

# Index

- Absolute positioning, 87  
Alternation, 173  
AUDUSD:  
    commercial traders and, 79  
    COT indicators and, 94  
    slow stochastics and, 136
- Banded oscillators, 117  
Baruch, Bernard, 1, 2  
Base currency, 42, 54  
BEA, 16, 18  
“The Best Trading Indicator—The  
    Media” (Noble), 53–54  
Black Swan event, 69  
BLS, 12, 25  
Bollinger, John, 138  
Bollinger bands, 138–141, 142, 144, 145  
Bolton, Hamilton, 131–132  
Bottom of market, 76, 79, 122, 183  
Brain, workings of, 10–11  
Bureau of Economic Analysis, 16, 18  
Bureau of Labor Statistics, 12, 25  
*Business Week*, “The Death of  
    Equities” cover, 32, 33
- Centered oscillators, 117  
CFTC, 70, 71, 72–73  
CHFJPY, slow stochastics and, 137  
*Christian Science Monitor* headlines,  
    64, 65  
Collective psychology, *see* Crowd  
    psychology  
Combining speculators and  
    commercials, 83–84  
Commercial positioning, 80–83  
Commercial trader, 75, 76, 77–78,  
    83–84  
Commitments of Traders (COT)  
    reports:  
        data warning of turn, 91  
        description of, 70, 73–74  
        open interest, 91–93  
        reading, 74–75  
        using with spot FX price charts,  
            75–76  
        web site, 70  
Commodity Exchange Act, 71–72  
Commodity Futures Trading  
    Commission, 70, 71, 72–73  
Composite COT:  
    chart example, 86, 87  
    filtering with percentile, 88  
    index for, 84–87  
    ratios for, 87–91  
*Conquer the Crash* (Prechter), 178  
Consecutive up and down periods,  
    146–149  
Consumer price index (CPI), 25–29  
Contrarian indicators:  
    Daily Sentiment Index, 97–99  
    magazine covers as, 31, 49–50, 53  
    news headlines as, 53–54, 67–68  
Core inflation, 27–28  
Correction:  
    flat, 161–162, 163, 164  
    wave C of flat setup, 173–175, 176  
    zigzag, 158, 161, 162  
COT, *see* Commitments of Traders  
    (COT) reports; Composite COT  
COT Index, 84–87, 89–90

- Counter currency, 42, 54  
CPI (consumer price index), 25–29  
Crowd psychology:  
    currency and, 178  
    Elliott and, 5  
    magazine covers and, 31  
    markets and, 154  
    pattern recognition and, 103  
    theories of economics and, 1–2  
    *See also* Elliott wave principle;  
        Herding instinct  
Currency:  
    base and counter, 42, 54  
    description of, 178  
Currency market:  
    *The Economist* covers and, 34–43  
    history of, 73–74  
    speculation in, 32–33  
    *Time* magazine cover and, 33–34, 35  
  
Daily Sentiment Index (DSI), 97–99  
“The Death of Equities” cover of  
    *Business Week*, 32, 33  
Degrees of trend, 175–176  
Diagonals, 155, 157–158, 159–160  
“The Disappearing Dollar” cover of  
    *The Economist*, 41, 42  
Divergence, 121–123  
Dollar:  
    Dow and, 101–102  
    multiyear forecast for, 179, 180  
Dollar Index (DXY):  
    chart of, 13–15, 46  
    consecutive down periods, 147  
    CPI and, 26  
    Employment Situation report and,  
        12–16  
    GDP and, 17–18  
    ratios and, 90–91  
    TIC and, 19–20, 24–25  
    trade balance and, 18–19  
    weekly bars with article numbers, 59  
Dow:  
    divergence and, 123  
    hourly bars, 156  
    U.S. dollar and, 101–102  
  
DSI (Daily Sentiment Index), 97–99  
DXY, *see* Dollar Index  
  
Economic indicators:  
    EMH and, 3  
    as fundamental, 4  
    fundamental analysis and, 9–10  
    gross domestic product, 16–18  
    inconsistency of, 1–2  
    myth of, 11–12  
    nonfarm payrolls, 12–16  
    problems with, 69–70  
    producer and consumer price  
        indexes, 25–29  
    trade balance, 18–19  
*The Economist* covers:  
    “*The Disappearing Dollar*,” 41, 42  
    “*An Economy Singed*,” 43–45, 48–49  
    “*Euroshambles*,” 37–39  
    “*The Falling Dollar*,” 50  
    “*Let the Dollar Drop*,” 39–41  
    “*The Panic About the Dollar*,” 48  
    “*Petropanic and the Pound*,” 34–35,  
        36  
    “*The Sadness of Japan*,” 41–43  
    “*Superdollar Overdoes It*,” 35–37,  
        50  
    “*An Economy Singed*” cover of *The  
        Economist*, 43–45, 48–49  
Efficient Market Hypothesis (EMH),  
    2–3  
Elliott, Ralph Nelson, 151–153, 176  
Elliott wave principle:  
    applications of, 154  
    basic five wave idealized pattern,  
        152  
    Bolton and, 131–132  
    catching wave 4 terminus, 172–173,  
        175  
    crowd behavior and, 4–5  
    diagonals, 155, 157–158, 159–160  
    differences between stocks and FX  
        in, 175–178  
    ending diagonal reversal, 172, 173,  
        174  
    flat, 161–162, 163, 164

- Elliott wave principle: (*Continued*)  
fractal nature of markets and,  
153–154, 155, 156, 179  
impulse waves, 155, 157, 158, 159  
mathematical basis for, 163  
motive waves, 154–155, 156  
multiyear forecasts and, 179–181  
1-2 base, 170–172  
ratios and, 168–169  
technical analysis and, 101  
top-down approach and, 178–179  
trading and, 169–170  
triangles, 162–163, 165, 166  
wave C of flat correction, 173–175,  
176  
zigzag, 158, 161, 162
- EMA (exponential moving average),  
109–112
- EMH (Efficient Market Hypothesis),  
2–3
- Employment Situation report, 12–16
- Ending diagonal reversal setup, 172,  
173, 174
- Equities market, *The Economist* cover  
and, 43–45, 48–49
- Equity curve comparison, 140, 141,  
142–145
- EURAUD, Bollinger bands and, 138
- EURCHF 60-minute bars, 166
- EURJPY daily bars, 160, 164
- Euromoney* headline, 62
- “Euroshambles” cover of *The  
Economist*, 37–39
- EURUSD:  
Bollinger bands and, 139, 140  
chart with composite COT, 85  
consecutive up periods, 147  
daily bars, 154  
divergence and, 122–123  
fear and, 146  
FXCM Speculative Sentiment Index  
and, 97  
momentum extreme and, 124  
moving averages and, 110  
overbought and oversold and,  
128–130  
rate of change, momentum, and,  
120–121  
risk reversal rate and, 99  
60-minute bars, 161  
slow stochastics and, 134, 137  
speculators and, 80  
240-minute bars, 157  
from 2004 top to 2005 bottom, 169  
weekly bars with article numbers, 55
- Exiting position, 141, 146–149
- Exponential moving average (EMA),  
109–112
- Extraordinary Popular Delusions  
and the Madness of Crowds*  
(Mackay), 1
- Extrapolation of trends, 40, 41, 47–49,  
50
- Fading existing trend, 170–175  
“The Falling Dollar” cover of *The  
Economist*, 50
- Fast stochastics, 133–134
- Fear in FX market, 146
- Fibonacci, Leonardo, 163
- Fibonacci sequence, 163–168
- Finance.google.com web site, 67
- Fisher, Mark, 114–115, 117
- Flat correction, 161–162, 163, 164
- Fractal nature of markets, 153–154,  
155, 156, 179
- Fundamental analysis, 9–10, 30
- Fundamentals, traditional, 4
- Futures trading, 71–73
- FXCM Speculative Sentiment Index,  
94–97, 98
- GBPCHF weekly bars, 163
- GBPJPY, slow stochastics and, 136
- GBPUSD:  
commercial traders and, 77  
COT indicators and, 93  
overbought and oversold and, 131  
pivot points, 116  
round number resistance for, 106  
weekly bars with article numbers, 58
- Golden ratio, 165–166

- Google Trends, 46, 50  
Gross domestic product (GDP), 12, 16–18  
Hedgers, 76, 77–78  
Herding instinct, 2, 3, 9–10, 11. *See also* Crowd psychology  
Human nature, Lefèvre on, 6–7  
Impulse waves, 155, 157, 158, 159  
Index, constructing, 84–87  
Inflation, 28–29  
Kepler, Johannes, 166  
Keynes, John Maynard, 83  
Lane, George, 131, 132, 135  
Lefèvre, Edwin, *Reminiscences of a Stock Operator*, 5–7, 9, 82, 183–184  
“Let the Dollar Drop” cover of *The Economist*, 39–41  
Limbic system, 10–11  
Limit oscillators, 117  
Livermore, Jesse, 5  
Logarithmic scale, 119–120  
*The Logical Trader* (Fisher), 114–115  
*Los Angeles Times* headlines, 56, 61, 63, 64, 65, 66  
Mackay, Charles, 1  
MacLean, Paul, 10  
Magazine covers:  
    *Business Week*, 32, 33  
    as contrarian indicators, 49–50, 53  
    mass psychology and, 31  
    trends, extrapolation of, 40, 41, 47–49, 50  
    *See also The Economist* covers;  
    News headlines  
Mandelbrot, Benoit, 153  
Market:  
    equities, 43–45, 48–49  
    fear in, 146  
    fractal nature of, 153–154, 155, 156, 179  
    stock, and waves, 175–178  
    *See also* Currency market  
Market dynamics, Lefèvre on, 5–6  
Market extremes, 83. *See also* Bottom of market; Top of market  
Momentum, 120–121  
Momentum extremes, 124–125  
Momentum indicator, 118–119  
Montgomery, Paul, 31  
Motive waves, 154–155, 156  
Moving average, 101–102, 109–112  
Neocortex of brain, 10–11  
*The New American* headlines, 61–62  
*New Concepts in Technical Trading Systems* (Wilder), 125  
News headlines:  
    as contrarian indicators, 53–54, 67–68  
    “dollar”/“plummet,” 65–66  
    “dollar”/“plunge,” 61–65  
    “dollar”/“surge,” 54–61  
    prognostications, 66–67  
    searching for, 67, 184  
    *See also* Magazine covers  
News release, timing of, 30  
*New York Times* headlines, 60, 61, 62, 63, 65, 67  
Noble, Grant, 53–54  
No-limit oscillators, 117  
Non-commercial trader, 75, 76, 78–79  
Nonfarm payrolls, 12–16  
1-2 Base setup, 170–172  
Open interest, 75, 91–93, 96  
Optimism, error of, 76, 79–80  
Oscillators, 117–121, 131–137  
Overbought and oversold concept, 128–131  
Overtrading, 169–170, 183–184  
Panic, 146  
“The Panic About the Dollar” cover of *The Economist*, 48  
Pattern recognition, 103–104  
Percentiles:  
    Composite COT and, 88, 91  
    overview of, 84–85  
    sentiment extreme and, 86

- Pessimism, error of, 76, 79–80  
“Petropolitan and the Pound” cover of  
*The Economist*, 34–35, 36  
Pigou, Arthur C., 2  
Pivot points, 112–114, 115, 116  
Pivot zones, 114–117  
Prechter, Robert, 10, 51, 178  
Price action, 152–154  
Process, developing, 184–185  
Producer price index (PPI), 25, 27,  
28  
Prognostications by media, 66–67  
Rate of change indicator, 119–121  
Ratios:  
for Composite COT, 87–91  
Fibonacci, 167  
golden, 165–166  
waves and, 168–169  
R-complex part of brain, 10  
Relative Strength Index, *see* RSI  
*Reminiscences of a Stock Operator*  
(Lefèvre), 5–7, 9, 82, 183–184  
Resistance, 105–108  
Reversals, trading, 124–125  
Risk reversal rate, 99–100  
Rolling pivot zones, 117, 118  
RSI (Relative Strength Index):  
description of, 125–128, 131, 133  
strategies, 139–141, 143, 144  
“The Sadness of Japan” cover of *The  
Economist*, 41–43  
Sentiment-based approach, argument  
for, 1–3  
Sentiment extreme:  
entry at, 149  
exiting position and, 146  
magazine covers and, 31, 50  
percentiles and, 86  
signs of, 183  
speculators and, 81–82  
Sentiment indicators:  
commercial and speculative  
positioning, 83–91  
Daily Sentiment Index, 97–99  
economic indicators compared to,  
69–70  
FXCM Speculative Sentiment Index,  
94–97, 98  
risk reversal rate, 99–100  
Simple moving average (SMA),  
109–112  
Slippage, 30  
Slow stochastics, 133–137, 142, 143,  
145  
Speculative positioning, 80–83  
Speculators, 76, 78–79, 83–84  
Spiraling wave, 177–178  
Spot FX price charts, using COT data  
with, 75–76  
Stochastic oscillator, 131–137  
Stock market, and waves, 175–178  
Strategy comparison, 140, 141, 142–145  
“Superdollar Overdoes It” cover of *The  
Economist*, 35–37, 50  
Support, 105–108  
Taleb, Nassim, *The Black Swan*,  
*The Impact of the Highly  
Improbable*, 69  
Technical analysis:  
changing trading methods, 103  
description of, 101, 103–104  
example of, 101–102  
support and resistance, 105–108  
Technical indicators:  
Bollinger bands, 138–141, 142, 144,  
145  
choice of, 104  
divergence, 121–123  
function of, 108–109  
momentum extremes, 124–125  
moving averages, 101–102, 109–112  
oscillators, 117–121  
overbought and oversold, 128–131  
pivot points, 112–114, 115, 116  
pivot zones, 114–117  
rolling pivot zones, 117, 118  
stochastic oscillator, 131–137  
time frames for, 104–105  
*See also* RSI  
*The Chronicle of Higher Education*  
headline, 64  
Third waves, 170  
TIC, *see* Treasury International Capital

- Time frame for technical analysis, 104–105
- Time* magazine, 33–34, 35, 50, 64
- Top-down approach, 4–5, 178–179
- Top of market, 76, 79, 122, 183
- “To Rescue the Dollar” cover of *Time*, 33–34, 35, 50
- Trade balance, 18–19
- The Trader’s Guide to Key Economic Indicators* (Yamarone), 13
- Trade Stocks and Commodities with the Insiders: Secrets of the COT Report* (Williams), 77
- Trading reversals, 124–125
- Treasury International Capital (TIC):  
banking claims and liabilities, 21  
derivatives holdings and transactions, 22–23  
DXY and, 19–20, 24–25  
nonbanking claims and liabilities, 21–22  
overview of, 20–21  
securities holdings, 23–24  
securities transactions, 24
- Trending strategies, 139–141, 142–145
- Trends:  
degrees of, 175–176  
extrapolation of, 40, 41, 47–49, 50  
fading existing, 170–175
- Triangles, 162–163, 165, 166
- The Triune Brain in Evolution* (MacLean), 10
- Turn, warnings of, 91
- “Uh-oh effect,” 36
- Unemployment statistics, 12–16
- USDCAD:  
consecutive up and down periods, 148  
COT indicators and, 95  
daily bars, 159  
momentum extremes and, 136  
monthly bars, 162  
overbought and oversold and, 132  
speculators and, 82  
support, resistance, and, 107–108  
weekly bars with article numbers, 56
- USDJPY:  
commercial traders and, 78  
consecutive down periods, 148  
COT indicators and, 92  
monthly bars, 180  
multiyear forecast for, 179, 180  
one-minute bars, 155  
overbought and oversold and, 130  
round number support for, 105  
240-minute bars, 158  
weekly bars, 165  
weekly bars with article numbers, 57
- Wall Street Journal*:  
“dollar”/“plummet,” 65–66  
“dollar”/“plunge,” 62–65  
“dollar”/“surge,” 54–61  
prognostications of, 66–67
- The Washington Post* headline, 65
- Wave C of flat correction setup, 173–175, 176
- The Wave Principle of Human Social Behavior* (Prechter), 10, 51
- Waves:  
degrees of, 176  
ratios and, 168–169  
spiraling, 177–178  
*See also* Elliott wave principle
- Wave 4 terminus, catching, 172–173, 175
- Wedge setup, 172
- Wilder, J. Welles, Jr., 125, 126, 127
- Williams, Larry, 77
- Wsj.com web site, 67
- Yamarone, Richard, *The Trader’s Guide to Key Economic Indicators*, 13
- Zigzag correction, 158, 161, 162