

THE KEVIN HAGGERTY
INNER CIRCLE
TRAINING PROGRAM

July 5th, 2005

1,2,3s

Seeing is believing when you learn about sequence and some of these powerful patterns. The examples are all positive, but as a trader, you understand that losses and getting stopped out are an integral part of the business. In the Marine Corps, we had a saying that "you don't have to sleep in the mud to know it's miserable," so I am not going to waste multiple pages showing you the same pattern both plus and minus. I will just present the charts and make a few comments about each one and stress any key points.

1,2,3s



1,2,3s

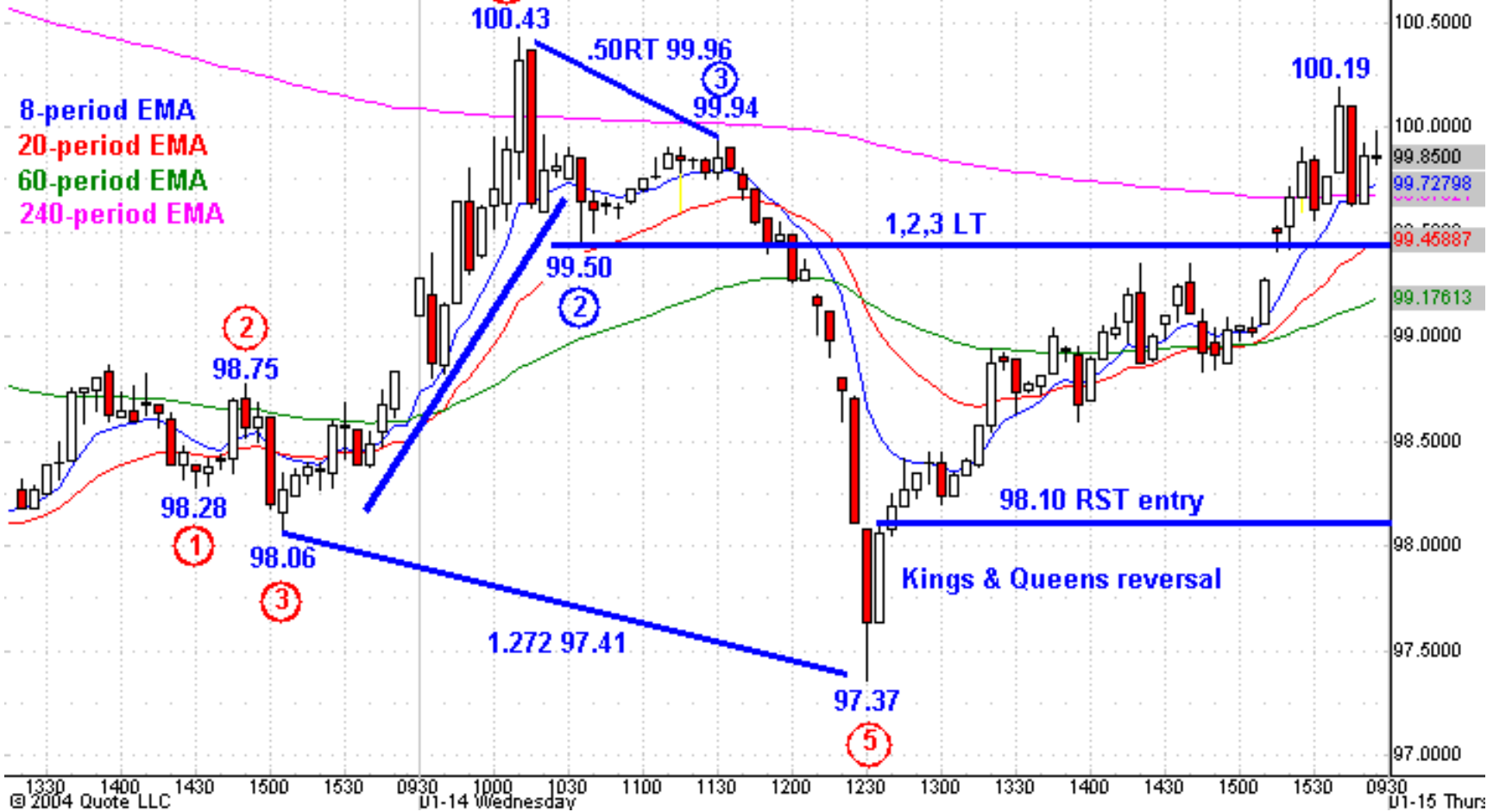
1. S&P 500 (SPX) Five-minute chart

This is both a 1,2,3 LB and an RST with a positive divergence in the 8,3,3 slow stochastic, as price declined to swing point 3. Entry for the 1,2,3 and RST were at the same level. The 1281 - 1282 level was the 1.0 VBand that day.

Note that the 11 - 12 point decline was significant relative to the intraday timeframe, and in fact, any move to a -1.0 VBand level is significant. Don't look for 1,2,3s and RSTs after a 4 - 5 point move unless it is a continuation of a leg from the previous day which, when combined, is a significant move. This is important to remember, as it is my experience with former students that after hitting a few home runs, they start to see 1,2,3s all over the chart, regardless of the significant decline/advance filters. Those little 1,2,3s you will see are just continuation moves making higher highs and lows, which is different than what you see on this chart.

1,2,3s

Centex (CTX)
Five-minute chart



1,2,3s

2. Centex (CTX) Five-minute chart

This is a 1,2,3 LT that becomes an RST buy pattern in confluence with a sequence tool.

After an advance to 100.43 from 98.06, CTX breaks a logical trendline, then retraces to 99.94 vs. the .50RT to 100.43 of 99.96. Price declines below the swing point 2 low to the 97.37 low, which is the 1.272 Fib extension of the leg up from 98.06 to 100.43. This sets up the RST buy pattern once price declined below 98.06. There is a Kings & Queens reversal-bar entry above 98.10, and you get another excellent move. You took the sequence pattern entries and then got lucky with the extent of the move in each direction. Of course, you cannot get lucky unless you take the trade.

1,2,3s

Nasdaq 100 Trust Series (QQQ)
120-minute chart

5-period EMA
20-period EMA
34-period EMA



1,2,3s

3. Nasdaq 100 Tracking Stock (QQQ) 120-minute chart

Traders should also utilize the 30-, 60- and 120-minute timeframes when looking for trade setups because they offer the kind of defined patterns that can be beneficial to both daytraders and position traders. On the 120-minute, I use the 5, 20 and 34 EMAs as the equivalent of the 20, 50 and 200 EMAs on the daily chart. The trends are clearly defined using this combination. The chart shows you a 1,2,3 LT that made a .786RT (3) to the swing point 1 high at 38.85, then gave you a trend entry below 37.80 (swing point 2). This trend entry was below all of the EMAs which, as you can see, were rolling over at the 38.65 retracement level.

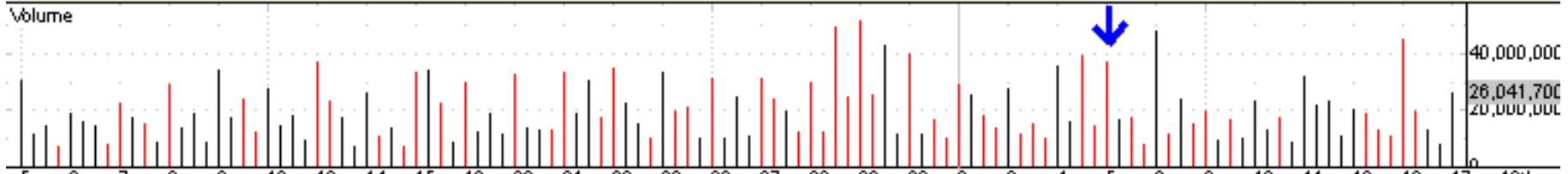
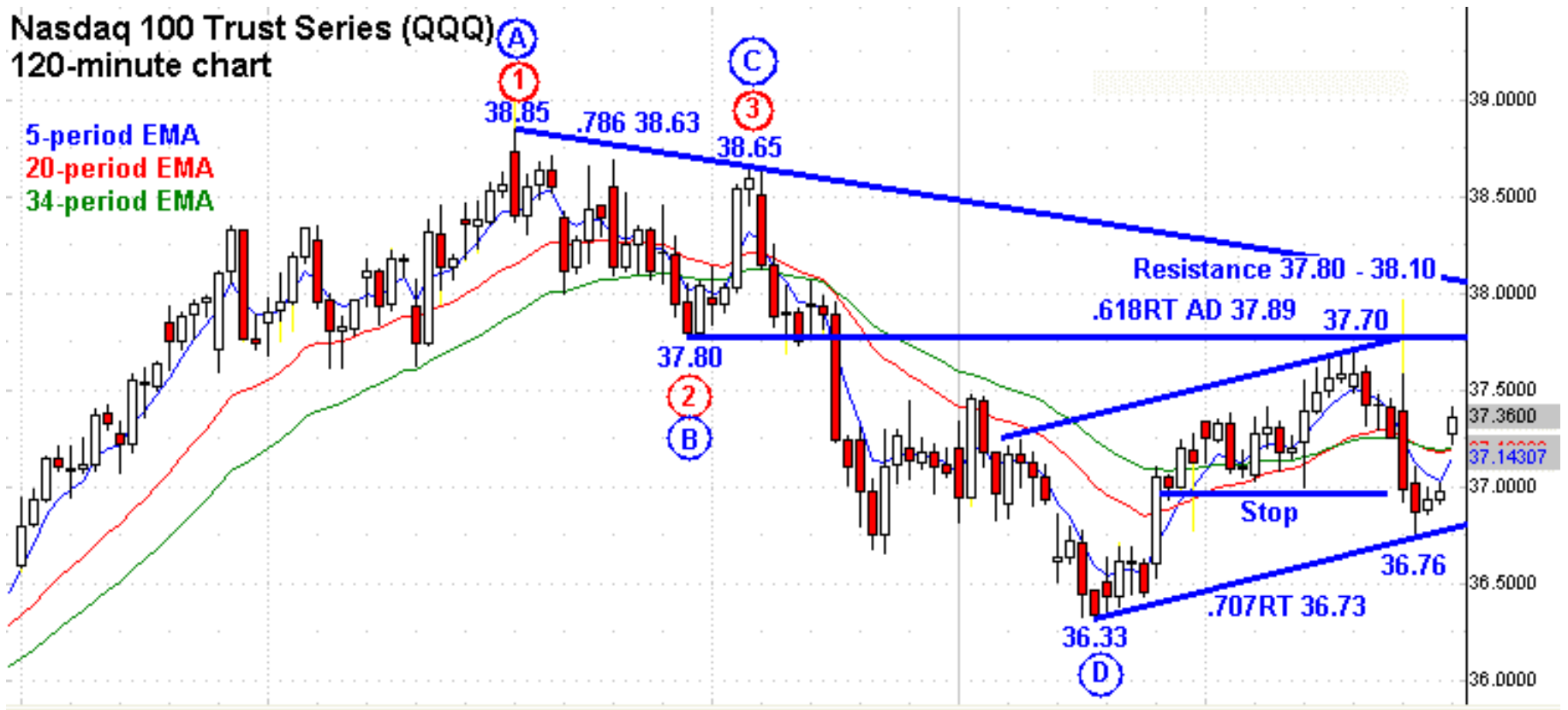
The QQQ proceeded to trade down to 36.33 over a five-day period, with a five-day RSI below 20 and support from 36 - 36.50, a previous 12-week trading range. The sequence was a 2.618 Fib extension, 36.42, of the BC leg. It was also at the 2.0 STDV of the regression channel (20-day). Range narrowed and there was a spike in volume, so that was a positive dynamic, in addition to the sequence.

Once you got long the QQQ for a position trade at that level, you should be anticipating the next resistance. You look for resistance at the 37.80 level from the trend entry. The big trendline is about 38.10. Also, you frame the retracement levels to the 38.85 high from 36.33. (You can frame levels to 38.65 also.) There is confluence at 37.89, the .618RT to the 38.85 high.

1,2,3s

Nasdaq 100 Trust Series (QQQ)
120-minute chart

5-period EMA
20-period EMA
34-period EMA



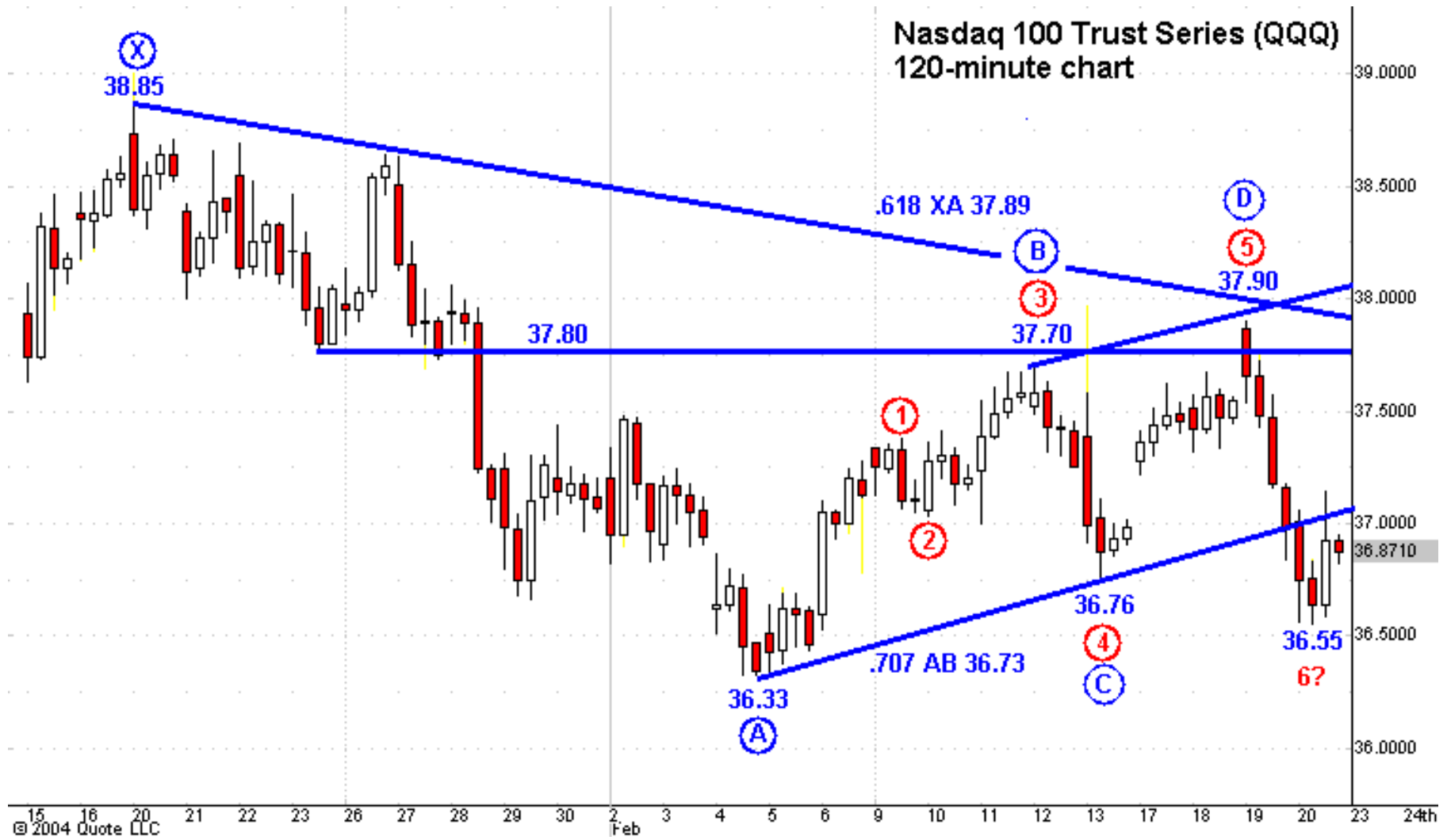
1,2,3s

Price rallies to 37.70 and then reverses (37.76 is the .618RT to 38.85), so the initial resistance levels held. It was a +3.8% move from 36.33 to 37.70 in four to five days, so some would exit the trade on the reversal from the initial resistance. If you remained bullish, you might have sold half of your position with your stop now at least up to 37, the bottom of that 12-bar range.

The QQQ traded down to 36.76, the .707RT zone to the 36.33 low and then reversed back up. Maybe you took another position with a stop under 36.76, so you connect the two low swing points at 36.33 and 36.76, draw your trendline, and then a parallel line across the 37.70 high point. You recognize this kind of channel from the parallel line section. 36.33 to 37.70 would be your new AB leg; 37.70 to 36.76 the BC leg, and now you anticipate the CD leg. The channel takes you right up to the 37.80 - 38.10 zone.

My objective is to demonstrate that the sequence, pattern and thought process are all relative to each other and that combination followed over multiple trades is the major edge.

1,2,3s



1,2,3s

Sequence trading is a dynamic process of taking trades in both directions, and it wouldn't be fair if I didn't show you what happened to the QQQ over the next four days. I have labeled the new parallel line sequence, starting with the 36.76 low. Take a look at the previous chart first and then this one, and it should be obvious how the sequence played out.

The QQQ made a +3.1% move up to 37.90 right into the .618RT to 38.85 (37.89), in addition to the down trendline and parallel line objective. This was the end of the run, as the RST sell pattern set up right in the sequence zone. Price declined -3.6% to 36.55 the next day, and the RST buy pattern set up with entry above 36.82, trading up to 37.15 and closing at 36.87 on 02/20/04.

1,2,3s

Key Point: Each move emanated from a sequence setup, and by approaching it that way, you eliminate all of the noise and emotion. It doesn't matter whether you are daytrading or managing your IRA/401(k). Sequence looks at all timeframes the same way: "high probability."

1,2,3s

Looking at the markets with sequence eyes enables you to pick your own timeframe, in addition to using any of your own strategies. You can daytrade, swing trade and apply sequence to your longer-term investments in your IRA and maybe 401(k) if you have mutual funds. The next actual example is the Intel (INTC) March retracement to the October 2002 12.95 low in both the weekly and monthly timeframes. After you check the sequence, I will give it some more color.

1,2,3s

Intel (INTC) -- Weekly chart

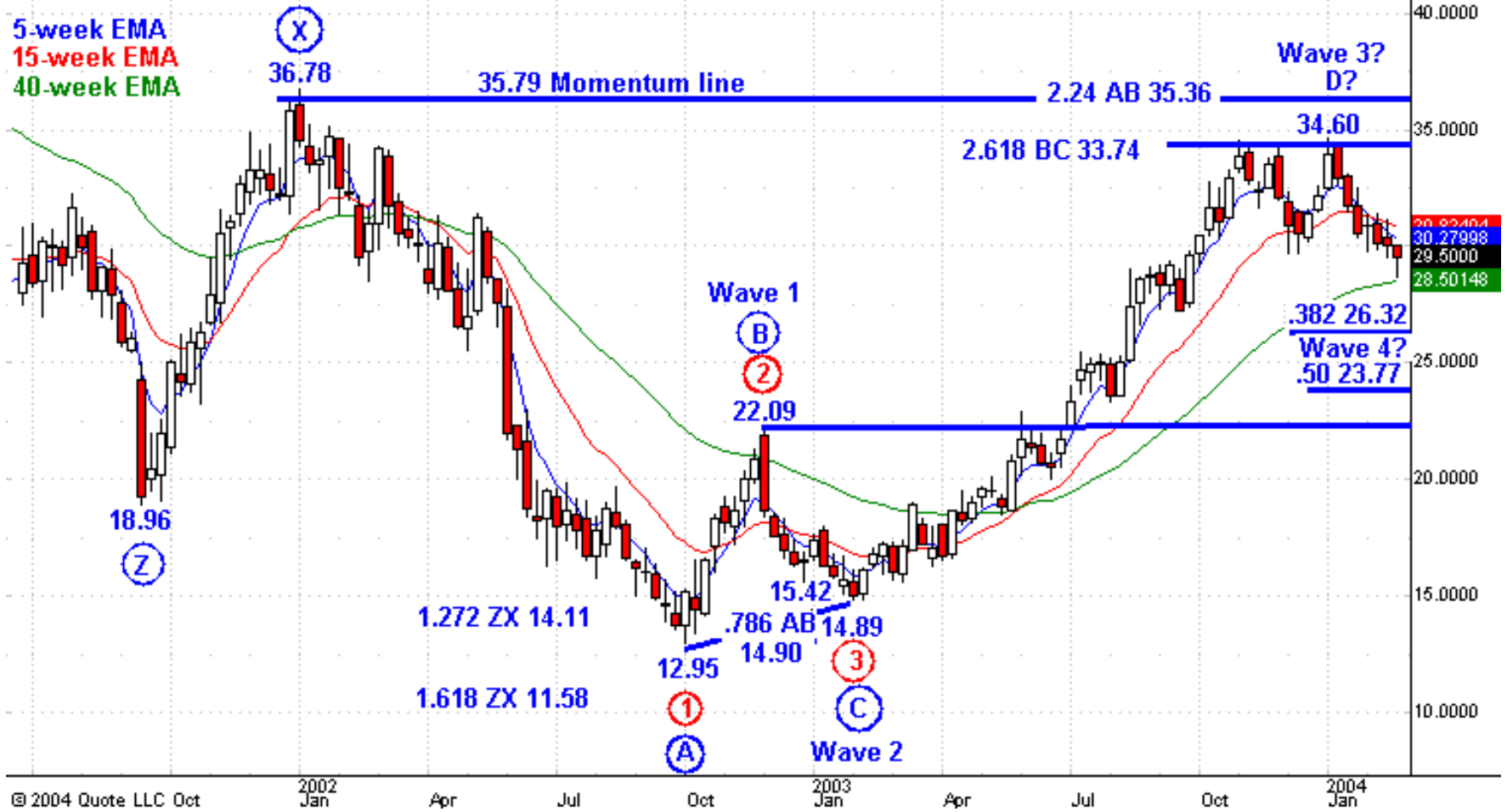


1,2,3s

- INTC makes a 12.95 bottom in the middle of the 1.272 and 1.618 Fib extension zone of the ZX leg (18.96 - 36.78). This low was almost out to the 3.0 STDV band.
- After breaking the logical trendline, it trades up to 22.09 (.382RT XA = 22.05) and then reverses, so now you are anticipating a potential 1,2,3 pattern, but you can't know that for sure.
- The .707 retracement to 12.95 is 15.63, and the hammer-bar low is 15.42. The very next bar was an entry you could take, which was above the 16.85 high of that hammer bar with the 15.42 low. INTC traded to 18, but reversed. 18 was +6.8% above your entry, so at worst, your stop had been moved to breakeven.
- After the 15.42 low was taken out, there was another reversal-bar setup when INTC hit a 14.89 low right at the .786RT of the AB leg (12.95 - 22.09). Entry was just above 16.20, and the stock ran to a 34.60 high in January 2004 before closing at 30 on 02/20/04.

1,2,3s

Intel (INTC) -- Weekly chart



1,2,3s

- When the 22.09 high was taken out, all three swing points were confirmed. It also established Elliot Wave 1 and 2, and INTC had begun Wave 3, the strongest wave.

Key Point: 1,2,3 higher bottoms give you early entry into what might be a powerful Wave 3 of a 5-wave pattern.

1,2,3s

Intel (INTC) -- Weekly chart



1,2,3s

- INTC began a strong trend move that remained almost entirely above a sharply rising five-week EMA.
- You can see that the stock has met strong resistance in the 34 zone. The sequence is the 2.618 BC at 33.74 and 2.24 AB at 35.36. There is also a 35.79 momentum line, the high close of the +94% advance from 18.96 to 36.78.
- Once you had taken the trade, you should have anticipated all of the Fib extension levels above 22.09. The 1.272 BC was 24.05, and you can see there was congestion at that level, and then the 1.618 at 26.50. You would also have framed the retracement levels to 36.78 and then to the 75.81 all-time August 2000 high.

1,2,3s

Intel (INTC) -- Weekly chart



1,2,3s

Key Point: Trading stops below a logical trendline or the 15-week EMA kept you in the stock right up to the current resistance. However, most professionals with an option background would have replaced stock with calls after a significant rise, which defines your risk on the total profits already in hand with the positions. When one does take money off the table by switching to in-the-money calls, there should be a minimum of three months remaining until expiration, or else perhaps longer-term LEAP calls if INTC is a stock you plan to hold similar to a mutual fund. This seminar is not about options, and you should not get involved in options without attaining the education required to use them as a risk tool.

1,2,3s

Intel (INTC) -- Monthly chart

12-month EMA

75.81

30.78

35.04 Momentum line

34.60

18.96

2

22.09

1

TL Log

12.95

14.89

3

TL 3 point

17.29

31.72

Stochastic(8(3),3)

100.00

83.32

73.57

50.00

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2000

2001

2002

2003

2004

90.0000

80.0000

70.0000

60.0000

50.0000

40.0000

30.0000

20.0000

10.0000

0.0000

29.5000

27.0000

25.0000

23.0000

21.0000

19.0000

17.0000

15.0000

13.0000

11.0000

9.0000

7.0000

5.0000

3.0000

1.0000

0.0000

1,2,3s

This chart is the monthly timeframe with a 12-month EMA, which I prefer, and the 8,3,3 slow stochastic. (I also use a 14,3,3.)

- You see the initial trendline break of the logical trendline that reverses the previous four months' highs, trading to 22.09.
- There is a two-month retracement setting up the 14.89 swing point 3 and then entry above 17.29.
- There was further entry confirmation on the TL 3 point break just below 20. When you can connect a trendline to two swing points that have three lower highs on each side of them, it is usually a good entry. (Reverse for sells.)
- If that isn't available, look for a 3 and a 2 and then even a 2 and 2 trendline. Scroll lots of charts to see what I mean.

1,2,3s

Nasdaq 100 (NDX)
Daily chart

50-day EMA
200-day EMA

⑤ +50% above 200-day EMA

4816

③

1,272 4826 1,2,3 HT 4660

RST 4609

①

②

④

5000.00

4500.00

4000.00

3643.299

3500.00

3361.721

3099.28

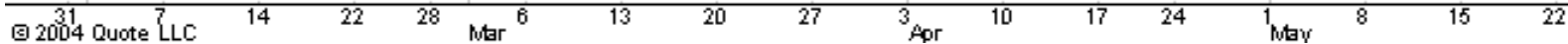
3000.00

RSI(14)

Neg. Div.

60.00

48.32



1,2,3s

This chart of the \$NDX (Nasdaq 100 index), which is the actual 03/24/00 top, is a quick review of the primary sequence tools used in making a high-probability decision. In spite of the bubble into the top, there were ominous sequence signs for traders and investors alike.

- The NDX broke the trendline, trading down to a 4050 low just above the 50-day EMA (4).
- The rally to new highs at 4816 put the potential 1,2,3 HT in play, as well as the RST sell setup.
- There was a negative divergence in RSI (14), as the NDX made the 4816 high. In addition, having a rising price on declining volume is a good "red alert."

1,2,3s

Nasdaq 100 (NDX)
Daily chart

50-day EMA
200-day EMA

⑤ +50% above 200-day EMA

4816

③

①

②

④

1,272 4826 1,2,3 HT 4660

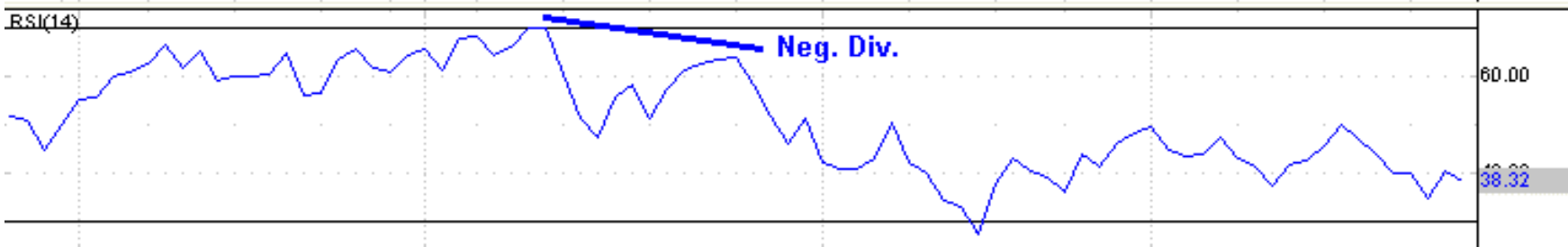
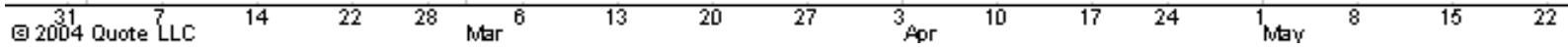
RST 4609

5000.00
4500.00
4000.00
3643.299
3500.00
3361.721
3099.28
3000.00

RSI(14)

Neg. Div.

60.00
48.32



1,2,3s

- At 4816, the NDX was +50% above its 200-day EMA, which was still rising, but the extended percentage above the EMA was enough to ignore the rising EMA (see your RST filters).
- Additional sequence was the 1.272 Fib extension of the last leg down (3 - 4) at 48.26, in addition to the fact that price was extended to about a 2.5 STDV band.
- When the NDX traded below 4660, the 1,2,3 higher top was in play, and then the RST kicked in below 4609 and "the game was on."

1,2,3s

What decision did you, the investor, make? Did you buy puts to protect your holdings? Did you sell your index proxies and replace them with longer-term LEAP calls, so you were still invested, but with a defined risk, regardless of what the NDX did?

As a trader, it was a great situation to just buy the slightly in-the-money QQQ puts with a minimum of three months to expiration. There are other choices the investor/trader could have made according to their personal objectives and risk parameters, but the key point here is that some decision had to be made because it was a textbook sequence zone situation. You tell me, "Easy to say now, but not then," and I tell you, "Not so."

1,2,3s

How so, you ask?

If your investment account was up what it should have been into that 4816 bubble top, are you telling me you would not spend 7.0% - 10% for put insurance on your QQQs? Of course you would because if the NDX were to keep rising, say, another 30% or more and you only gained +22% because the puts cost you 8.0%, do you really care? However, if the market were to crash, as it did, you would only be down the 8.0% cost of puts vs. you know what happened. I always look at any profitable investment that way.

If you couldn't buy puts or LEAP calls because of the 401(k), you could change your allocation to less invested, which acts as a put, depending on the percentage invested.

Key Point: Knowing sequence like you do now would have made you better able to make some kind of a decision in this kind of situation, where risk was obviously very high.

1,2,3s

May Coffee (KC04K)
Daily chart

9-day EMA
18-day EMA
40-day EMA



1,2,3s

This first chart is coffee, which has excellent symmetry. It has both a 1,2,3 higher bottom, then a +26% advance from about 64. The advance ends at the 1.272 Fib extension of the XA leg and the 3.14 Fib extension of the BC leg. After a decline to 72.90 (2), there was a 1,2,3 LT to 78.40 (3), again at a .707RT, as was the 1,2,3 HB, which was at the .707RT to 63.95.

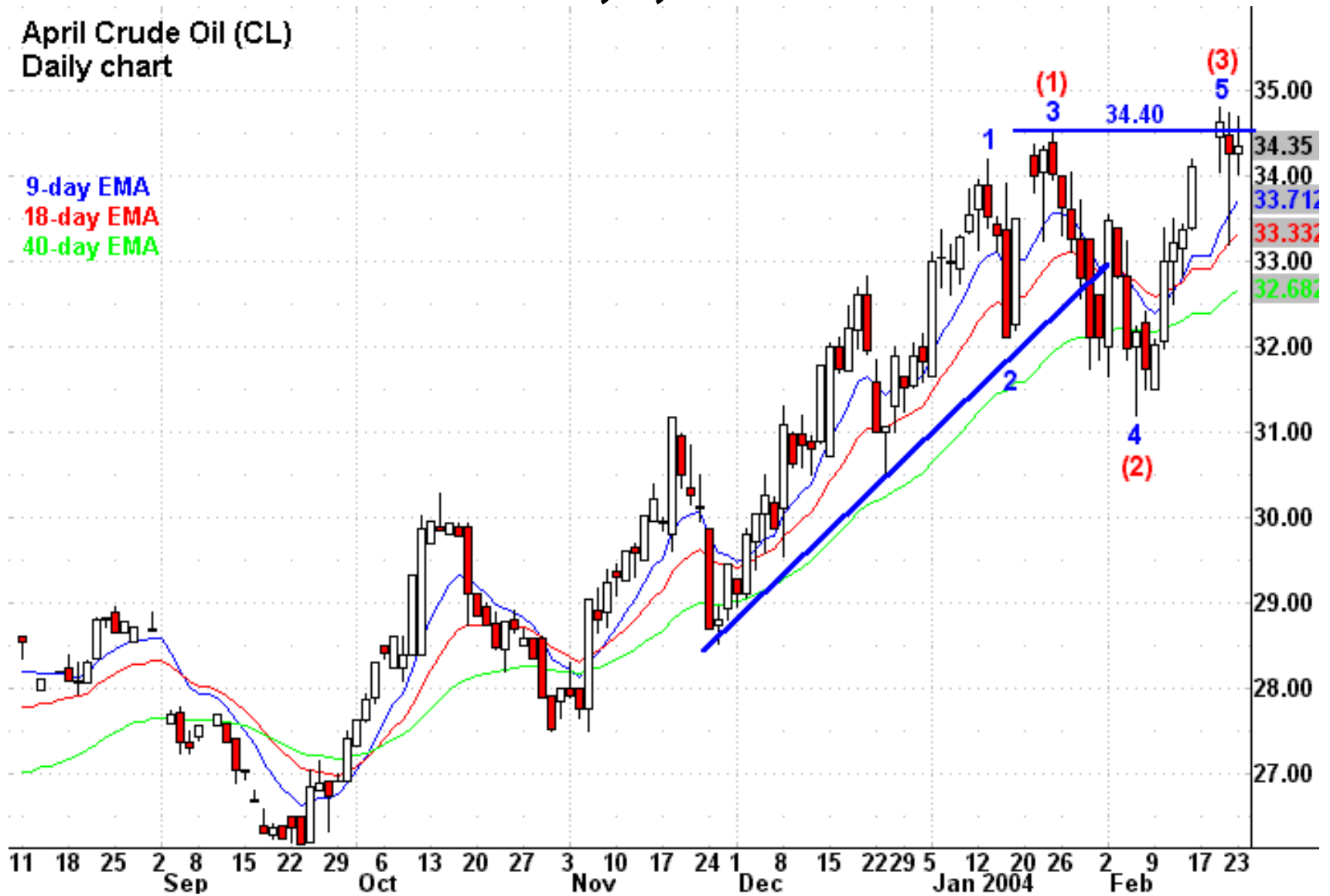
Coffee declined to 71.50 vs. the .50RT to 61.95 at 71.18. You are now in a new parallel line pattern after the 1,2,3 LT, and you measure it to see that $AB=CD$ at 70.70, so there is some retracement confluence and maybe a decision to make, depending on the price action. For repetition's sake, the new AB leg is 80.60 - 72.90, BC is 72.90 - 78.40 and the CD leg is 78.40 - 70.70, if AB is equal to CD.

FYI: I have never traded coffee and probably would not, even with your money, but the point is to see that all markets have sequence symmetry, and that is a significant edge for all traders and investors.

1,2,3s

April Crude Oil (CL)
Daily chart

9-day EMA
18-day EMA
40-day EMA



1,2,3s

Crude had advanced +34% from a pullback to the 200-day EMA at 26.18. It has formed a 1,2,3 higher top and also an RST sell pattern, so it is clearly a decision zone. The 200-day EMA is rising, so that filter is in force.

As I complete this, crude had declined to 33.46, then closed at 34.26.

1,2,3s



1,2,3s

In spite of all the noise, currencies and their relationships tend to trend very well. The US Dollar has a significant effect on the equity markets, and although it can often be on a lagging basis, it is very important for traders and investors to recognize the US Dollar's short- and long-term trends.

The first FOREX chart is the US Dollar Index which has been in a significant decline, until it just kicked in on 1,2,3 LB and RST buy setups, which was the catalyst for several excellent FOREX trades, long the Dollar vs. other FOREX, like the EUR and CAD.

- It breaks the initial trendline, trading up to 88.17, just below the declining 40-day EMA, and then goes sideways for two weeks before making new lows to 84.85, setting up the 1,2,3 LB and RST buy patterns.
- Once the dollar gave you the valid RST long entry, you could play it vs. the currency most out of sequence with the dollar. In this case, the CAD and euro were very overbought vs. the dollar, so those were good trades.

1,2,3s

(EURGBP A0-FX,D) Dynamic,0:00-24:00



1,2,3s

British Pound

The changes in significant trends in FOREX, just like equities, are very often RST and 1,2,3 patterns. Recently, the British Pound had an explosive upside move, and in fact, almost reached a 3.0 STDV band, and that is always a good place to start when looking for sequence trades. The next chart shows the strength of the pound vs. the euro, which was just over 0.71 and declined to 0.672 British Pounds per euro. This level set up the potential RST buy pattern (buy euro, sell GBP). As we went to press (03/16/04), there was no close above the high of the low day yet.

1,2,3s

Australian Dollar (ADY)
Daily chart

9-day EMA
18-day EMA
40-day EMA



1,2,3s

(EURAUD A0-FX,D) Dynamic,0:00-24:00



1,2,3s

Another currency that had a powerful upside move was the Australian Dollar, which set up a very symmetrical RST sell pattern with good entry, while the euro was forming an RST buy pattern and also a 1,2,3 double bottom. Once the RST sell kicked in, you could take the long euro, short AUD trade anticipating a rally in the euro.

DIAMONDS TRUST 103.60 -0.38 -0.37%

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Exp. Mov. Avg. (60) Last=103.78
Exp. Mov. Avg. (240) Last=103.77
Exp. Mov. Avg. (480) Last=104.09
Exp. Mov. Avg. (816) Last=104.44



DIAMONDS TRUST 103.12 0.00 0.00%

Exp. Mov. Avg. (20) Last=103.00
Exp. Mov. Avg. (60) Last=103.03
Exp. Mov. Avg. (240) Last=103.33
Exp. Mov. Avg. (480) Last=103.67
Exp. Mov. Avg. (816) Last=104.05



S&p 500 Index 1199.85 -1.72 -0.14%

Exp. Mov. Avg. (8) Last=1200.21

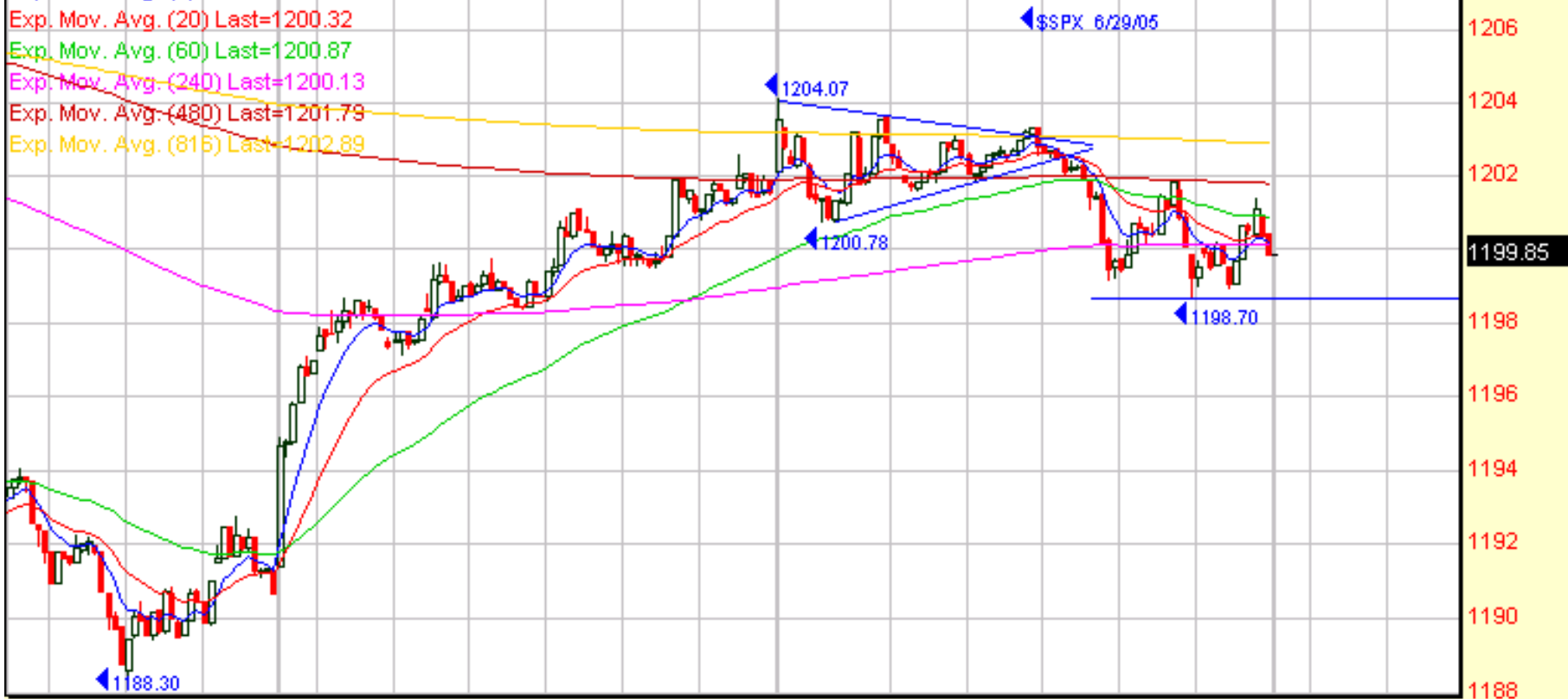
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Exp. Mov. Avg. (815) Last=1202.89



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RSI, Wilder (5)



S&p 500 Index 1194.44 0.00 0.00%

Exp. Mov. Avg. (20) Last=1193.85
Exp. Mov. Avg. (60) Last=1194.39
Exp. Mov. Avg. (240) Last=1197.01
Exp. Mov. Avg. (480) Last=1199.16
Exp. Mov. Avg. (816) Last=1200.85



Exp. Mov. Avg. (5) Last=103.65
 Exp. Mov. Avg. (15) Last=104.07
 Exp. Mov. Avg. (40) Last=103.87



Exp. Mov. Avg. (5) Last=27.51
Exp. Mov. Avg. (15) Last=28.15
Exp. Mov. Avg. (40) Last=28.23

