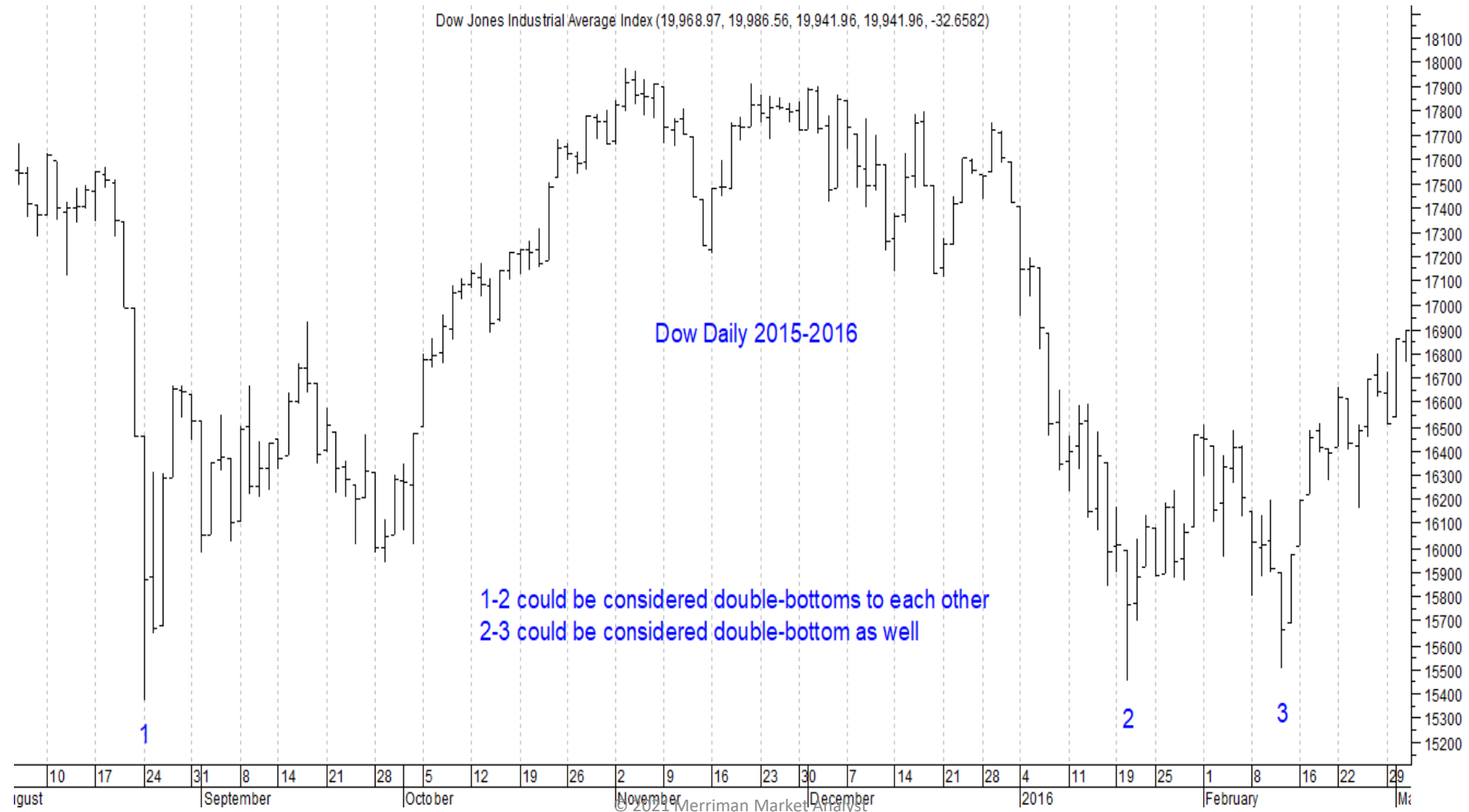
Second bottom is known as secondary bottom



DJIA Daily Chart 2015-2016



Can you see the double bottoms at 1, 2, and even 3?



Double Bottoms

- No rule for which trough will be the lowest price
- Most effective as a buy signal when:
 - At least one trough falls in time band when a primary cycle trough is due
- Price range: 1-3% of the price of the initial low
 - Depends on market and length of time between two lows
 - Long-term cycles require more price difference than short-term cycles



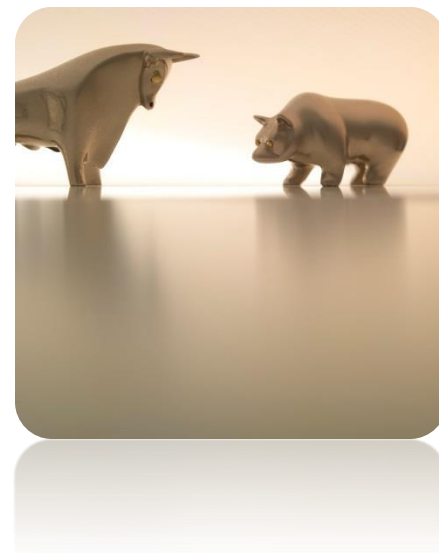
Double Bottoms

Currencies and treasuries have less percentage difference than stocks and precious metals

Bullish Sign: Secondary low holds close to price of first low, and then starts to rally

Bearish: If it then reverses and falls below double bottom zone, it is a downside breakout.

- Support then becomes resistance



Double Bottoms

The longer the time between the two lows, the stronger the support zone

3-phase bullish pattern: 3rd phase often declines to form a double bottom in price area of trough of 2nd phase

- Can also occur in bullish cases of 2-phase cycles, but not frequently

1st phase of bull or bear primary cycle may test the low that started the cycle

- Low usually holds in bull markets
- Low may slightly break in bear markets



Double Bottoms

In 45 of 68 cases in DJIA:

- Double bottom formed to primary cycle trough
- Majority occurred in time band of 6 weeks before through 3 weeks after primary cycle trough



Gold Daily Chart



Find two instances of double bottoms.





What relationship is important at PB-2 to the MB that preceded it?



Double Tops

Double Tops



Occurs when market returns to same price area where it previously peaked

- Days, weeks, months – even years prior

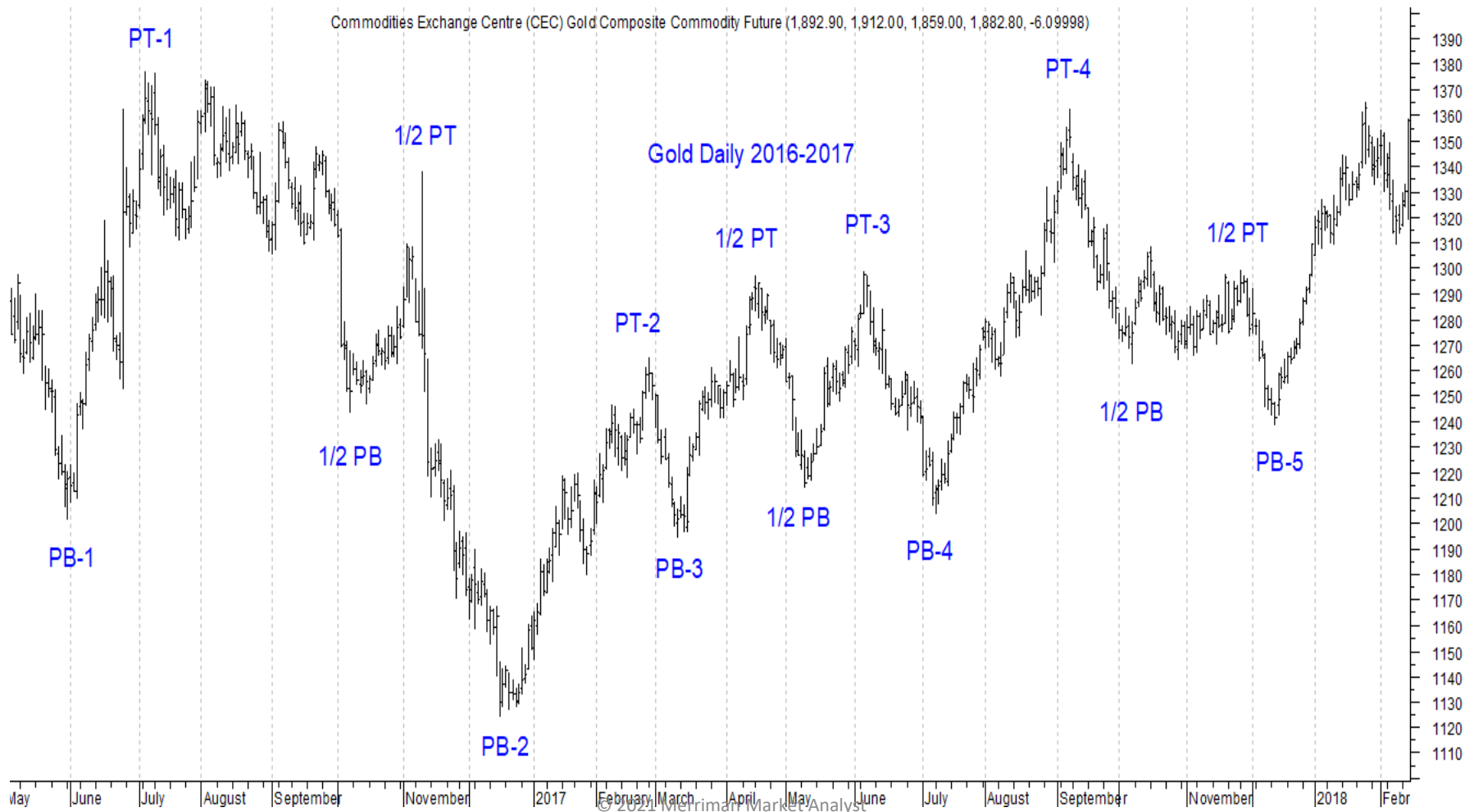
Second top:
Also known as secondary crest

No rule for which crest will be the highest price

Most effective as a sell signal:

- When at least one crest falls in time band when a primary cycle crest is due

Find cases of double tops: What is the relationship of the various primary cycle tops and half-primary cycle tops?
Do you see more double bottoms here too?



Double Tops

Range is 1-3% priced of the initial crest

- Depends on market & length of time between 2 highs
- Longer-term cycles require slightly greater price difference than shorter cycles

Bearish sign:

- Secondary crest holds close to level of first crest, and then starts to fall

Bullish Sign:

- If it then reverses and rallies above double top zone, it is an upside breakout
- Resistance then becomes support

Double Tops

Longer time between two crests = stronger resistance zone

3-phase bearish pattern

- 1st phase rallies to form double top in price area of third phase in prior primary cycle
- Can also happen in bearish phases of 2-phase cycles, but not as frequently

Double Tops

Often, 2nd phase crest of bearish primary cycle will test the crest of 1st phase

- Primary cycles are often double tops

In 44 of 68 DJIA cases:

- Double top forms to primary cycle crest
- Majority: Occurred in time band of 6 weeks before through 6 weeks after primary cycle crest
 - Last phase of one primary cycle and 1st phase of next cycle; or
 - Or during first 2 phases of new primary cycle

Intermarket Bullish Divergence

Intermarket Bullish Divergence

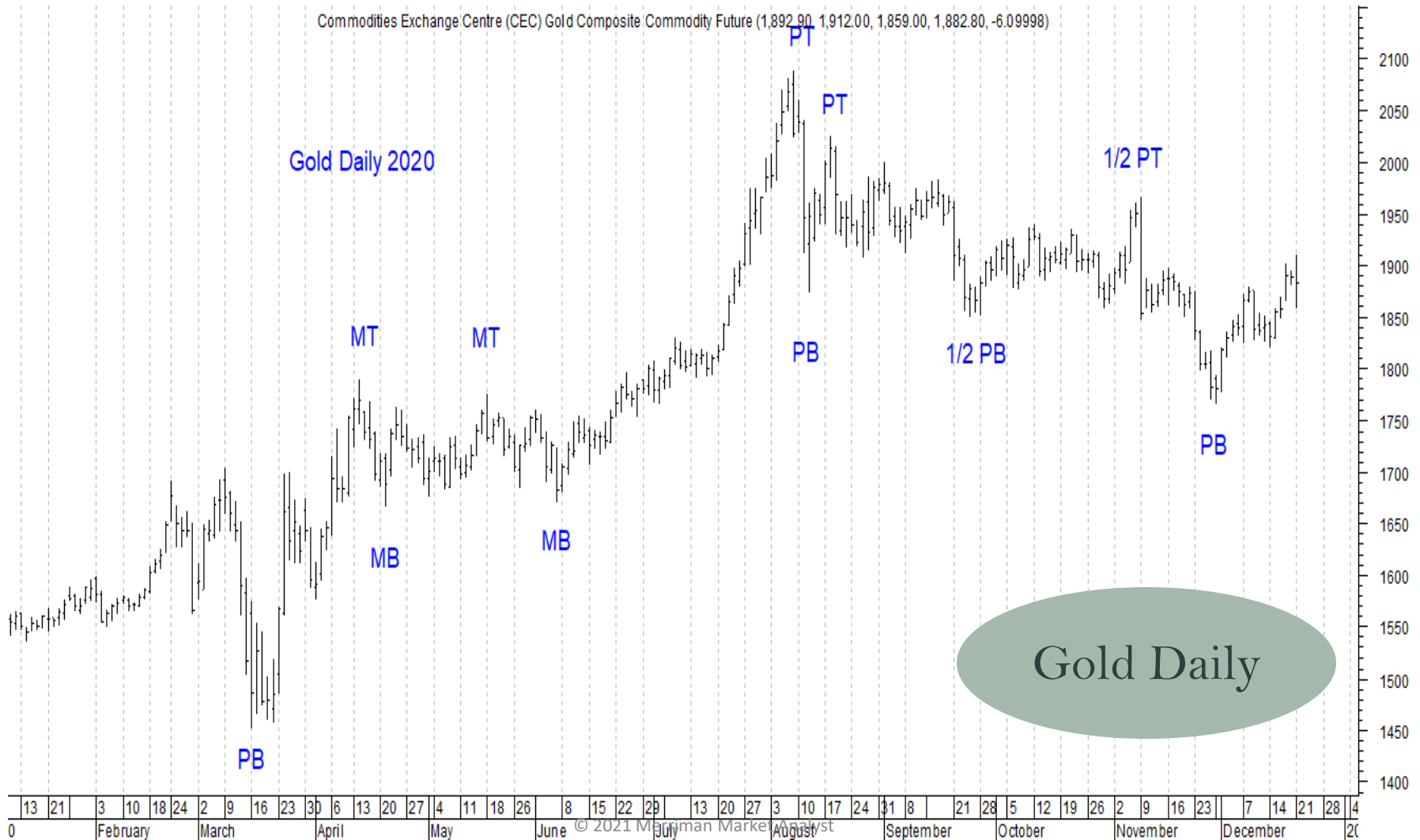
- Occurs when one market makes a new cycle low, but a related market does not, and BOTH markets start to rally

Related Markets	Example
Stock Indices	DJIA vs. S&P
Precious Metals	Gold vs. Silver
Currencies	Euro vs. Swiss Franc
Treasuries	T-Notes vs. T-Bonds
Grains	Corn vs. Soybeans

Also applies
to cash index
or
commodity-
to-future
index

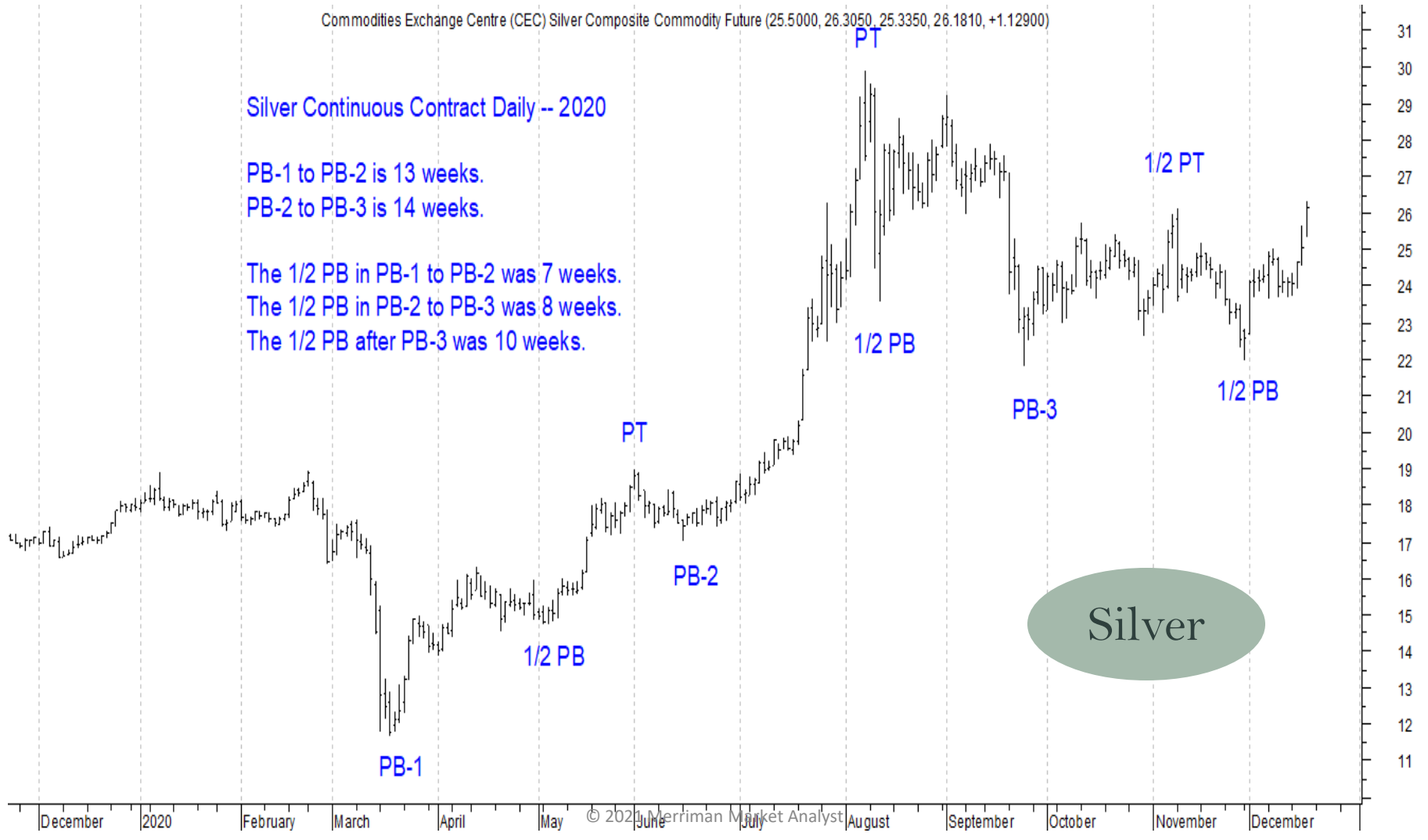
Intermarket Bullish Divergence

Notice: Gold & Silver reached primary cycle bottoms (PB) in different weeks = Case of intermarket bullish divergence.



Intermarket Bullish Divergence

Notice: Gold & Silver reached primary cycle bottoms (PB) in different weeks = Case of intermarket bearish divergence.



Intermarket Bullish Divergence

Best when:

- 1 week (or more) separates the 2 lows in the 2 related markets
- Longer the time between lows = Reversal more effective

Most effective if:

- 1 market (or more) of 2 makes its low when a primary or greater cycle trough is due;
- Particularly if geocosmic critical reversal date is within 3 trading days of either low

Usually involves:

- A double bottom to one or both of the markets affected
- All points listed in double bottom chart pattern will apply

Intermarket Bearish Divergence

Intermarket Bearish Divergence

Occurs when:

- One market makes a new cycle high;
- But a related market does not; and
- BOTH markets start to fall

Best when:

- At least one week separates two highs in the two markets
- Longer time between highs, more effective reversal is likely to be

Intermarket Bearish Divergence

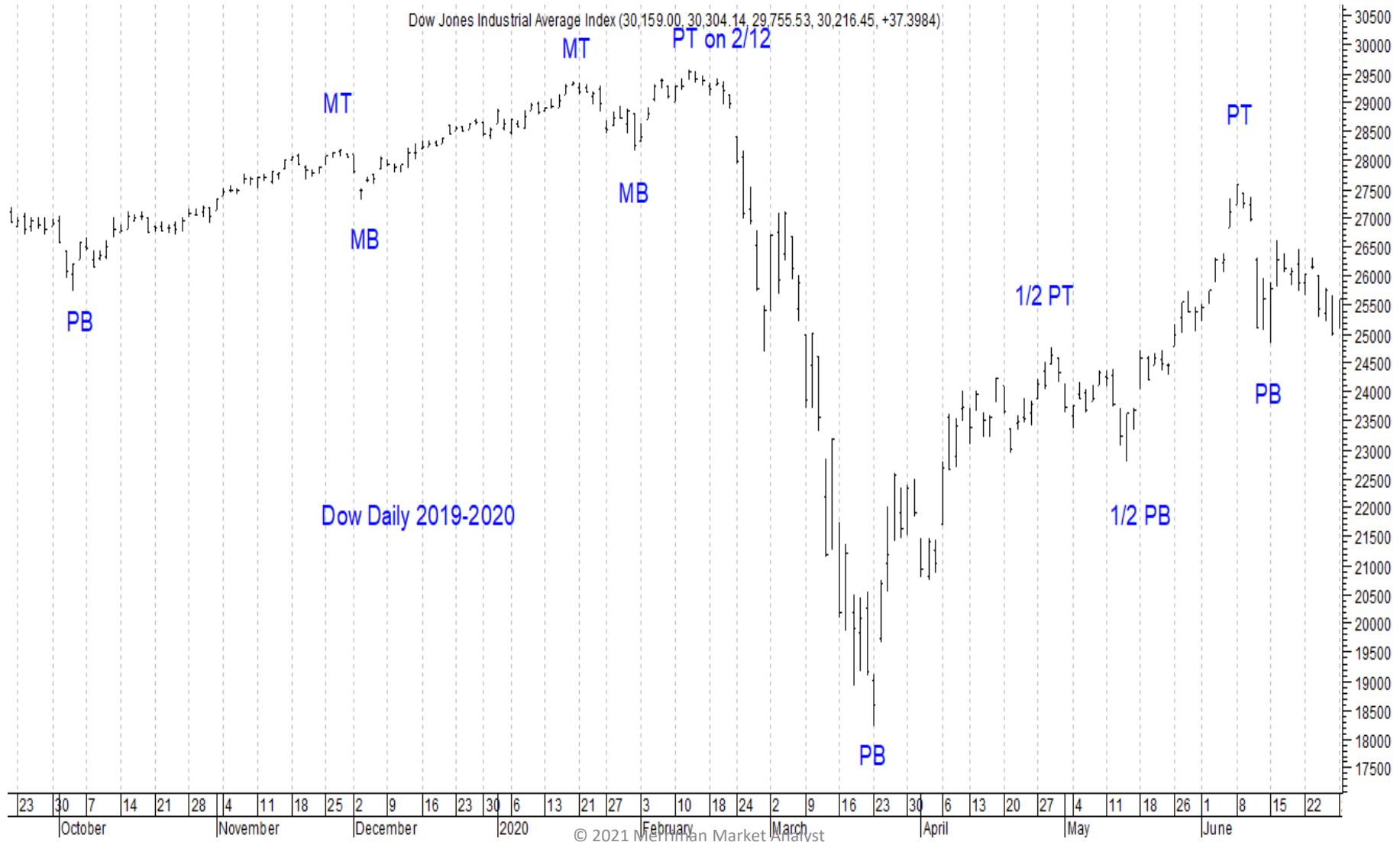
Also effective if:

- At least one of the two markets makes a high in a time band when a primary or greater cycle crest is due;
- Especially if geocosmic critical reversal date is within 3 trading days of either high

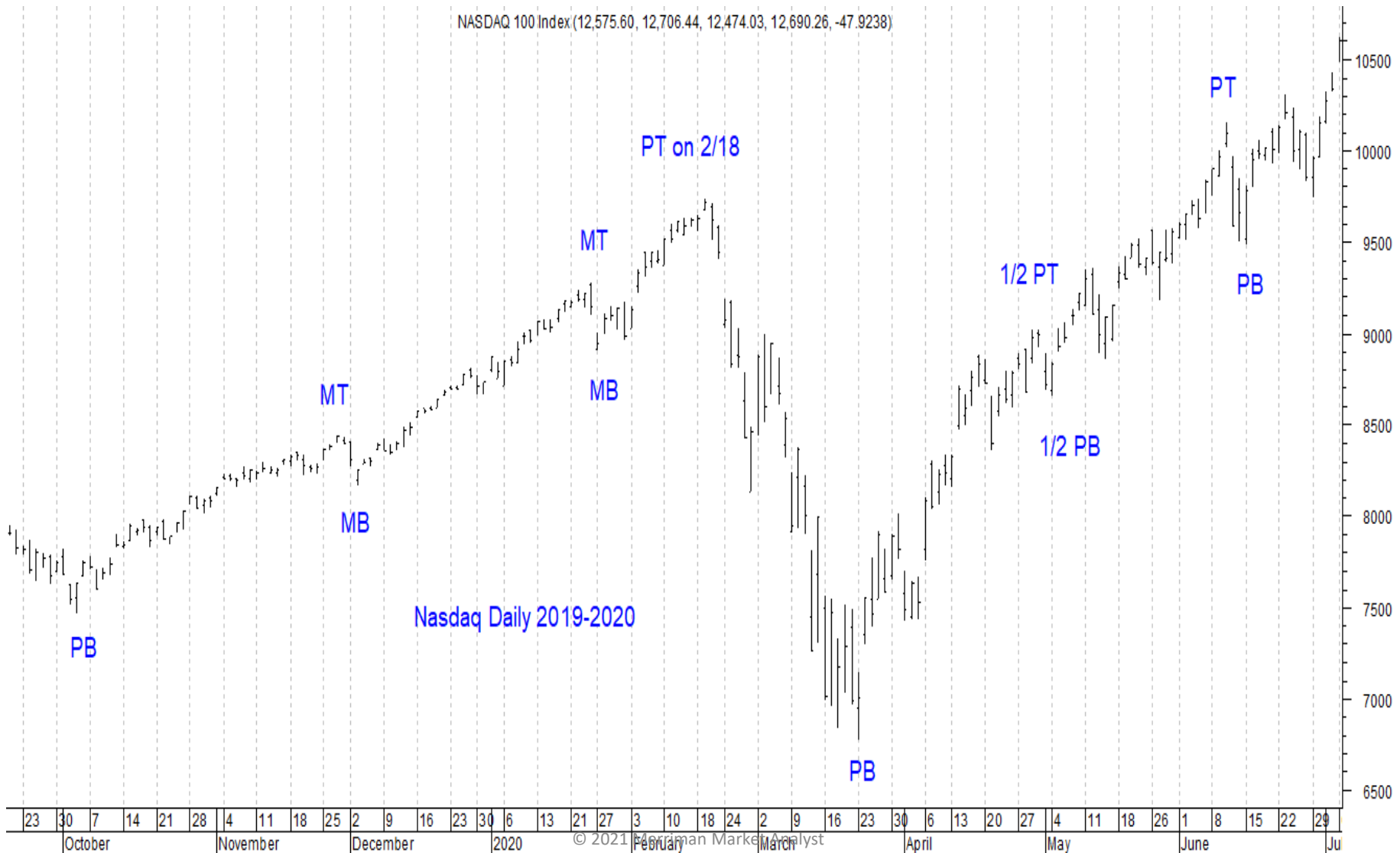
Often involves:

- A double top to one or both of the markets affected, especially when several weeks separate the two crests
- In that event, all points listed in double top chart pattern apply

Find the intermarket bearish divergence between Dow and Nasdaq in February 2020



Find the intermarket bearish divergence between Dow and Nasdaq in February 2020



QUIZ #16

Charting Studies to Enhance Cycle Labeling

QUIZ #16

1. What is a double bottom chart formation?
2. What is another name for the second bottom in a double bottom chart formation?
3. In a primary cycle, when is a double chart formation a most valuable buy indicator?
4. In a three phase pattern of any cycle type, where is a double bottom buy signal most likely to happen?
5. True or false: A double bottom to a primary cycle trough in the DJIA tends to occur about $2/3$ of the time?

QUIZ #16

6. What is a double top formation and what is the second top also known as?
7. True or false: A double top at a primary cycle crest in the DJIA happens less than 60% of the time?
8. What is an intermarket bullish divergence signal?
9. True or false: an example of two markets that could exhibit an intermarket bearish divergence signal with one another would be Soybeans and Crude Oil.
10. True or false: It is best if there is at least one week separating markets that exhibit intermarket bullish or bearish divergence.

End of Module Lesson

Break