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October 2004

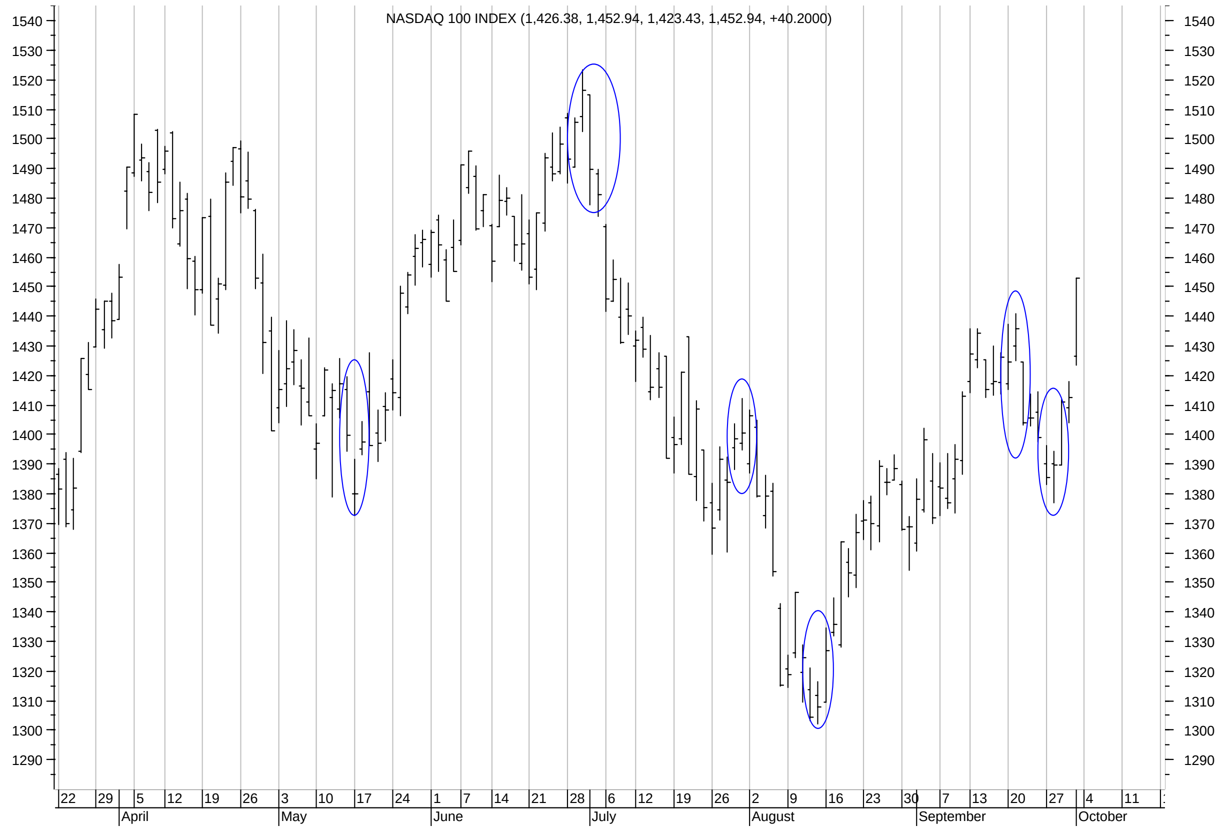
Using Swings, the Cycle Turn and the Trend Indicators

Swings

In the daily web based commentary I often talk about swing highs and swing lows. This is a very important concept and I continue to receive questions about it, so I decided to cover it again in this month's issue. All cycle tops, of all degrees, occur with the formation of a swing high and All cycle bottoms, of all degrees, occur with the formation of a swing low. You can have a swing high or low occur before you move into the cycle top or bottom, but you can't have a cycle top or bottom without a swing. We look for these swings as we approach cycle tops and bottoms. We also look for these swings to occur in conjunction with oscillator turns. When the timing for a cycle high or low is present, and we see the formation of a swing in conjunction with oscillator turns we have a high probability of a cycle high or low. We can then buy against that swing low or sell against that swing high. In other words, your stops are placed just above that swing high or just below that swing low. The logic being that we know all cycle tops and bottoms occur with swings. So, if we truly have the cycle top or bottom that swing should not be exceeded. If it is, then the cycle has not truly turned and you would thus want to exit your position until the next setup.

Now, what is a swing? A simple swing high is a three day event in which the intra-day high is higher than the intra-day high of the price bars to its right and left. Also, the intra-day low of the price bars to the right and left are lower than the intra-day low of the swing high. A swing high or low can be a 4 or 5 bar event. It does not have to be only 3 price bars. Swings occur on all charts on any time scale. It does not matter if it is a 1 minute chart or a monthly chart. All major turn points come with the formation of a swing. This sounds confusing, but a picture is worth a thousand words. See the daily NDX chart at the top of page 2. I have circled several examples of simple swing highs and lows.

If we now combine this concept with the turning of the oscillators we have a much more powerful tool. I have plotted the Cycle Turn Indicator in blue with price. As I have said before, this indicator is more sensitive on the daily scale and does produce premature turns. Remember, this indicator was originally developed to be used with the intermediate and longer term cycles. But, it does have its place on the daily scale. We just have to understand that it is more sensitive. In order to eliminate these premature turns on this level we have to combine these turns with the cycles work and the Trend Indicator which is plotted in green in the upper price window. Notice that this indicator eliminates most of the premature turns. So, when we combine the turning of both oscillators in conjunction with the formation of a swing high or low we have a much more meaningful tool.


NASDAQ 100 INDEX (1,426.38, 1,452.94, 1,423.43, 1,452.94, +40.2000)
April
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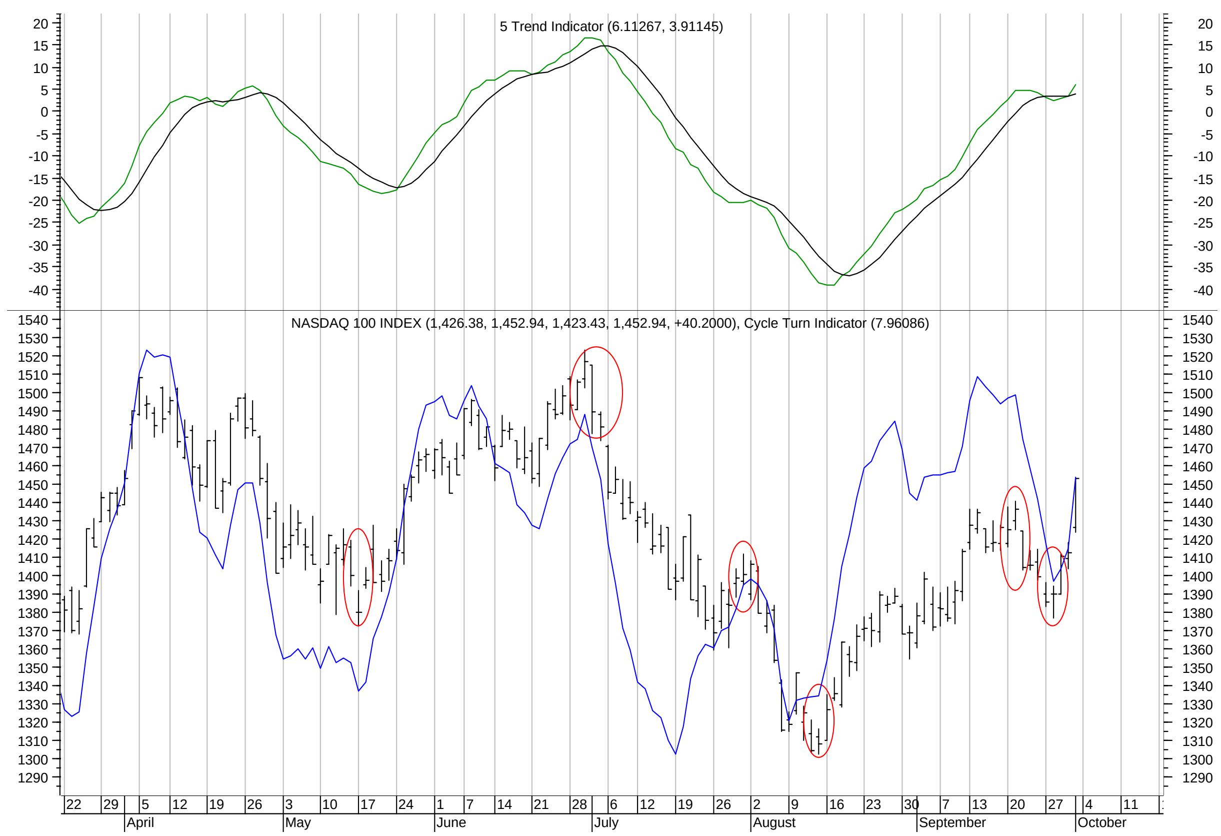
5 Trend Indicator (6.11267, 3.91145)
NASDAQ 100 INDEX (1,426.38, 1,452.94, 1,423.43, 1,452.94, +40.2000), Cycle Turn Indicator (7.96086)
April
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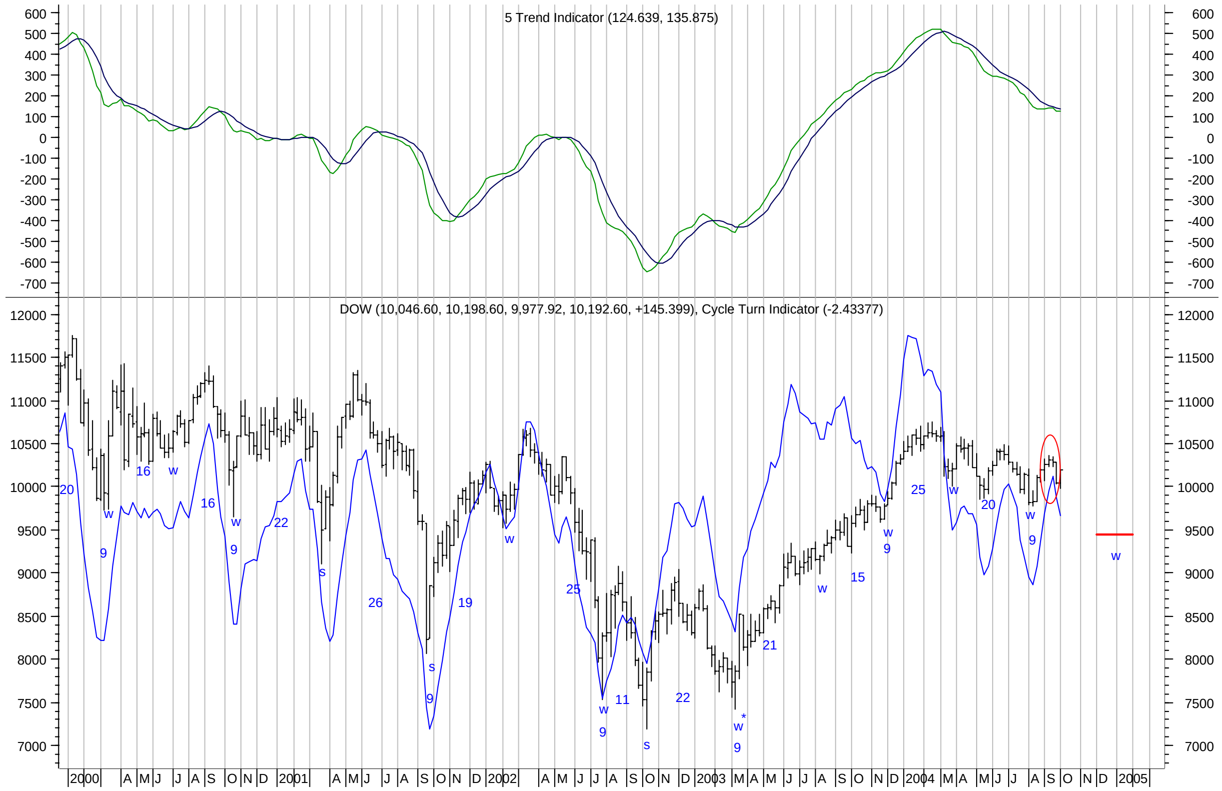

Now I want to walk you through this concept on the intermediate term scale. For this we will use the weekly DJIA chart at the top of page 3. For the sake of this example I am going to choose the March 2003 low as a starting point. Notice that both indicators turned up at these cycle lows in conjunction with the formation of a weekly swing low. Note that the Trend Indicator, the green one, remained positive until March 2004. As long as the Trend Indicator was positive, it was telling us that the down turns by the Cycle Turn Indicator (CTI), the blue indicator, were counter trend moves. So, according to the Trend Indicator the trend was positive between March 2003 and March 2004. When the Cycle Turn Indicator (CTI) would turn down during this period it meant that the downward move was a counter trend swing. Also notice that each turn by the Cycle Turn Indicator was accompanied by weekly swing highs and lows at the 10 and 22-week cycle lows. Once the CTI turned back up, in conjunction with the formation of a swing low, we knew that the counter trend decline was over and that the market was moving higher. In other words, as long as the Trend Indicator remains positive, one knows to buy the dips when a price swing low was formed and the more sensitive CTI turns back up.

This bring us to the February top. The swing high was completed the week of February 27, 2004. The CTI had already turned down and then on the week of March 12, 2004 the Trend Indicator turned down. At this point, the trend turned down and the strategy became to sell the top of any advance once the CTI turned down in conjunction with a swing high. This occurred at the April, June and more recently right at the September 10-week cycle top. I have circled the recent September weekly swing high.

So, the basis for this method is that we trade in the direction of the intermediate term Trend Indicator. We use the cycle turn windows in conjunction with the CTI and swings to identify market turns. If the Trend Indicator is down we look to sell the cycle tops when the CTI turns back down and a swing high is formed. If the

Trend Indicator is up we look to buy the cycle lows when the CTI turns up and a swing low is formed. We use the same method on the daily scale to help fine tune the intermediate term moves. This method of combining swings, cycles, the Trend Indicator and the CTI provides us with a very powerful combination of high probability turns.

Currently, the CTI and the Trend Indicator is down. But, if we see the price action next week hold above last week's low and exceed last week's high, we will have a weekly swing low in place and this could turn these indicators positive. If so, I would begin to look to the bullish side.

