

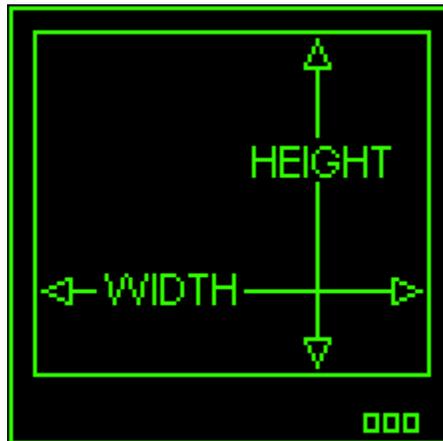


The Dow Theory

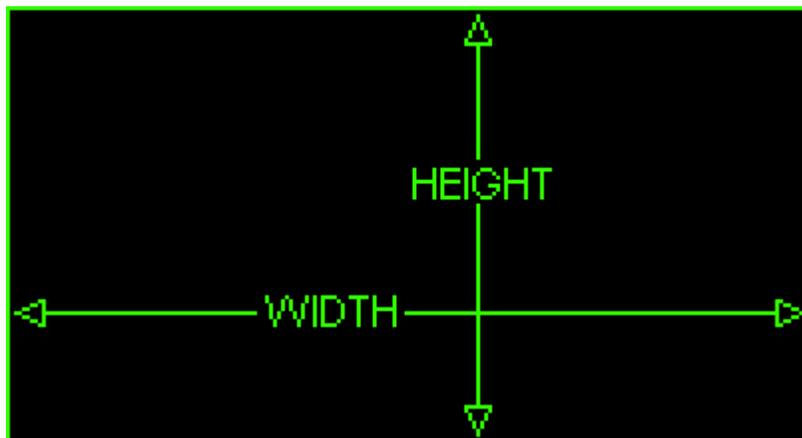
by www.surefire-trading.com

Ty Young

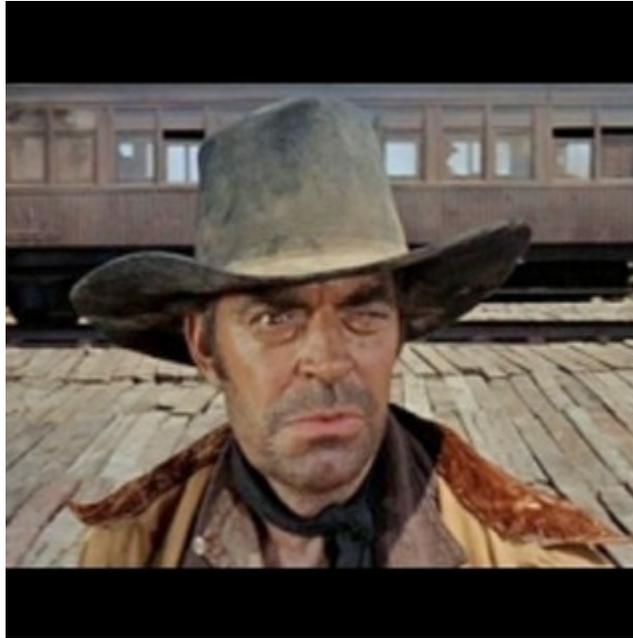
Anyone who's ever purchased a DVD knows the difference between a "wide screen" production and a "full screen" production. To elaborate; when a movie is viewed on the television which is modified to fully fit your screen, it looks something like this:



When viewed at the theater, we see more of a panoramic view, such as this:



In more visual terms, we have the difference between this:



And this:



Hi, this is Ty Young with Sure-fire Trading.com and today I will be discussing the basic principle behind the **Dow Theory**. Not unlike the examples given above,

In A Nut Shell

.....the Dow Theory is a line of thought that takes us outside the proverbial “box” – or outside mainstream economics; a school of thought which has come to be used for developing the heart and soul of technical analysis. Over-simplified, his principle best describes the markets in this way:

The market has three movements....

- The main movement”, which is better described as the major trend.
- The “medium swing”, where the market reverses its direction for a short period of time, which many have come to recognize as Fibonacci retracements.
- And the “short swing” , which are contrived of minor fluxuations in the market.

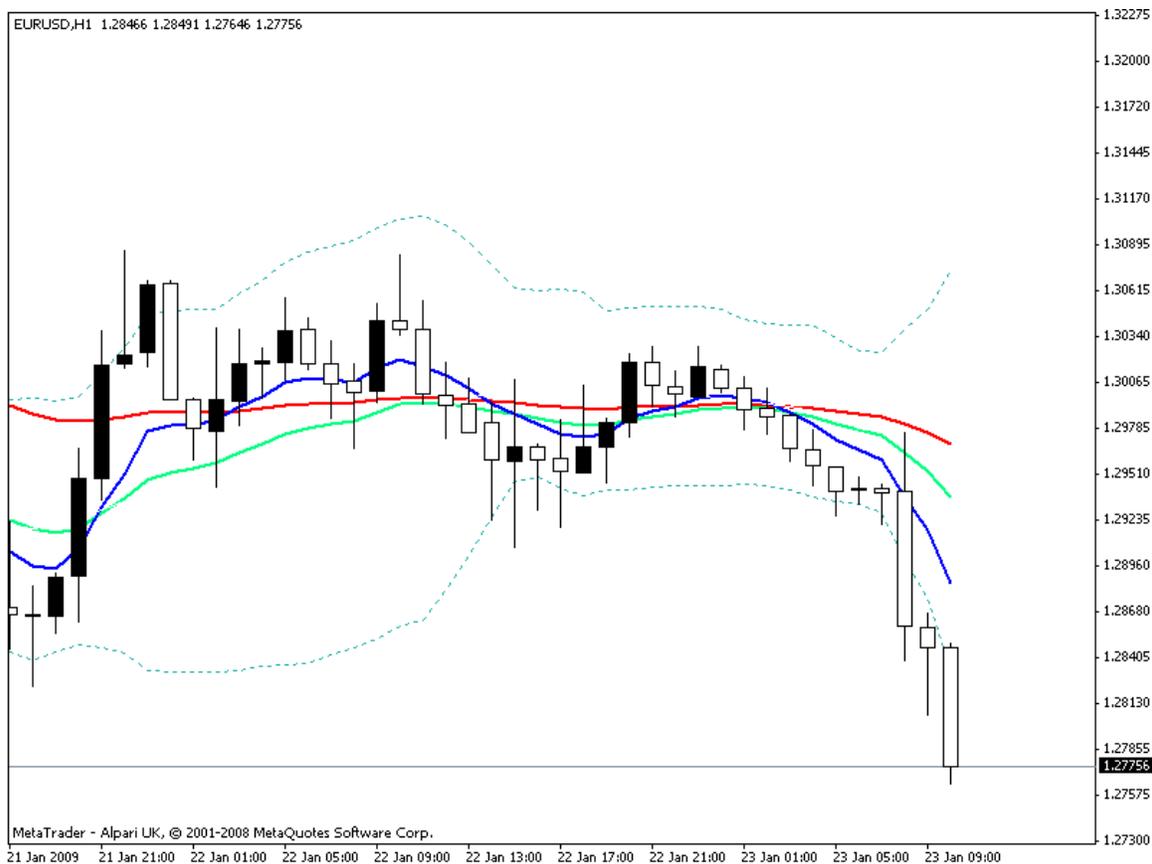
Fundamental traders like to qualify and explain market fluxuations with reasons that stem anywhere from short-term manipulation of the markets to world economic catastrophies.

As technical analysts, however, with the help of charts, we attempt to gain profits during bullish and bearish swings, simultaneously, within the confines of any major market trend by analyzing “past” price movement.

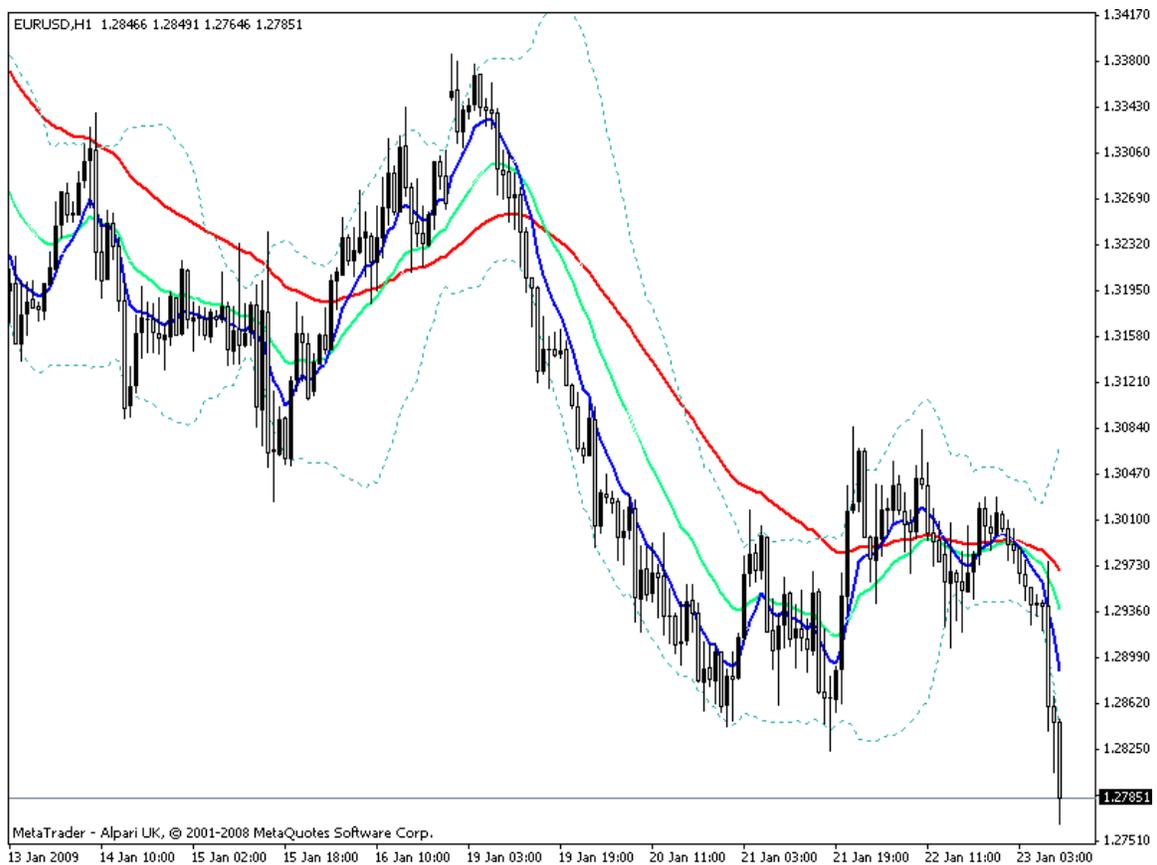
As we apply the Dow Theory to our technical analysis, we find that its application is best served if displayed on –

Multiple Time Frames.

In other words, we transition our charts from a “fullscreen” perspective to a “widescreen” perspective. For example, a 60-min. chart when decreased in size, expands from this perspective:



To This Perspective:



Both charts are 60-min. charts – but a broader view of the market is provided.

Now, what if we could display our charts in a way that would broaden our perspective in a far greater way?

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Let's assume you are about to take a roadtrip from Paris, France to Rome, Italy. Initially, we wouldn't pull out a map of Paris or of Rome, would we? In order to get our bearings, we would open an atlas such as this:



As we approach the border of Italy, we would open the atlas to a different perspective:



And as we approached Rome, we would look for an even more detailed perspective.....



Ultimately, looking at something like this:

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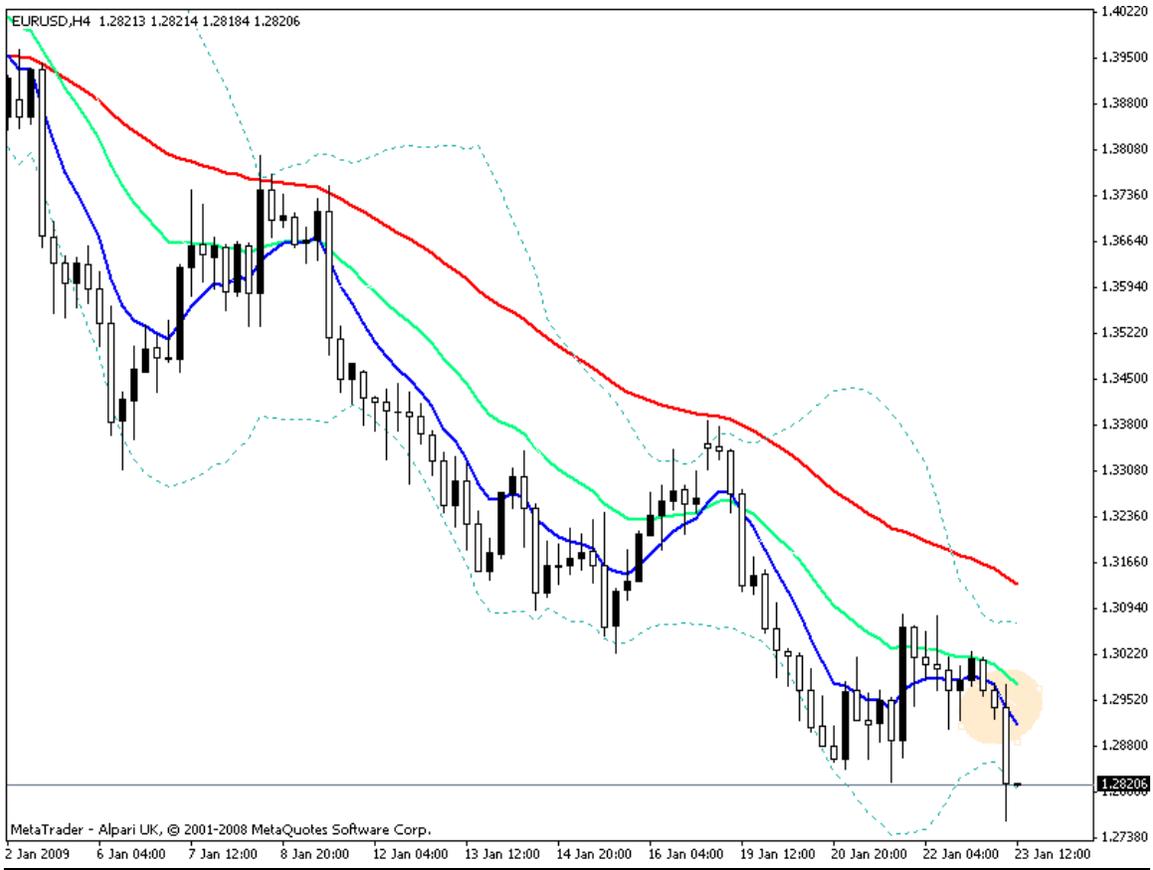


This is what **Multiple-Time Frame** trading is all about....

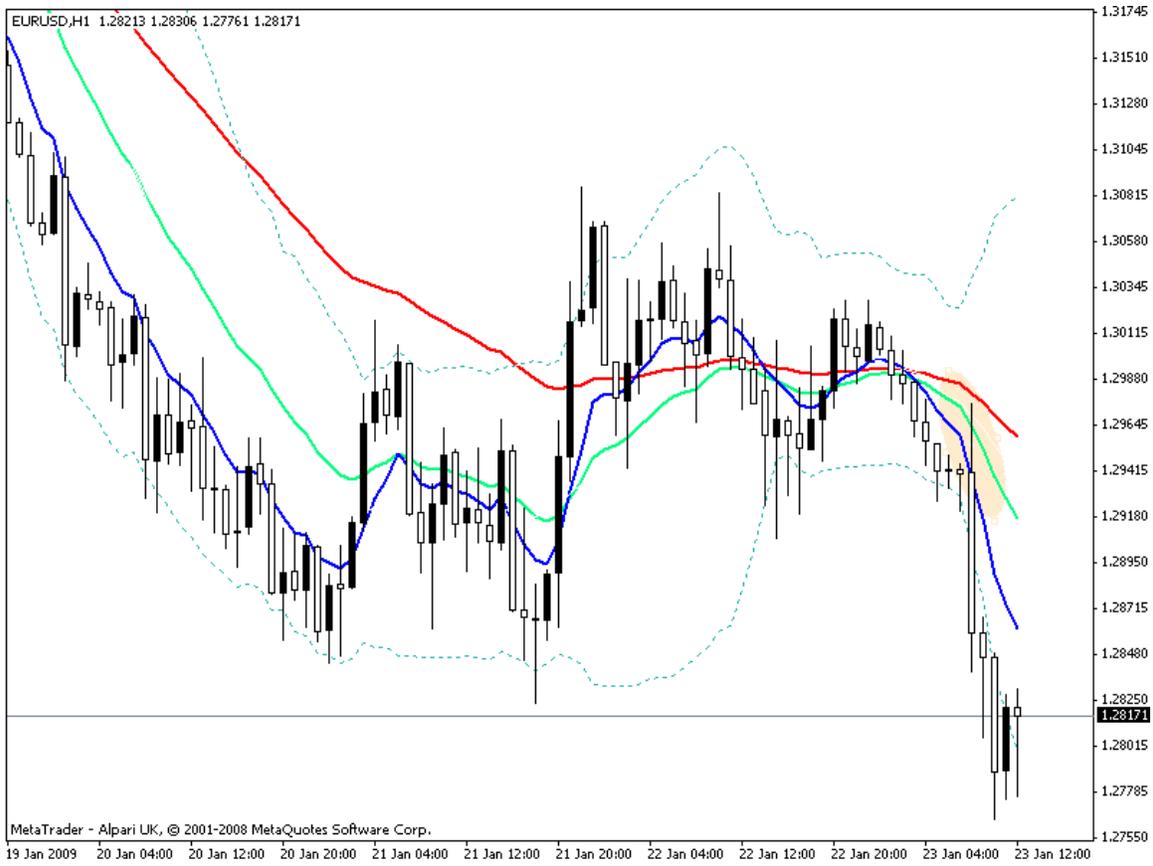
Giving us a “major” trend, a “medium” trend, and a “short” term trend perspective – providing us with an uncanny ability to profit from bullish and bearish swings.

Looking at some charts below, we have a.....

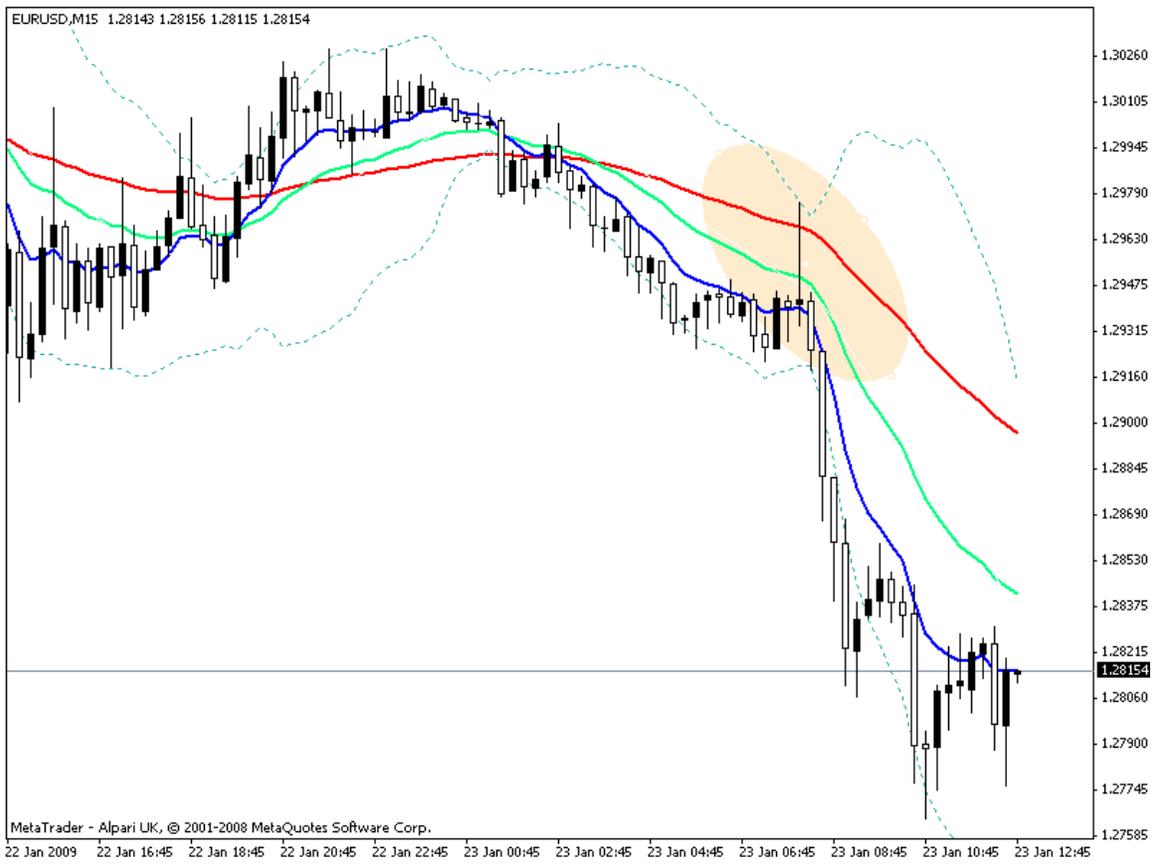
4-Hr. chart
(downtrend)



60-min. chart
(downtrend)

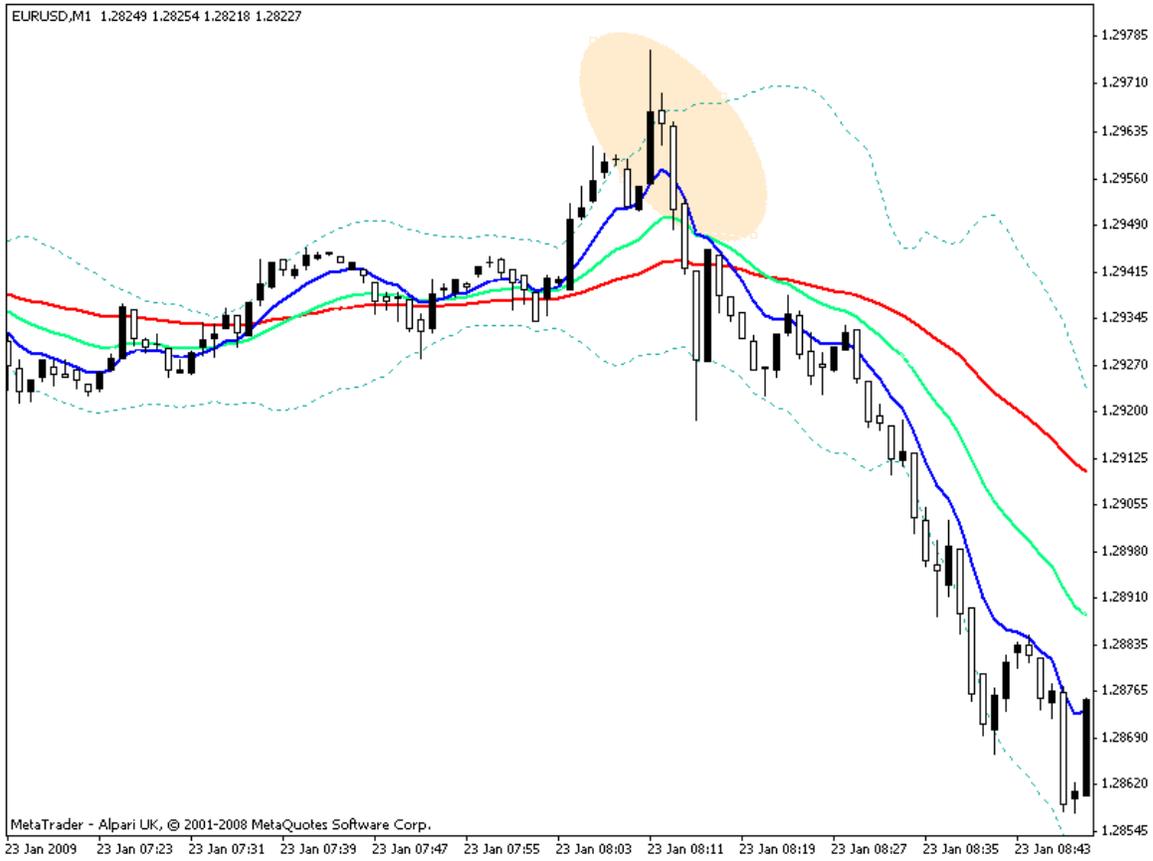


15-min. chart
(downtrend)

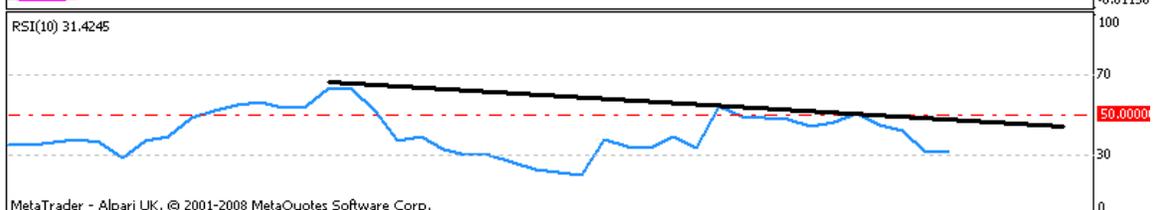
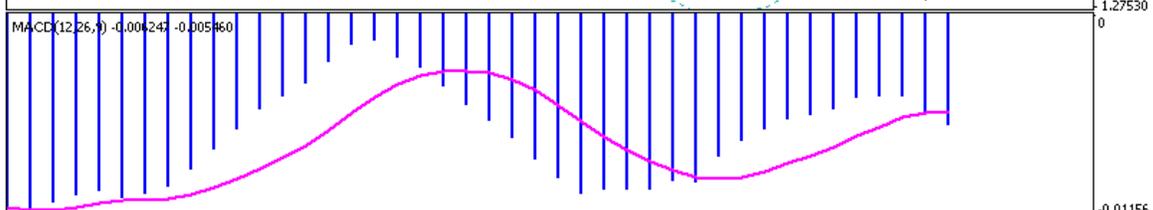
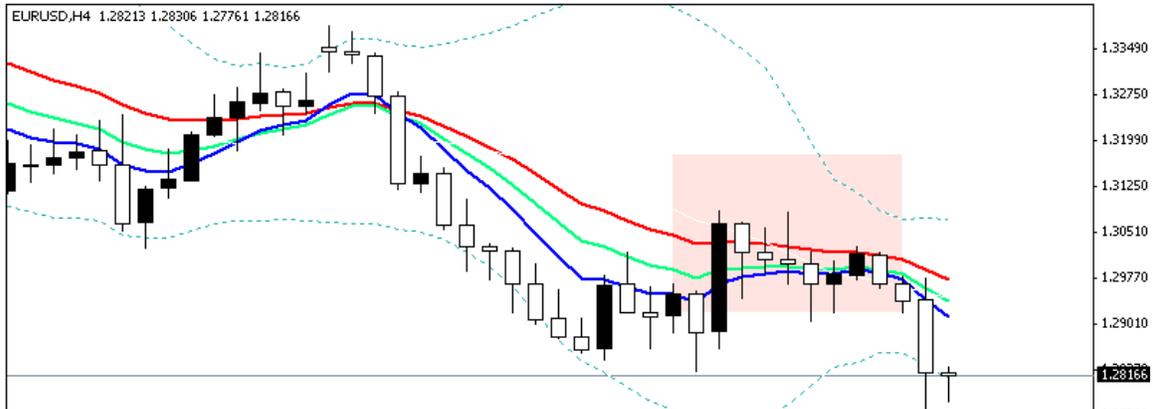


All three are in a “downtrend”....Oh my, I think I’ll be looking for a short order....what do you think? ☺

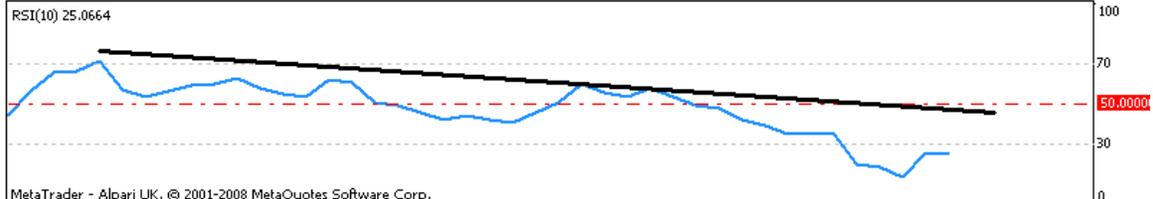
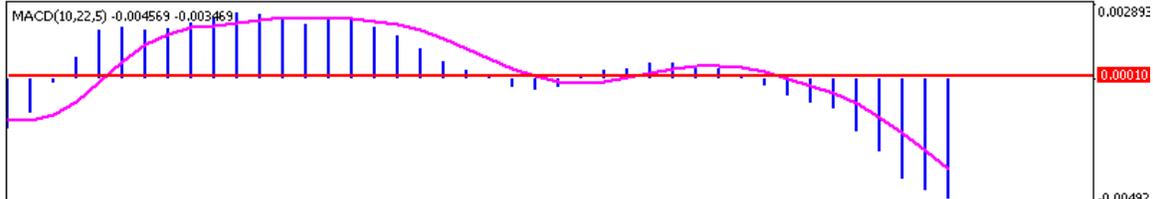
But since I’m a “day-trader”, let’s add the 1-min. chart as well...



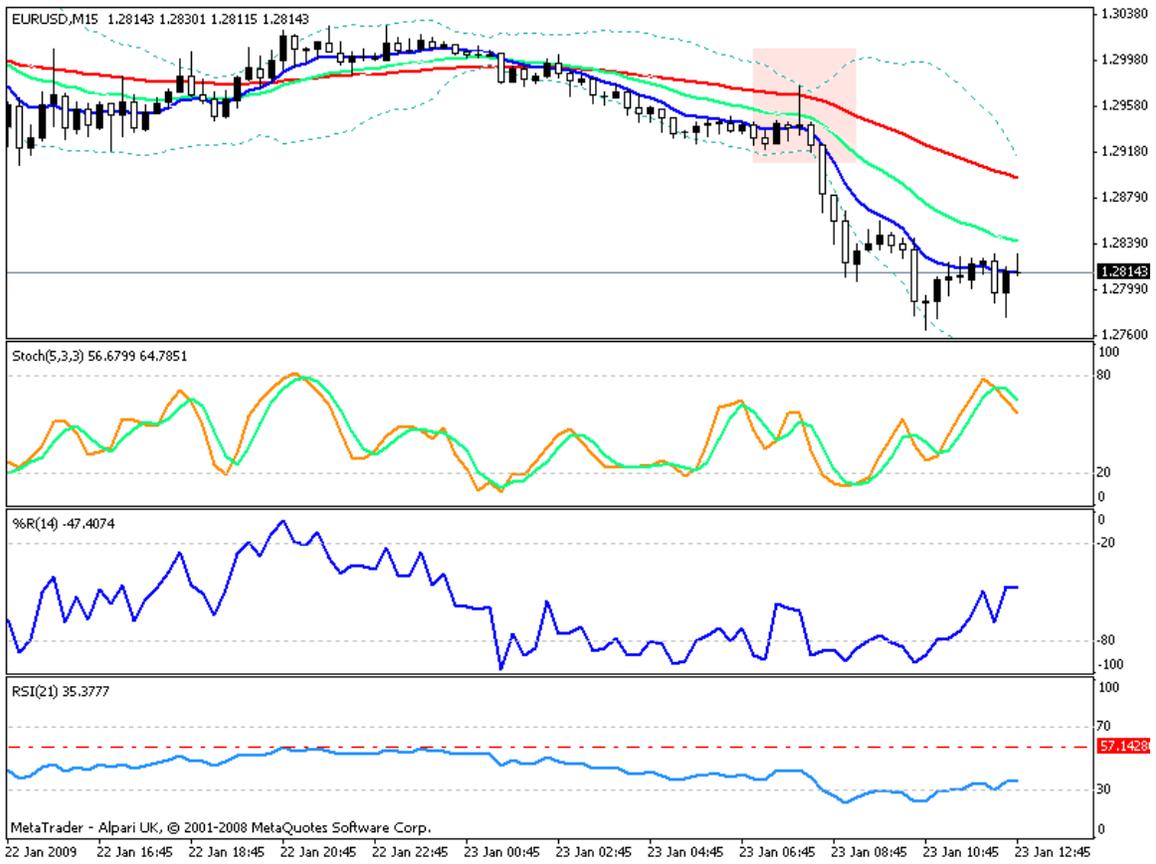
Now let's enlarge each one, and add some indicators.

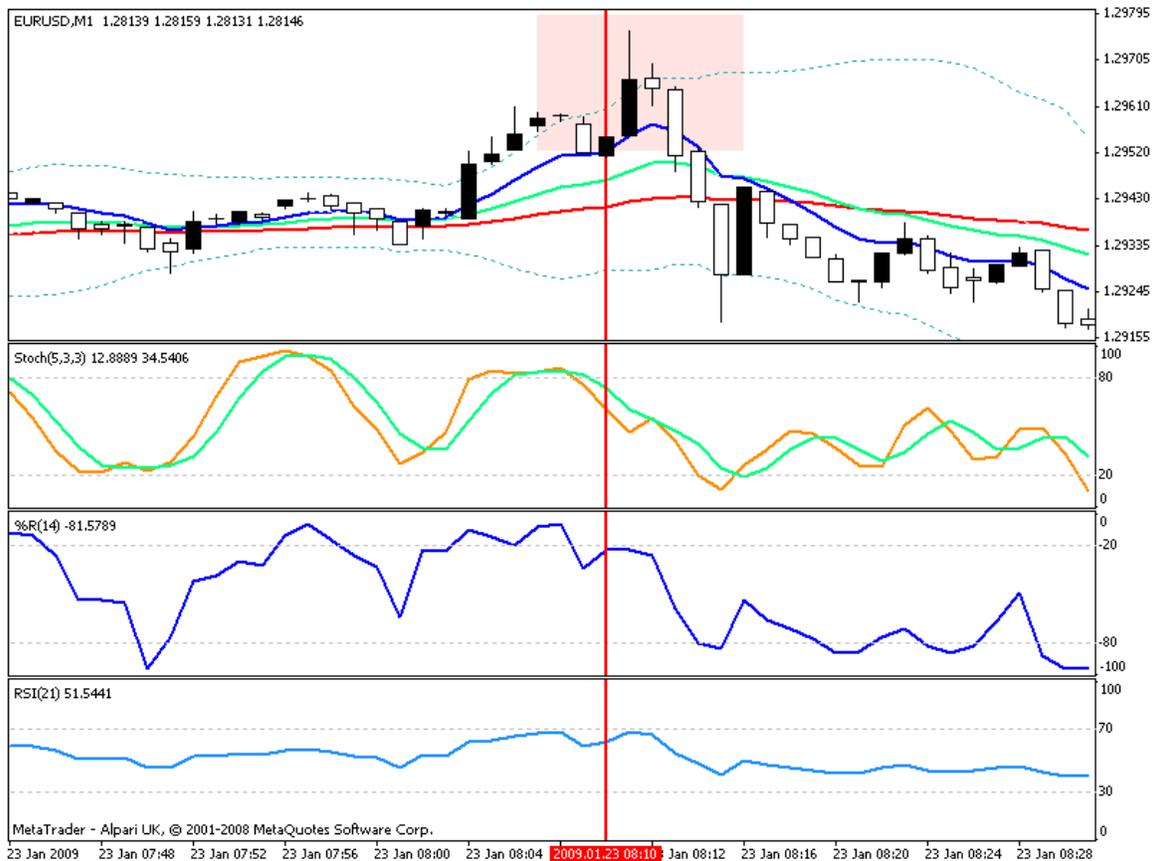


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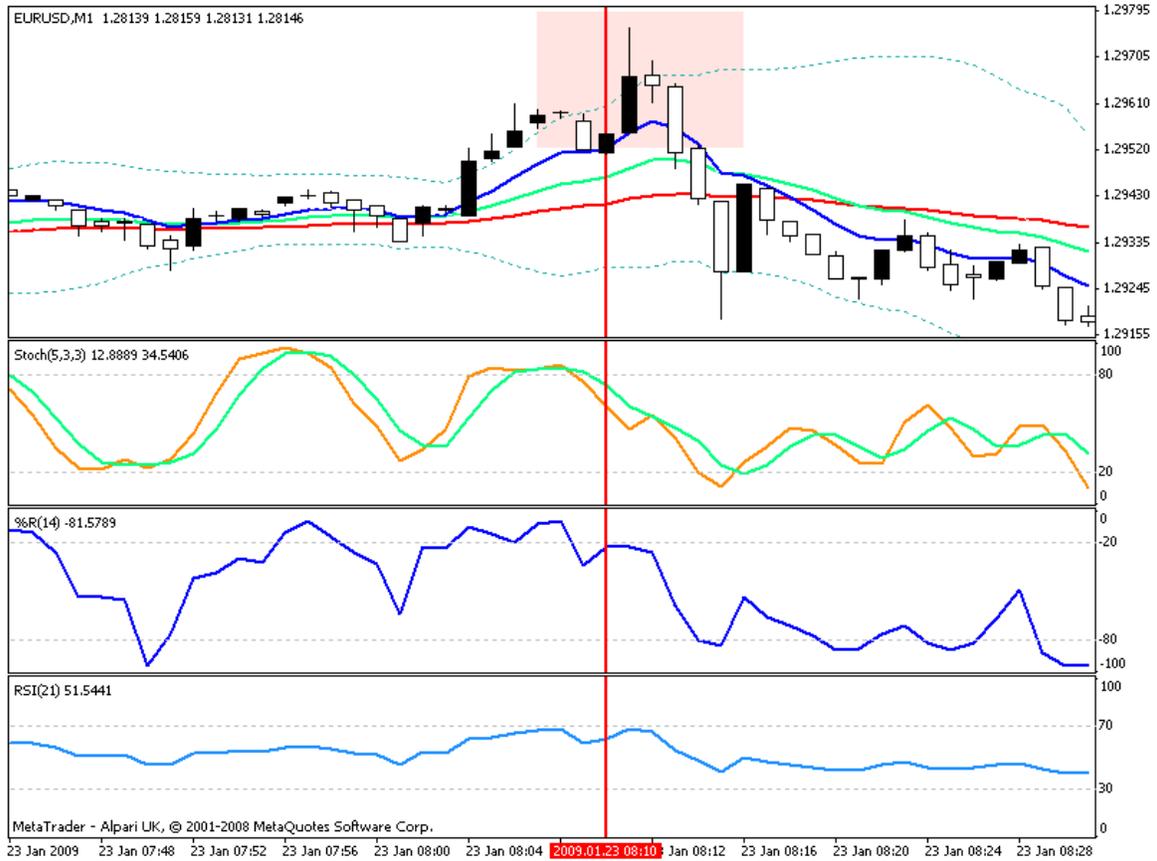
Analysis:

- 4-hr. chart: My EMAs (21,13,8) have been in a strong bearish sloping action, the MACD is below the zero line, and the RSI is not only below the 50 line, but it has remained below the RSI trendline (T/L). For some, watching the 4-hr. chart may have been sufficient for a short order, but since the Euro had been in a downfall for some time, it was important to me to see if the bears were weakening in their conviction...

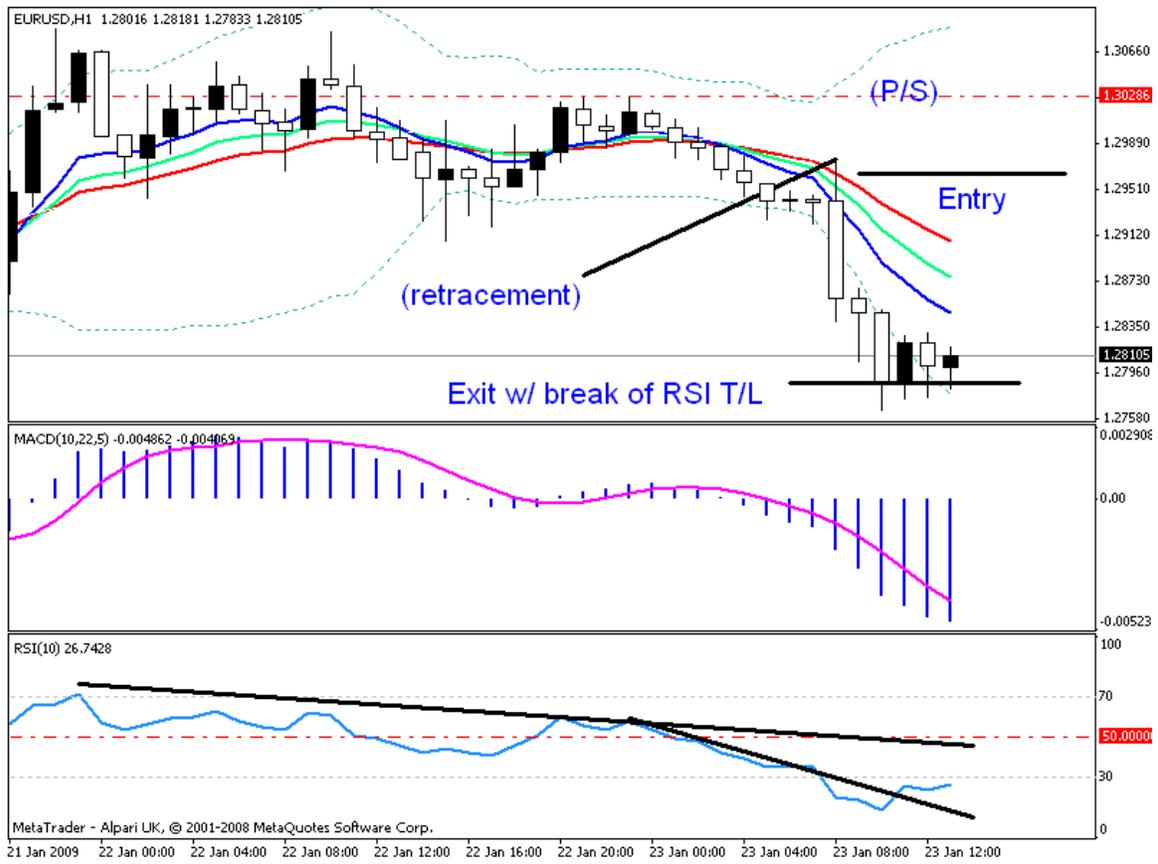
therefore, the importance of the “panoramic” view.

- 60-min. chart: The EMAs remain in a strong downward slope, MACD and RSI remain intact....below the water level.
- 15-min. chart: And all these indicators are likewise.
- 1-min. chart. Now here was the key to getting the best entry possible for this trade. The first three charts have each of the indicators on the BEARISH side of the market, correct? So, I know I’m looking for a short entry. However, the question is, “Do I want to enter the market while it is falling, or do I want to enter on the retracement; which is going to provide me with a greater profit? The obvious answer would be, “On the retracement”.

- And since all three time frames are in a bearish mode, I drop down an additional time frame....looking for “bullish” strength....yes, I said BULLISH strength. If I need the market to retrace from a bearish position, which direction would that be? Bullish, of course.



- The 1-min. EMAs are in a bullish slope, and each of the indicators is in overbought (O/B) territory.
- This strategy gained me about 200 pts. Had I not waited for the retracement, I would have profited 50 pts. less. Also, by waiting for the pullback, I shortened the distance between my entry and my protective stop (P/S) by 50 pts...decreasing my risk....pretty good, huh?



Take time to check out the video.....

With Sure-fire Trading.com, this is Ty Young. Reminding you to, "Read the charts".

Good Trading!!! ☺



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