



## Using Cycles A Brief Overview

I have been promising to do an overview of my cycles methodology, so in this issue I will attempt this explanation. As many of you may know, my cycles training came under the supervision of Walter Bressert. Rather than reinvent the wheel I decided to use a couple of diagrams and quote a couple of pages from Walter's book "*The Power of Oscillator/Cycle Combinations.*" This hopefully will give you a much clearer picture of the different cyclical relationships that are constantly at play.

*"Success in the markets requires adhering to the old adage of 'trade with the trend.' If the trend is up, buy the dips; if the trend is down, sell the rallies. What the trend was is relatively easy to see on a chart, what the trend will be is often another question. Foreknowledge of the trend, or of a trend reversal, is every trader's dream.*

*The use of cycles is one of the most powerful analytical tools for identifying trends and trend reversals. Once a cycle has bottomed, the trend will be up until the cycle tops; once the cycle has topped the trend will be down until the cycle bottoms. How long the trend will be up or down depends upon the length of the cycle.*

*Price activity of all markets is cyclical, and many cycles of different lengths may be affecting the price of a single market at any one time. Furthermore, markets are affected by both dominant and non-dominant cycles. A dominant*

*cycle is one that moves in and out of price activity, not always being visible or consistent, but, on occasion, causing a sizable price move.*

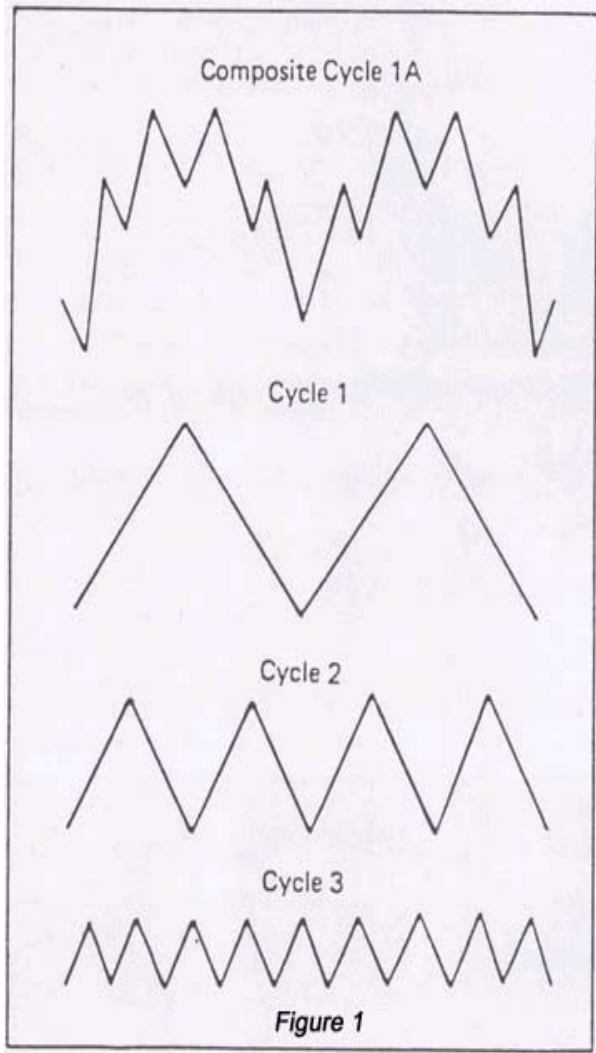
*A basic principle in cyclical analysis is to identify the longest dominant cycle affecting price activity, and then to work down, cycle by cycle, to the smallest dominant cycle. When the dominant long term cycles have been determined, they will provide an overview of expected price movement; then weekly and daily short term cycles can be used to determine when to enter and exit the markets, as well as to confirm tops and bottoms of the longer term cycles.*

*Each cycle has a trough (low) and a crest (high), and is measured from trough to trough (low to low). Most cycles are measured in calendar days, not market days, because cyclical action does not stop on weekends or holidays, even though the markets are closed."*

I agree with Walters comments about weekends and holidays; however, since the market does not trade on these days I choose to use trading days.

*"Most markets have a minimum of five dominant cycles affecting price activity, any one of which can be isolated, viewed, and measured. In the simplified example below (Figure 1 on page 2) three cycles have been combined to form the Composite Cycle 1A.*

Notice how the big cycle (Cycle 1) seems to lose its actual crests to a combination of Cycles 2 and 3. This interaction allows us to develop rules and guidelines for analyzing and trading the markets.



This method involves the isolation and use of the following dominant cycles, (refer to Figure 2, on page 3):

1. Long Term Dominant Cycles are longer in length than the Seasonal Cycle and establish the long term trend of the market. The long term cycles used in this method are 2-11 years long, but cycles as long as 50 years in length are also considered whenever historical data is available.

2. The Seasonal Cycle is the yearly cycle caused by anticipated and actual variations in supply and demand. It occurs in not only agricultural markets, but in most other markets including metals and financials. Seasonal Cycles follow rather reliable patterns and can be used with up to 90% accuracy. **It is for this reason that I concentrate so heavily on the quantification of this particular cycle.**
3. The Primary Cycle is the weekly cycle which determines the trend for most trades. Average lengths range from 9 to 26 weeks. One of the most important concepts of this method is to know the direction of the Primary Cycle and to trade in the same direction. Risks are reduced and the profit potential is increased because prices tend to have more sizeable moves in the direction of the Primary Cycle. **In the case of the stock market this is what I refer to as the 22-week cycle. I have changed the labeling on the original diagram in figure 2 to reflect my terminology.**
4. The  $\frac{1}{2}$  Primary Cycle averages one-half the length of the Primary cycle. Many, but not all stocks and commodities have a  $\frac{1}{2}$  Primary Cycle. Occasionally, positions may be taken against the direction of the Primary Cycle when trading in the direction of the  $\frac{1}{2}$  Primary Cycle. The Primary Cycle and the  $\frac{1}{2}$  Primary Cycle will normally top and bottom with a concurrent Trading Cycle, (see dotted-lines in Fig. 2). **In the case of the stock market this is what I refer to as the 10-week cycle. I have changed the labeling on the original diagram in figure 2 to reflect my terminology.**
5. The Trading Cycle averages approximately four weeks. It is the cycle used to determine the day to enter or exit the market. This is accomplished by analysis of the interplay between the two smaller cycles within the Trading Cycle, each normally one-half the length of the longer Trading Cycle. The Trading Cycle does not have its own crest. It will always crest at the same time as either

*the Alpha Cycle crest or the Beta Cycle crest. The Alpha and Beta Cycles are what I refer to as simply the 1/2 trading cycles. I have changed the labeling on the original diagram in figure 2 to reflect my terminology.*

*The Alpha Cycle is the first smaller cycle within the Trading Cycle. The Trading Cycle will always begin with a new Alpha Cycle.*

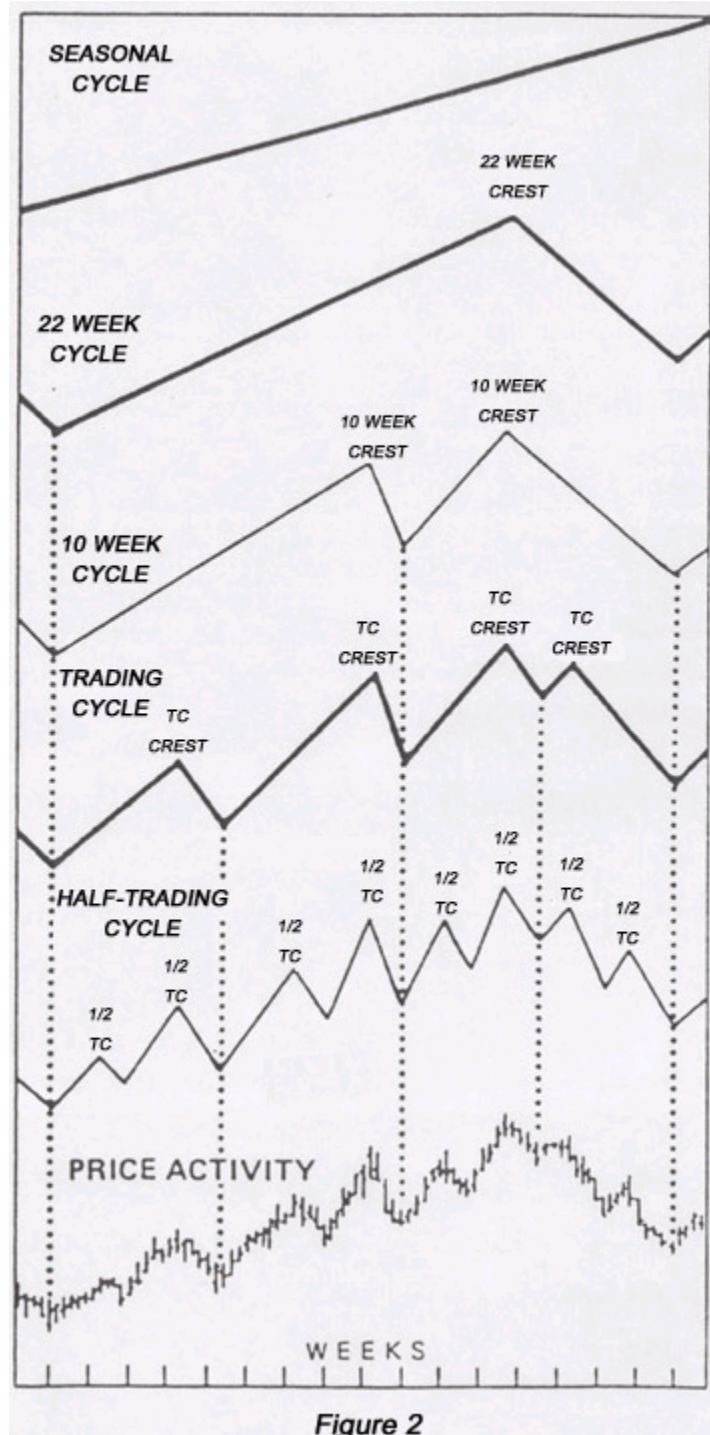
*The Beta Cycle is the second smaller cycle within the Trading Cycle and begins when the Alpha cycle bottoms. The Trading Cycle will always bottom when the Beta Cycle bottoms, (see dotted-lines in Fig.2).*

*An important characteristic of the Trading Cycle is its relationship with the next longer cycle, (Primary Cycle or 1/2 Primary Cycle). If the next longer cycle is moving up, the Trading Cycle tends to crest with the Beta Cycle crest. If the Primary Cycle or 1/2 Primary Cycle is moving down, then the Trading Cycle will tend to crest with the Alpha Cycle crest. This is called Right and Left Translation and is illustrated in figures 3, 4 and 5.*

### **RIGHT AND LEFT TRANSLATION**

Dominant cycles of different lengths interact in a predictable manner as each cycle is affected by the next larger cycle.

*The simple cycle in Figure 3 moves up and down from crest to trough, and trough to crest in a predictable rhythm with each high equidistant to the lows. When combined with a larger cycle this rhythm changes, but in a predictable and consistent manner.*



*In Figure 4, the trend of the larger cycle is represented by the parallel dashed lines. Figure 5, illustrates Right and Left Translation. The tops, or crests, of the smaller cycles shift to the right, exhibiting a cyclical characteristic called Right Translation, (see dotted-lines in Fig.5). Also, the bottoms, or troughs, of the smaller*

cycle are above the previous troughs, and the crests are above the previous crests.

When the larger cycle is moving down, the crests of the smaller cycle shift to the left exhibiting Left Translation. Also each trough is below the previous trough, and each crest is below the previous crest.

The following cyclic concepts can be applied to any two cycles, one being longer than the other:

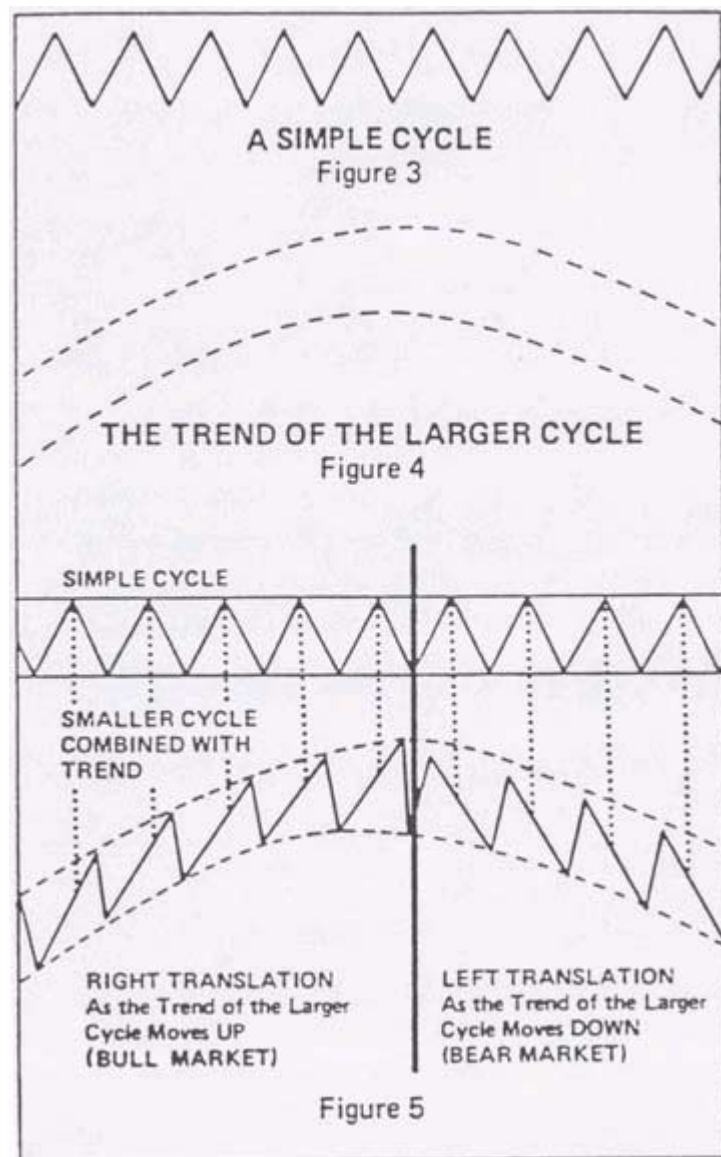
1. Right Translation – Higher crests and higher troughs occur in a rising market as the next longer dominant cycle is moving up...as the trend is up.
2. Left Translation – Lower troughs and lower crests occur in a falling market as the next longer dominant cycle is moving down...as the trend is down.
3. Each longer cycle determines the trend for the next shorter cycle.
4. If the direction of the longer cycle is known, then the trend is known for the shorter cycle.

The old adage—

Trade with the trend – If the trend is up, buy the dips; if the trend is down, sell the rallies.

Can be restated—

If the longer term cycle is moving up, buy the troughs of the shorter cycle; if the longer cycle is moving down, sell the crests of the shorter cycle.”



Unfortunately, this book “*The Power of Oscillator/Cycle Combinations*” is no longer in print. But, there are limited quantities available at the book store link available at the top of my home page. Also, Walter Bressert is supposed to be working on a new book and when it becomes available I will let you know. For now I hope this has helped with your questions on cycles. If you would like more information or wish to contact Walter please let me know and I will be glad to direct you.