

THE KEVIN HAGGERTY
INNER CIRCLE
TRAINING PROGRAM

August 16th, 2005

Nasdaq 100 Tracking Stock (QQQ) 120-minute chart

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



1,2,3 Closes

This chart is also the QQQ, but it is the 120-minute timeframe with a 5, 20 and 34 EMA, which is my normal setup on the 120-minute, in addition to the 8,3,3 slow stochastic. You have seen this entry zone from the 36.33 low, which had some primary sequence in a previous chart, and this one highlights the 1,2,3 close entry.

1. 36.33 low after a significant decline.
2. Up close.
3. Higher close.
4. Lower close.
5. Lower close -- draw line.
6. Valid entry as bar 5 is a swing point.

Note: Entry above bar 4 would not be valid because bar 3 has a lower low, which would invalidate bar 4 as a swing point.

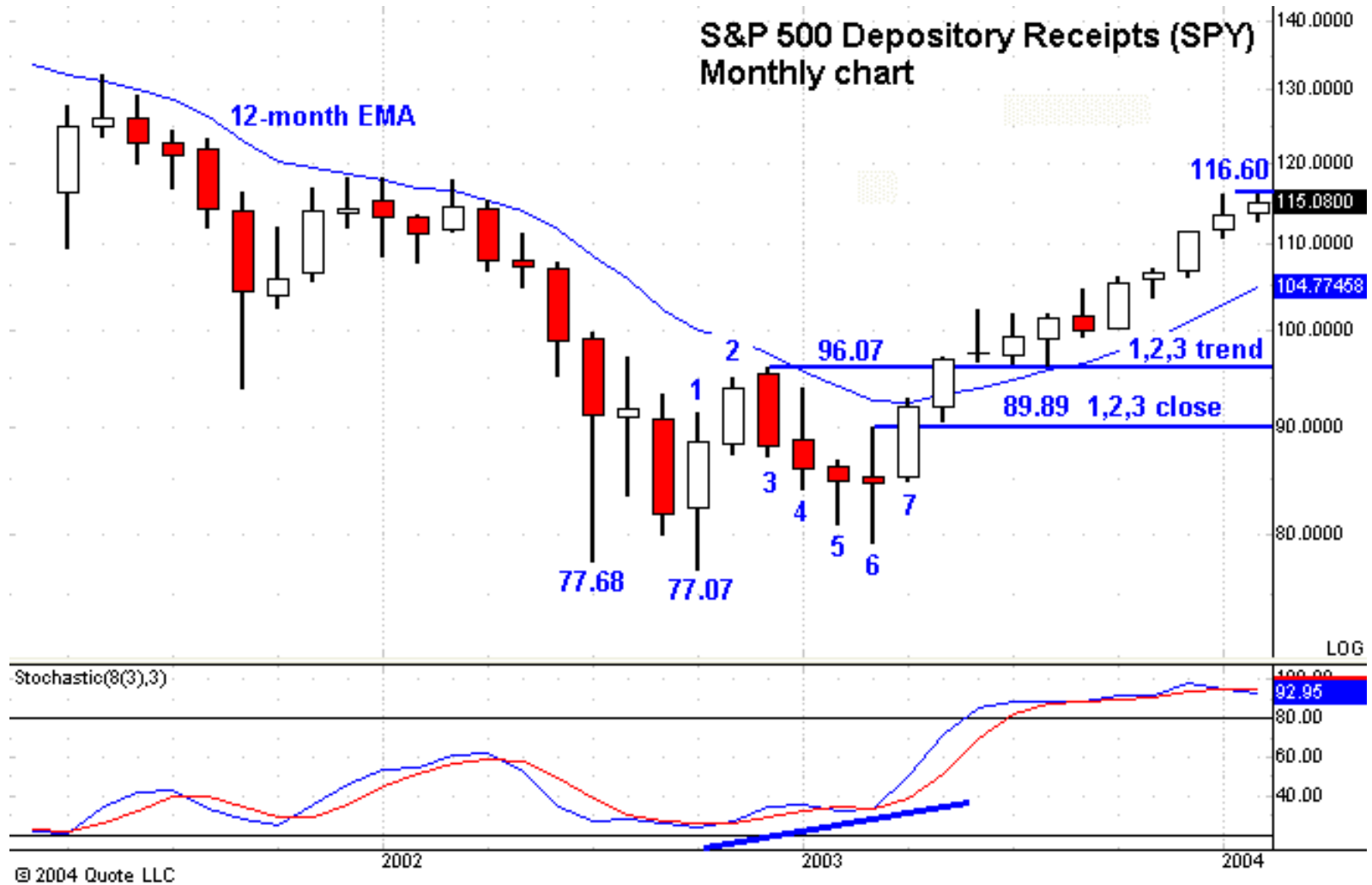
1,2,3 Closes

Key Point: Initial stops can be placed under the swing point low prior to the entry bar. If it is a narrow-range bar, give it a little room, and if the entire setup range is narrow, then place it below the bar 1 low. If you are daytrading, the stop would be tighter than if you took a daily chart or weekly entry.

1,2,3 Closes

Key Point: When an index has the pattern, like this example, that means many of the stocks that are components of the index have the same pattern, so there is no need to show you multiple charts of individual stocks to teach you the entry.

1,2,3 Closes

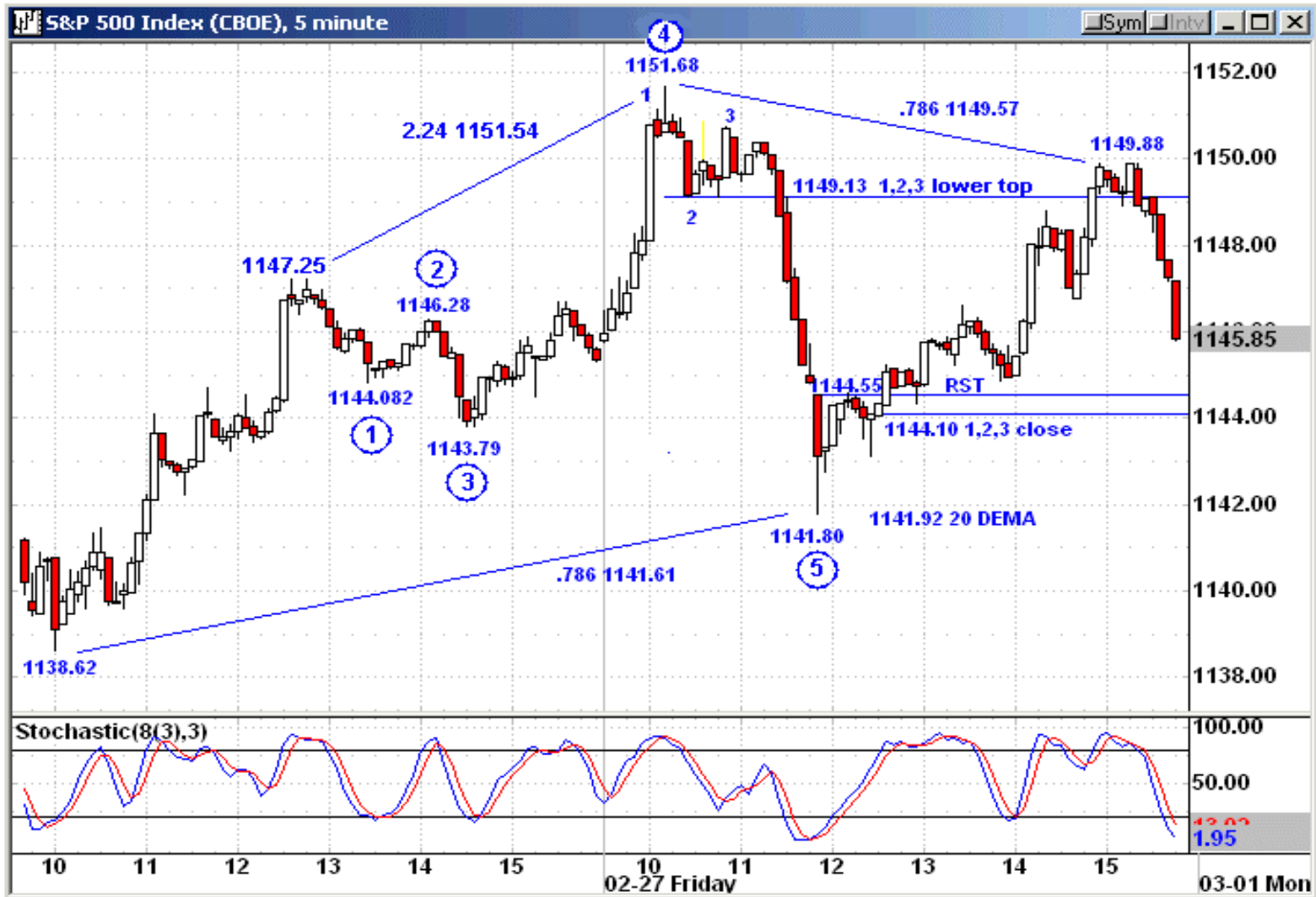


1,2,3 Closes

If you are an ultra-conservative investor and you were making a decision to maybe switch from, for example, a money market fund -- or at least add new money to your long-term equity account -- then the 1,2,3 close entry above 89.89 was a good technical one to take. This SPY entry was a primary 1,2,3 HB entry, as well as a 1,2,3 close.

1. Bear market low and up close.
2. Up close.
3. Down close.
4. Down close -- draw line.
5. Down close -- draw line.
6. Down close -- draw line.
7. Entry above 89.89 and place a money stop because 79.38 is too far (-11.7%) from entry.

1,2,3 Closes



1,2,3 Closes

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

This chart is loaded with Fibonacci sequence and includes an RST, a 1,2,3 lower top and a 1,2,3 close pattern on the same day, which occurs quite often on volatile days.

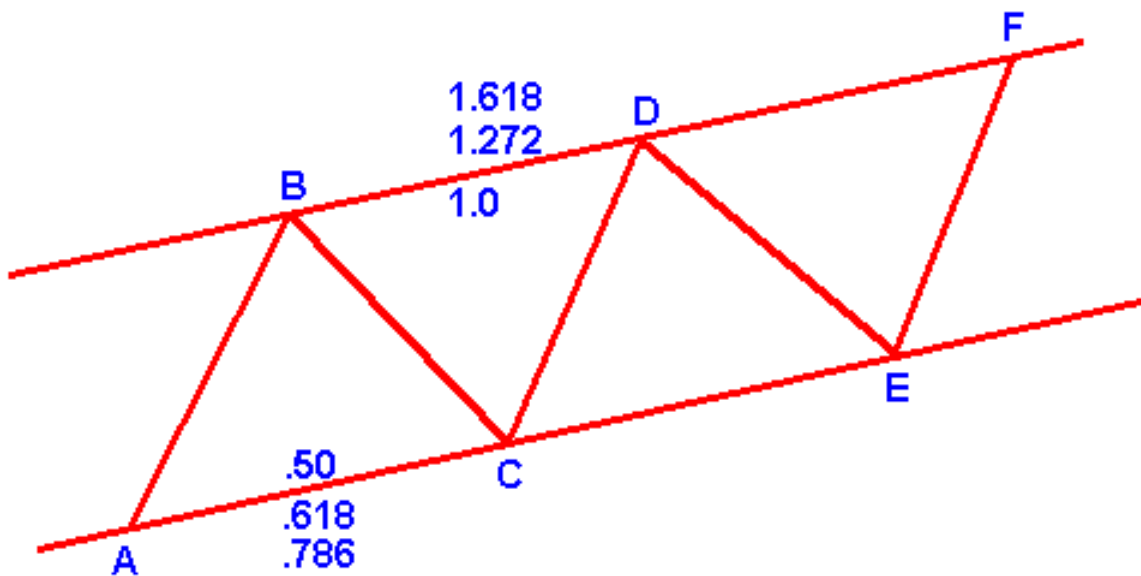
The initial 1,2,3 sell entry came after the early move from 1146 up into the 10:00 a.m. ET time period, which is a prime reversal time. The 1151.68 top was right at the 2.24 Fib extension of the leg down to 1143.79.

After the initial 1,2,3 lower top entry, the SPX traded down to 1141.80, the .786RT zone to 1138.62. A 1,2,3 close buy pattern developed with long entry above 1144.10 and a continuation entry above 1144.55. This move ran to and ended at the .786RT to the 1151.68 top, then faded down. You caught two intraday trends, both of which had some Fibonacci sequence in confluence with your 1,2,3 close pattern.

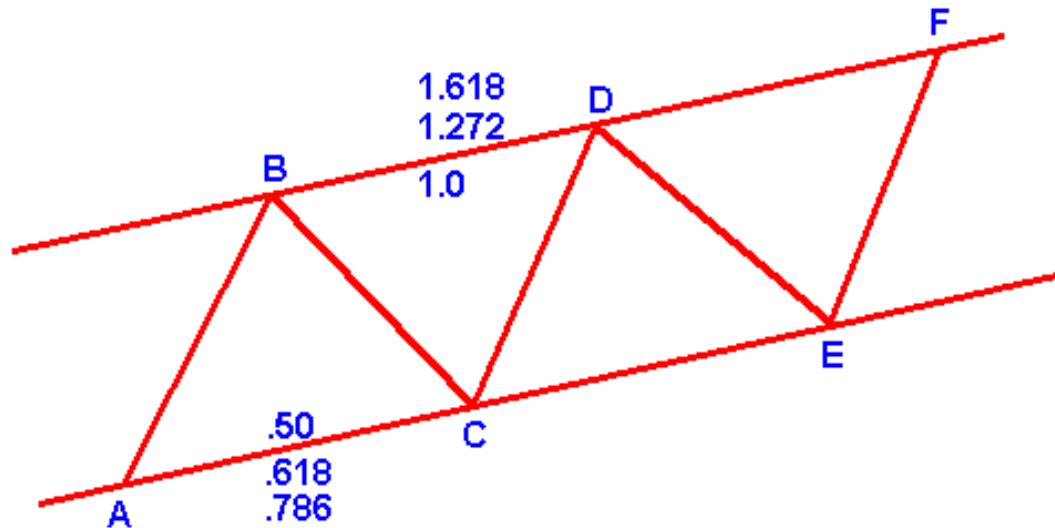
Key Point: These 1,2,3 and RST patterns will set up after volatile moves. Don't expect to see them after a 2 or 3 point move. The initial futures move would most often be a minimum of 6 to 7 points.

Parallel Lines

Parallel lines play an important part in Fibonacci measurements, both in price and time, and add significant symmetry. They also define channels that can have Fib retracements and Fib extensions as price makes new highs/lows in the trend. It enables you to project/anticipate the next level where price might react.



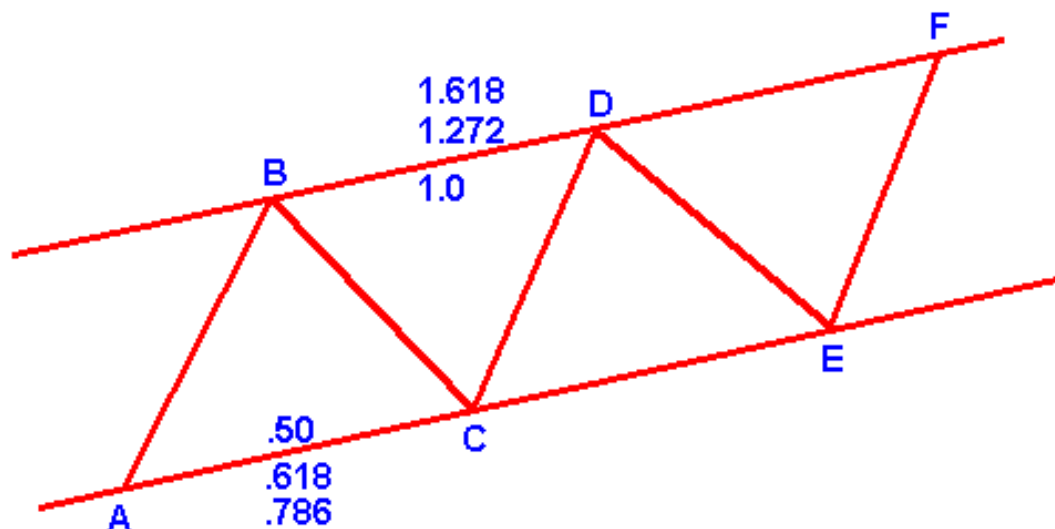
Parallel Lines



In this uptrend, after leg AB, the retracement to C will usually be a .50, .618 or .786 retracement of the AB leg. After the BC leg is complete and price starts to advance, you should anticipate the price level of the CD leg. Better than 50% of the time, leg AB will equal leg CD ($AB=CD$) in price and is better symmetry when $AB=CD$ in time also (days, hours, etc.).

To form the channel, you draw a line through swing points A and C, then draw a parallel line from B. The channel is also a projection of a future price level.

Parallel Lines



If, for example, the AB leg was thrust with wide-range bars and significant volume, then if price only had a .382RT to swing point A, then reversed up, the odds are that it will definitely be a Fib extension of leg AB, rather than equal to it.

Key Point: The ideal symmetry is when price and time are in sync where leg AB is at least equal to the CD leg.

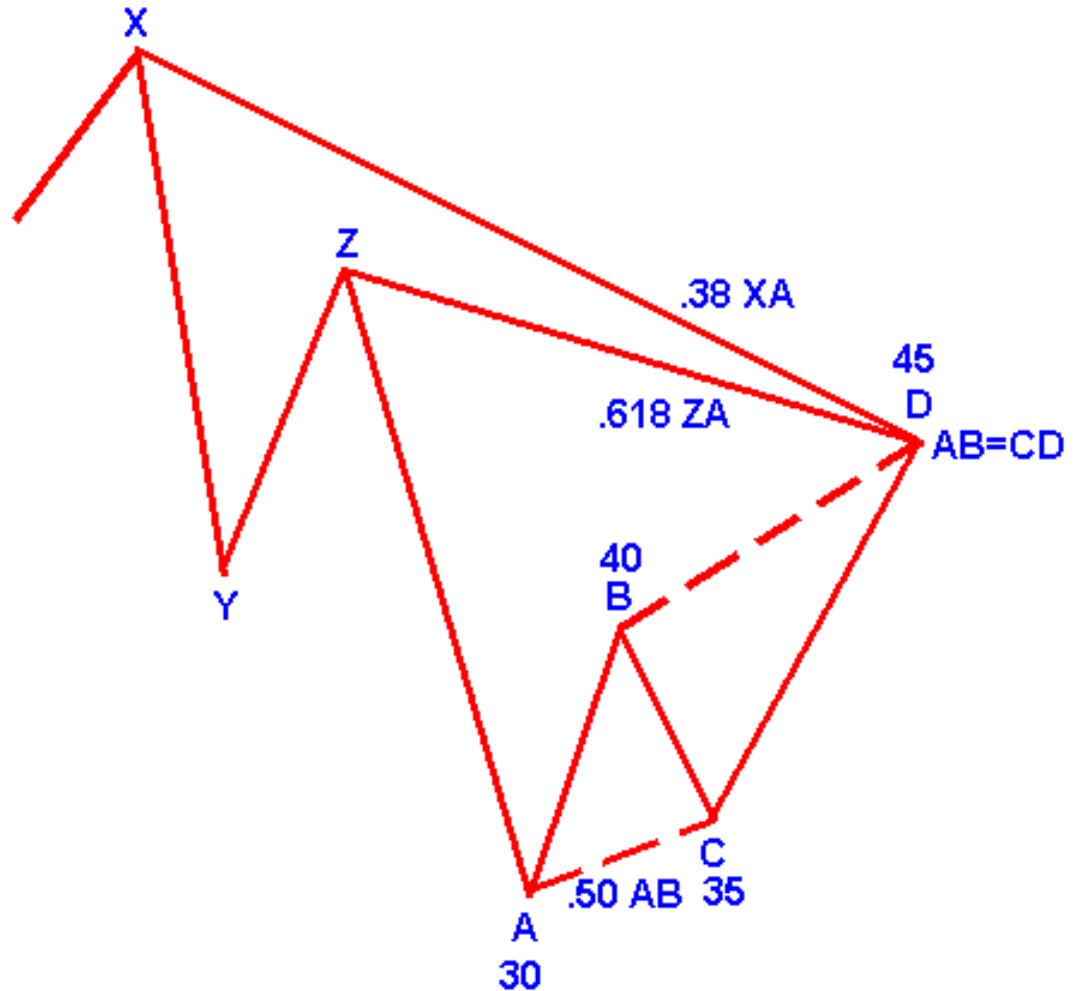
Parallel Lines

In addition to measuring the symmetry of legs AB and CD, you should have already anticipated the retracement levels to the previous significant highs above A and, of course, higher than the AB=CD parallel line pattern.

Key Point: If the AB=CD pattern has symmetry and it has also advanced to a key retracement zone of previous highs, then the probability of a reversal has substantially increased. The zone might also just act as resistance, as price trades sideways in a range before breaking out to the next level.

Parallel Lines

- This graphic of the parallel line pattern builds on the initial Fib retracement and extension examples in Section 3.
- The graphic on the right is an example of the combined symmetry (assume this is a daily chart).

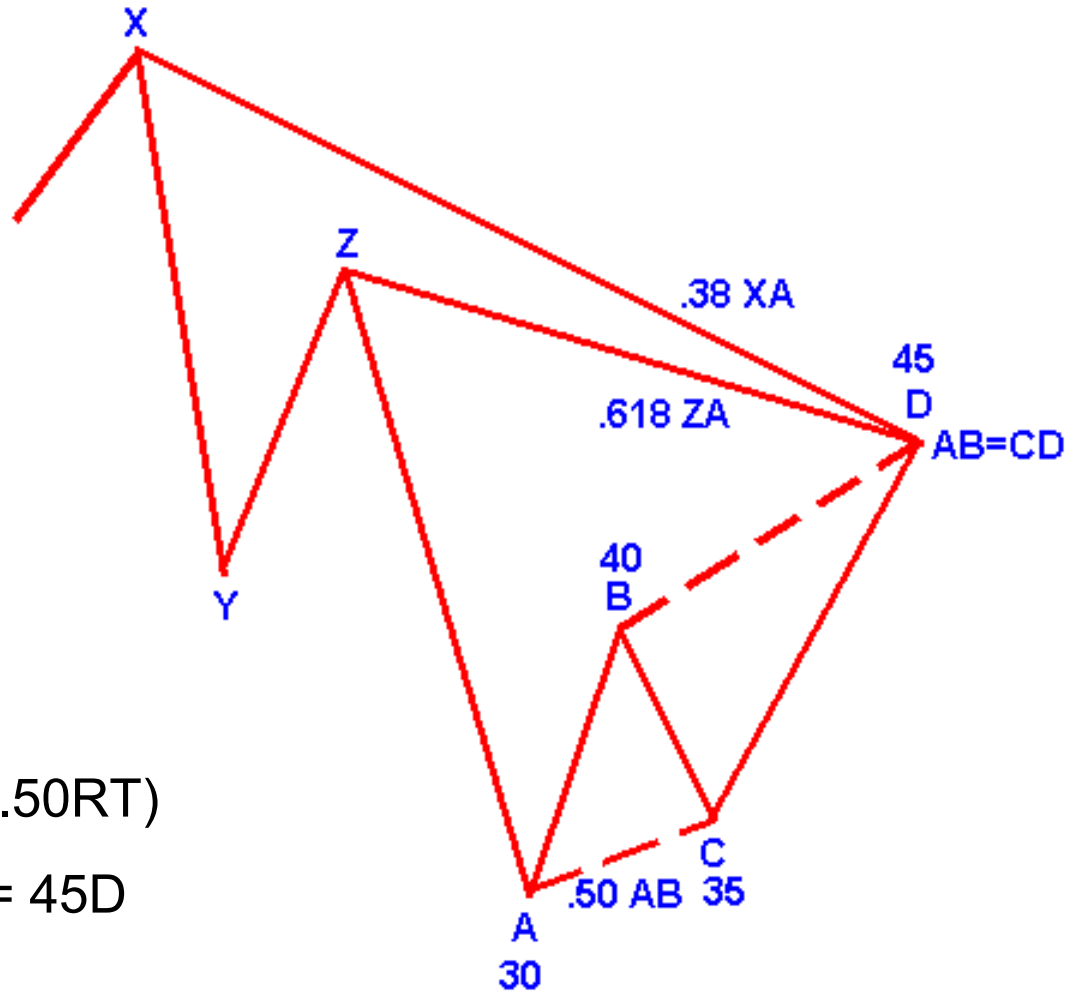


Parallel Lines

- This graphic highlights the AB=CD pattern. The BC leg retraces .50 of the AB leg and starts to advance.
- You measure the AB leg and add it to the C low price to project the level where AB=CD and also the Fib extensions above,

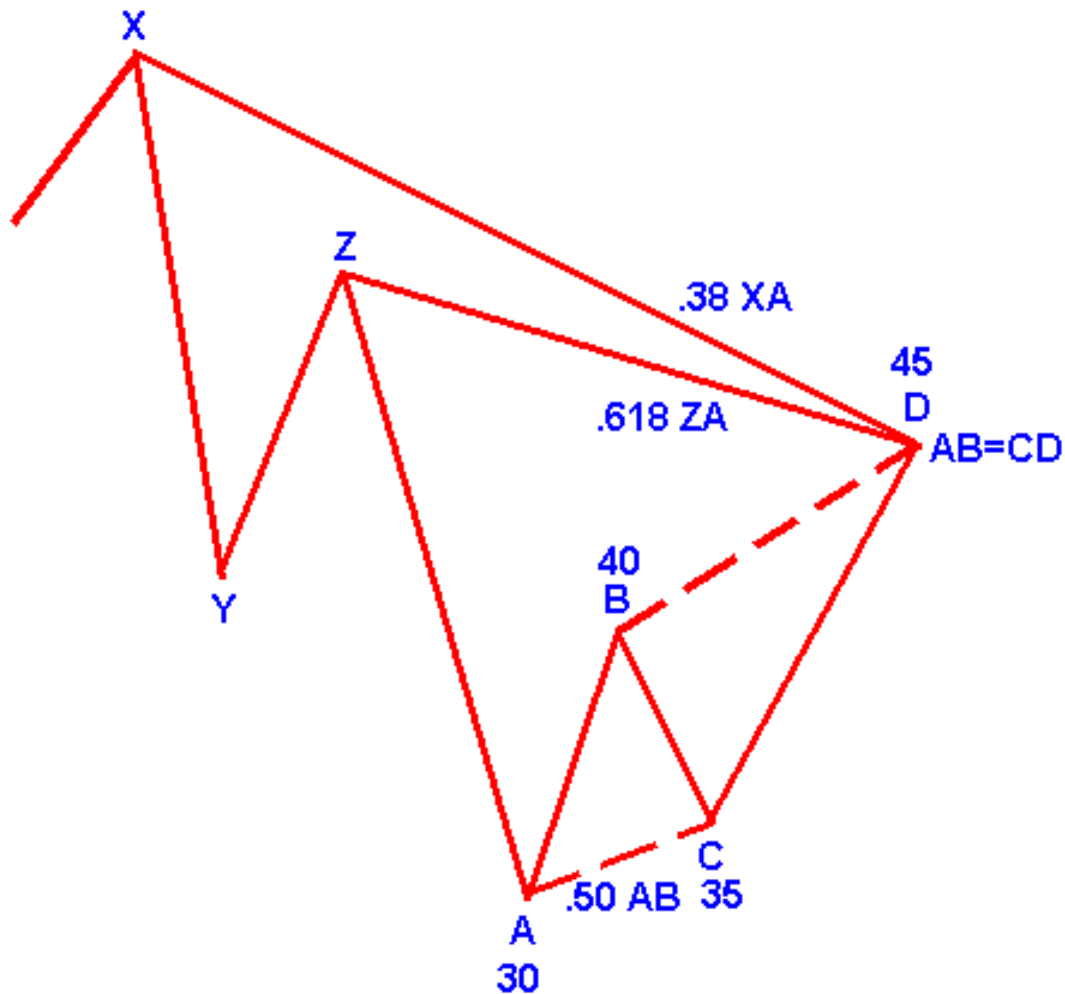
i.e., $A = 30, B = 40, C = 35$ (.50RT)

$$40B - 30A = 10 + 35C = 45D$$



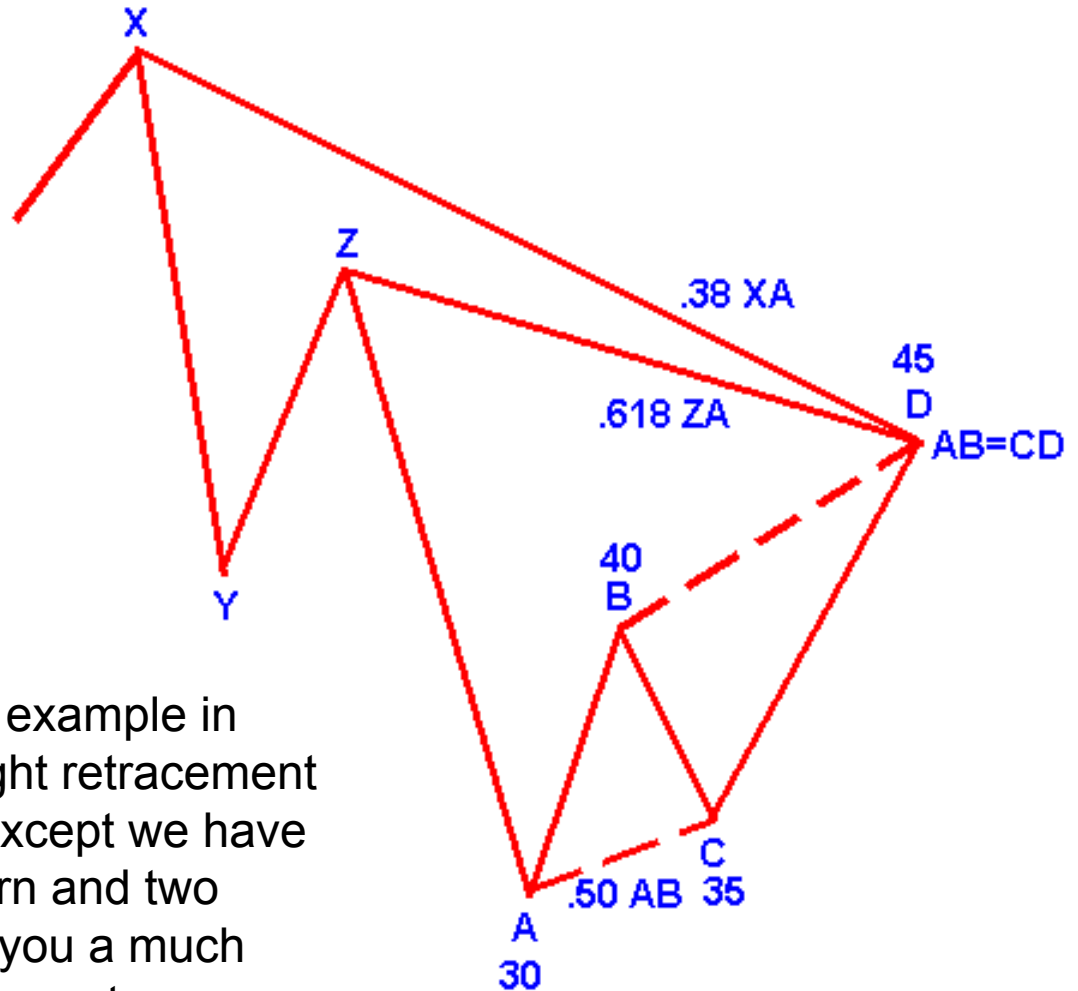
Parallel Lines

- We find that at D, it is the .618RT of the ZA leg and also the .382RT of the larger and more significant XA leg. This kind of retracement confluence is excellent, and sometimes you might have a three-leg retracement confluence. I don't try to play any of those tiny cluster games with any of the other smaller moves because there is too much daily and intraday noise, and it's overkill. I am just looking for the major confluence levels.



Parallel Lines

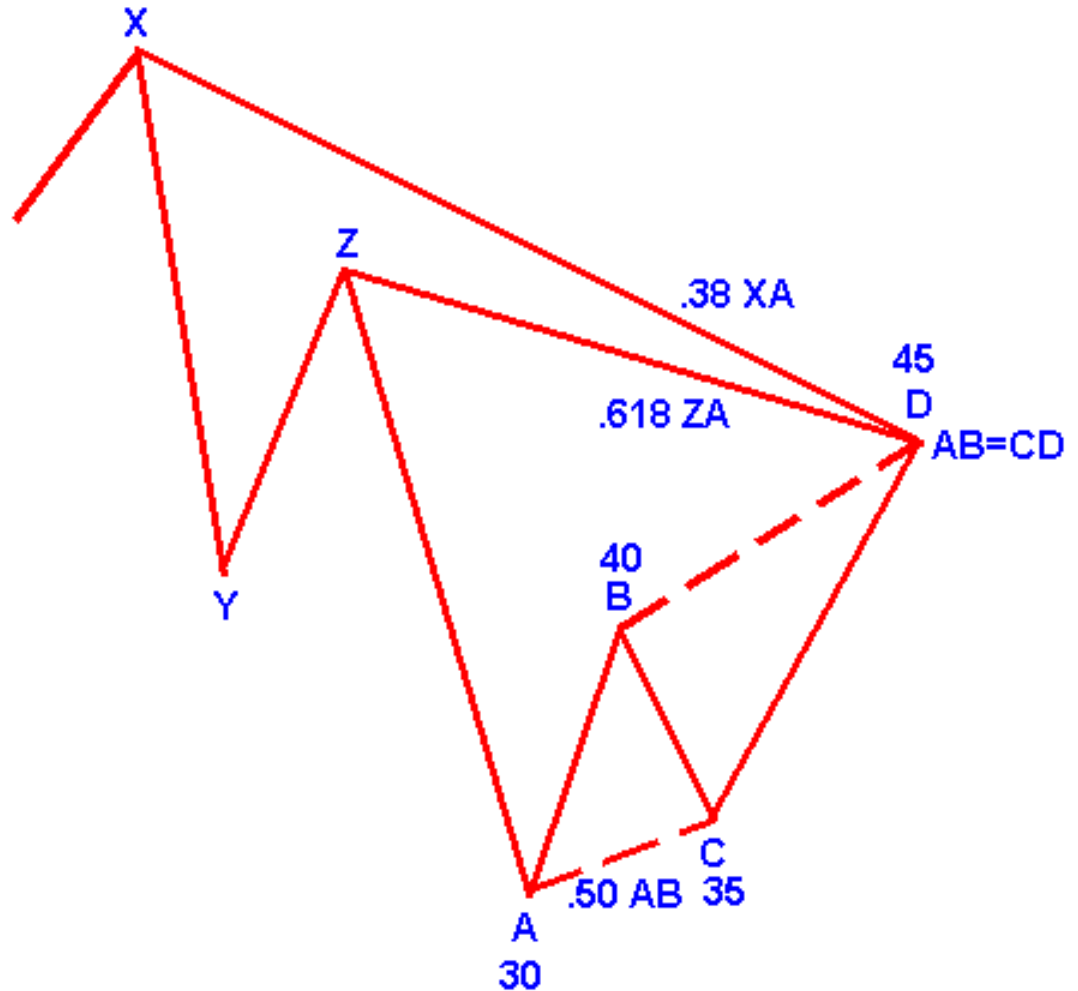
- It looks to me that we now have a high-probability zone, so we are keyed in on the price action. $AB=CD$ at 45, and it is also the retracement levels to two previous highs. The zone could have also been a Fib extension of the BC leg or of the AB leg.



- In the initial Fib retracement example in Section 3, it was just a straight retracement to a high/low. It is still that, except we have included a parallel line pattern and two previous highs, which gives you a much broader picture and more symmetry.

Parallel Lines

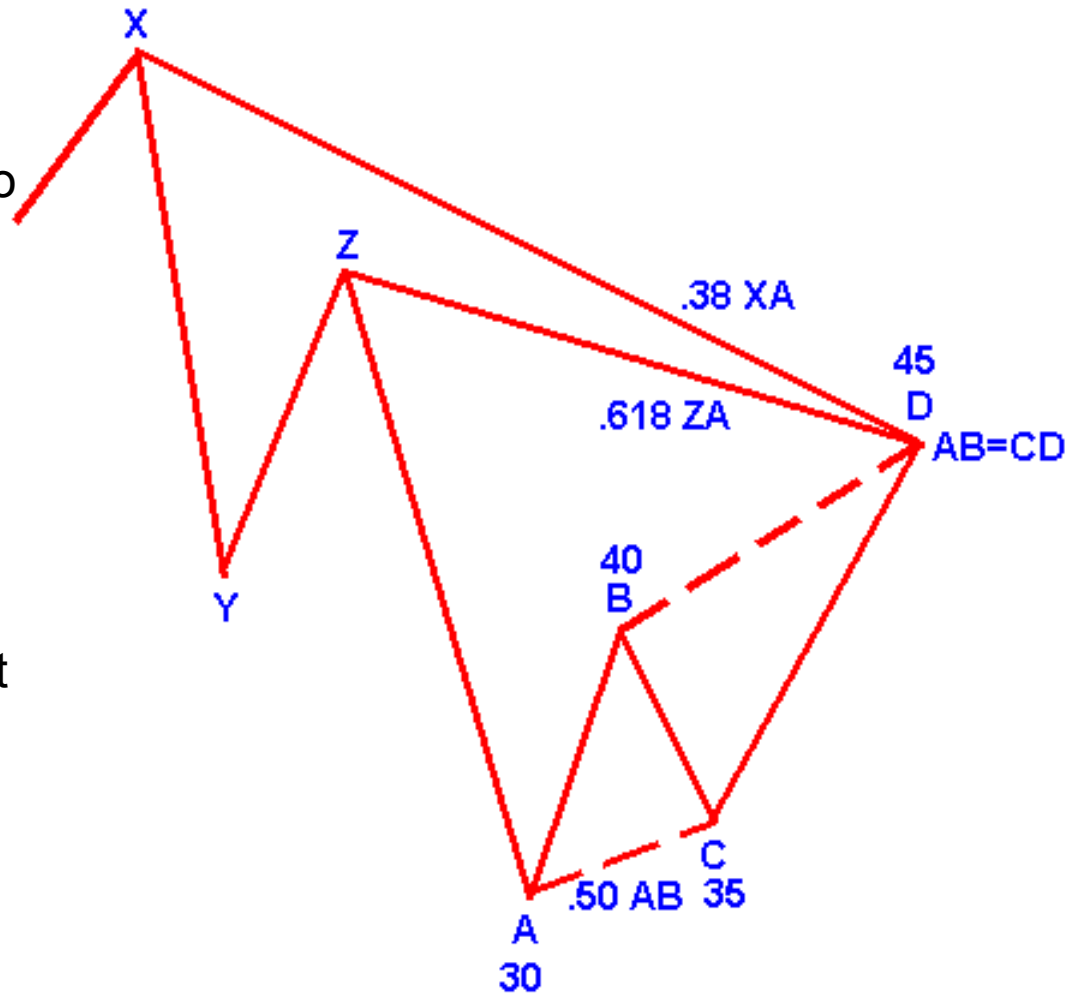
- We can't rest on our laurels just yet, so you look for even more sequence. The stock has advanced 50% from 30 - 45, and let's say it's been a two- or three-month move. The first thing we always check is whether it has reached an extended standard deviation zone, so you would check your one- to three-month standard deviation channel chart and also a regression channel chart.



Parallel Lines

Key Point: Because it was a significant move down from X to A in, let's say, 12 months, it can only be extended in a shorter timeframe of, say, up to three months. Daytraders would also be looking at shorter time periods as the move was in progress and taking advantage of multiple trade setups both ways within the AB=CD pattern.

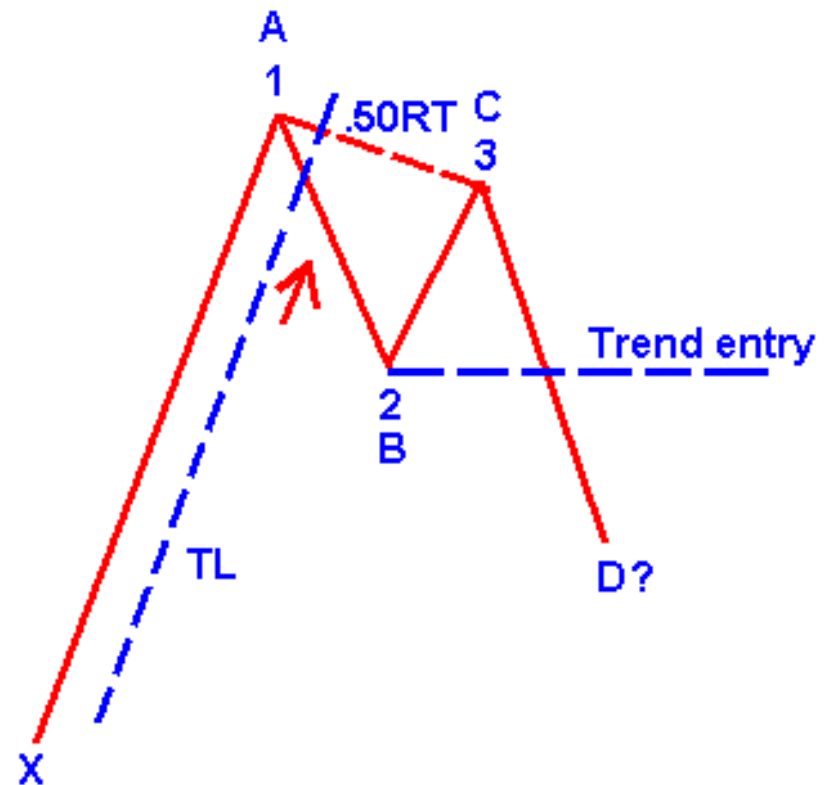
Other confluence might be that 45 is a retracement to a longer-term moving average, like the 200-day EMA or maybe a longer-term Fib ratio date around the 45 high at D.



Parallel Lines

- Review the previous material in the section because we have added some more building blocks with the parallel lines sequence tool. In fact, all of the tools are used together with the patterns I will teach to you, or your own favorite patterns. Everything you have seen so far can be applied to any market or timeframe. It doesn't matter if it's stocks, mutual funds, FOREX, futures, bonds or commodities.
- **Key Point:** When a trendline is broken and there is a retracement to a lower high (or higher bottom), you have a potential parallel line pattern which is also a 1,2,3 lower top or 1,2,3 higher bottom pattern.

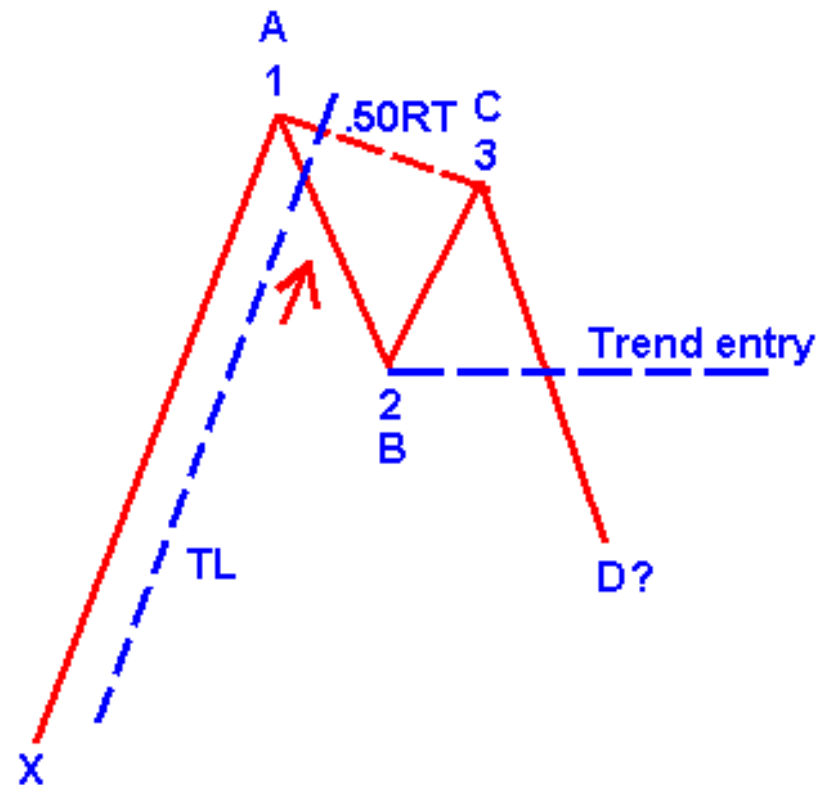
1,2,3 Lower Top



Parallel Lines

- In the graphic, you see the parallel line pattern developing once swing point A was confirmed and price started to decline. In this case, you might have taken a short position at C, and you then anticipated where D would be based on the $AB=CD$ measurement or the Fib extension of the AB leg measured from C. You would also measure the Fib extension of the BC leg and then the retracement levels to the previous significant low (X).

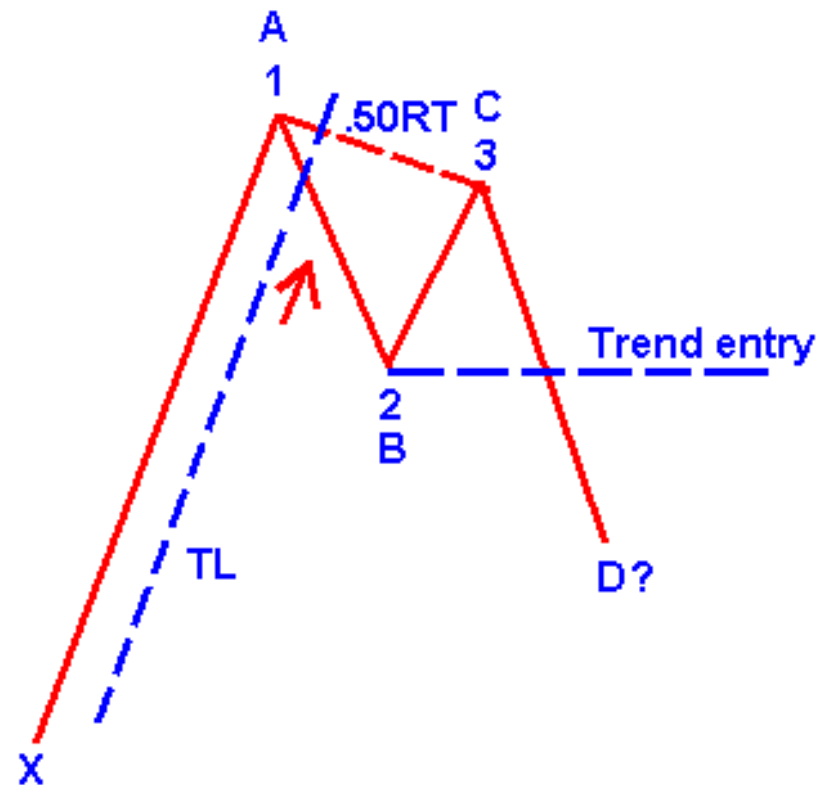
1,2,3 Lower Top



Parallel Lines

1,2,3 Lower Top

- To qualify as a 1,2,3 lower top pattern, price must break a trendline after a significant move (relative to the timeframe), then retrace at least 50% (3) to the high (1) where you would look to enter a short position on any reversal-bar entry with a stop above (3).
- The next short entry might be below swing point (2).

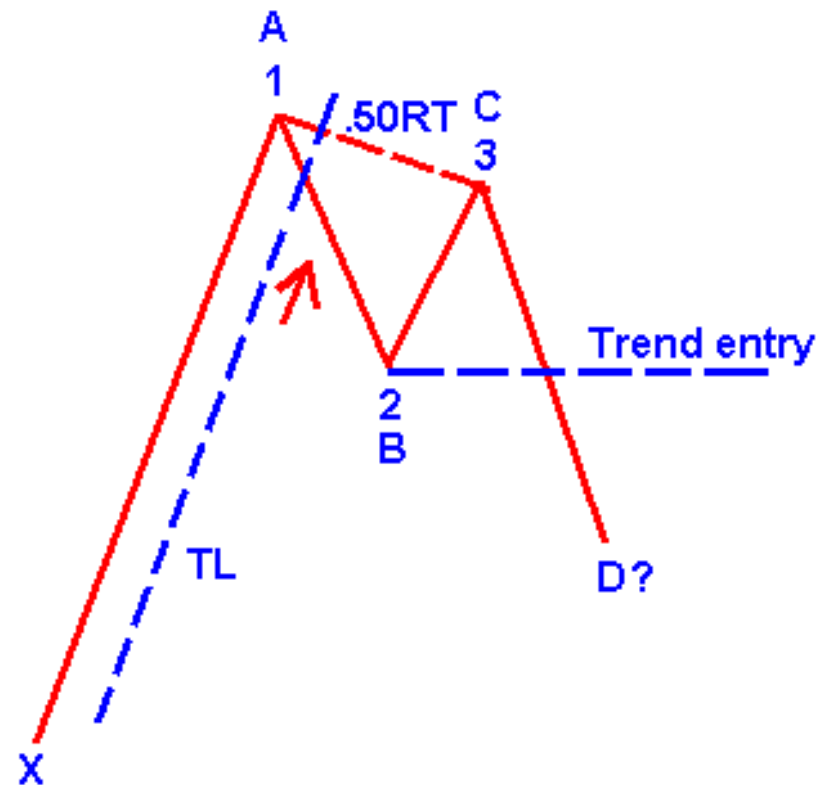


Parallel Lines

Key Point: 1,2,3 lower tops and bottoms are very significant patterns in any timeframe, and I would have to say the most common reversal pattern at any significant market turning point.

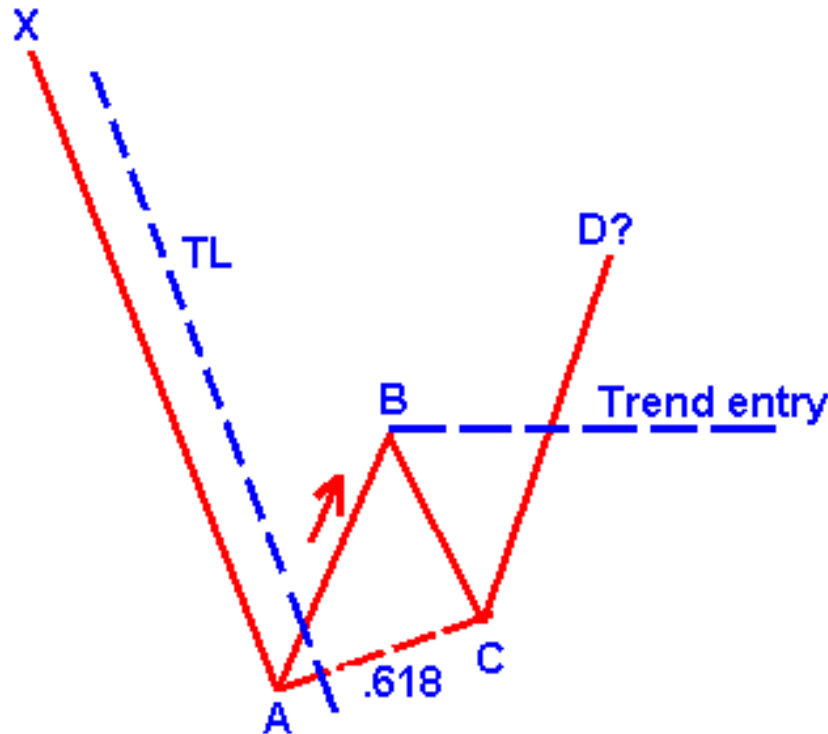
You should be thinking about what if the 1,2,3 lower top set up on the daily or weekly chart at a longer-term high that was in confluence with an extended STDV and Fib extension or retracement level. It might be a place to buy puts to protect longer positions in your IRA, or else switch to a money market fund, but you would know it was a high-probability reversal zone.

1,2,3 Lower Top



Parallel Lines

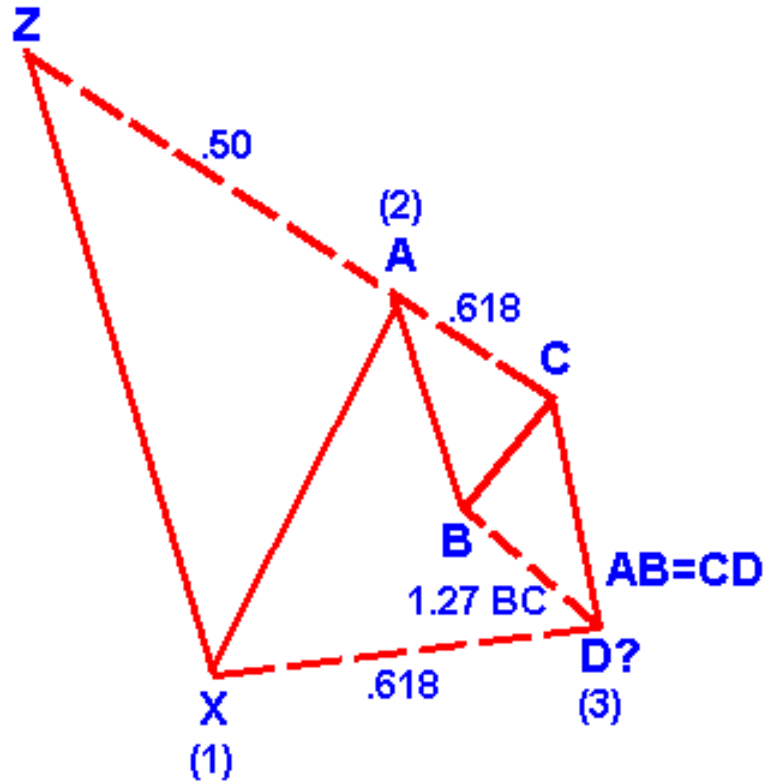
1,2,3 Higher Bottom



We will cover 1,2,3 patterns in the strategy section of this seminar, but you should have an idea of what they are before you review some actual charts with parallel line patterns at turning points.

Parallel Lines

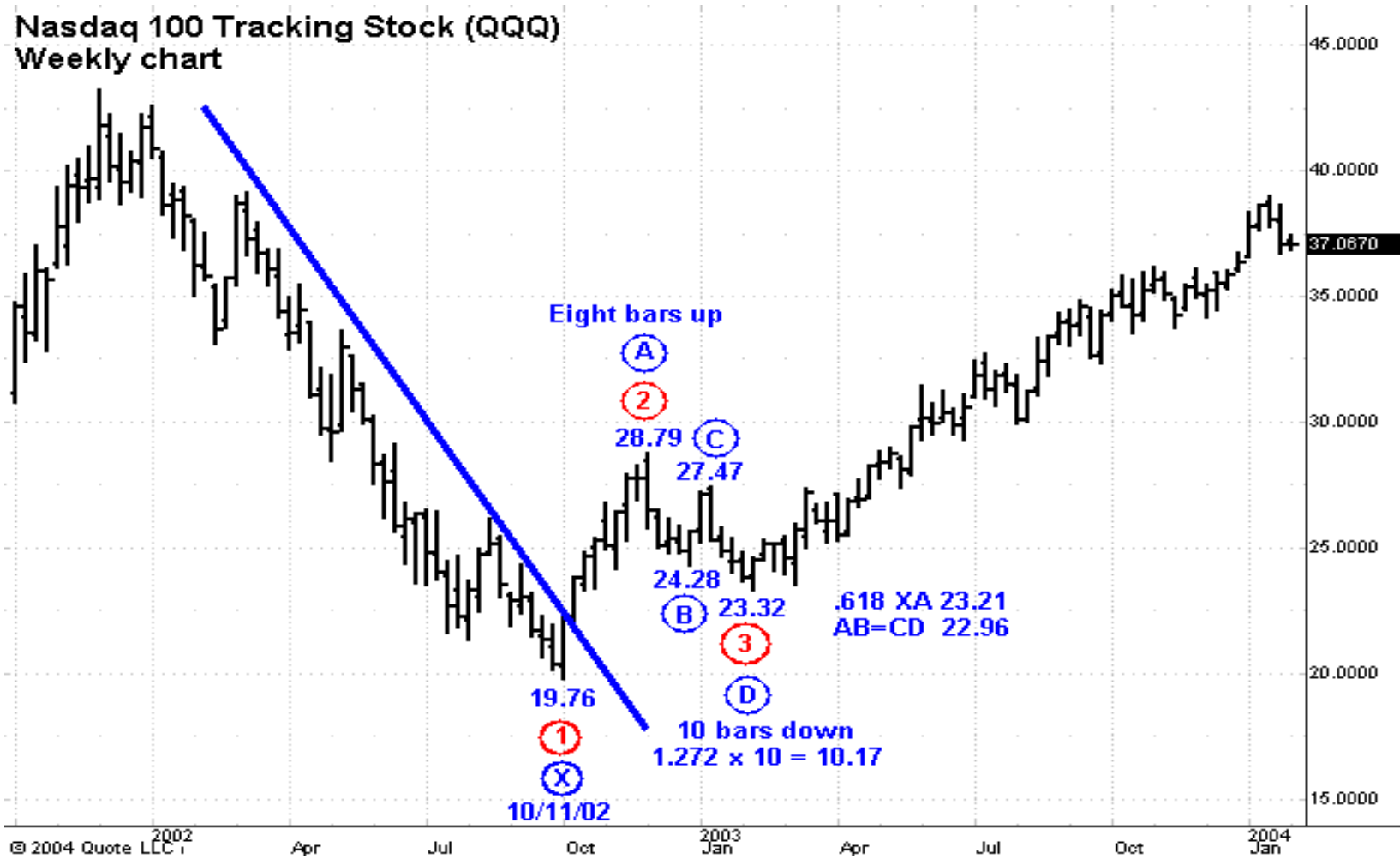
1,2,3 Higher Bottom with Parallel Lines



This 1,2,3 higher bottom, because of the parallel lines, gives you more symmetry than just a straight $.618RT$ to X from A .

Parallel Lines

This QQQ daily chart is a 1,2,3 higher bottom with parallel line symmetry in both price and time.



Parallel Lines

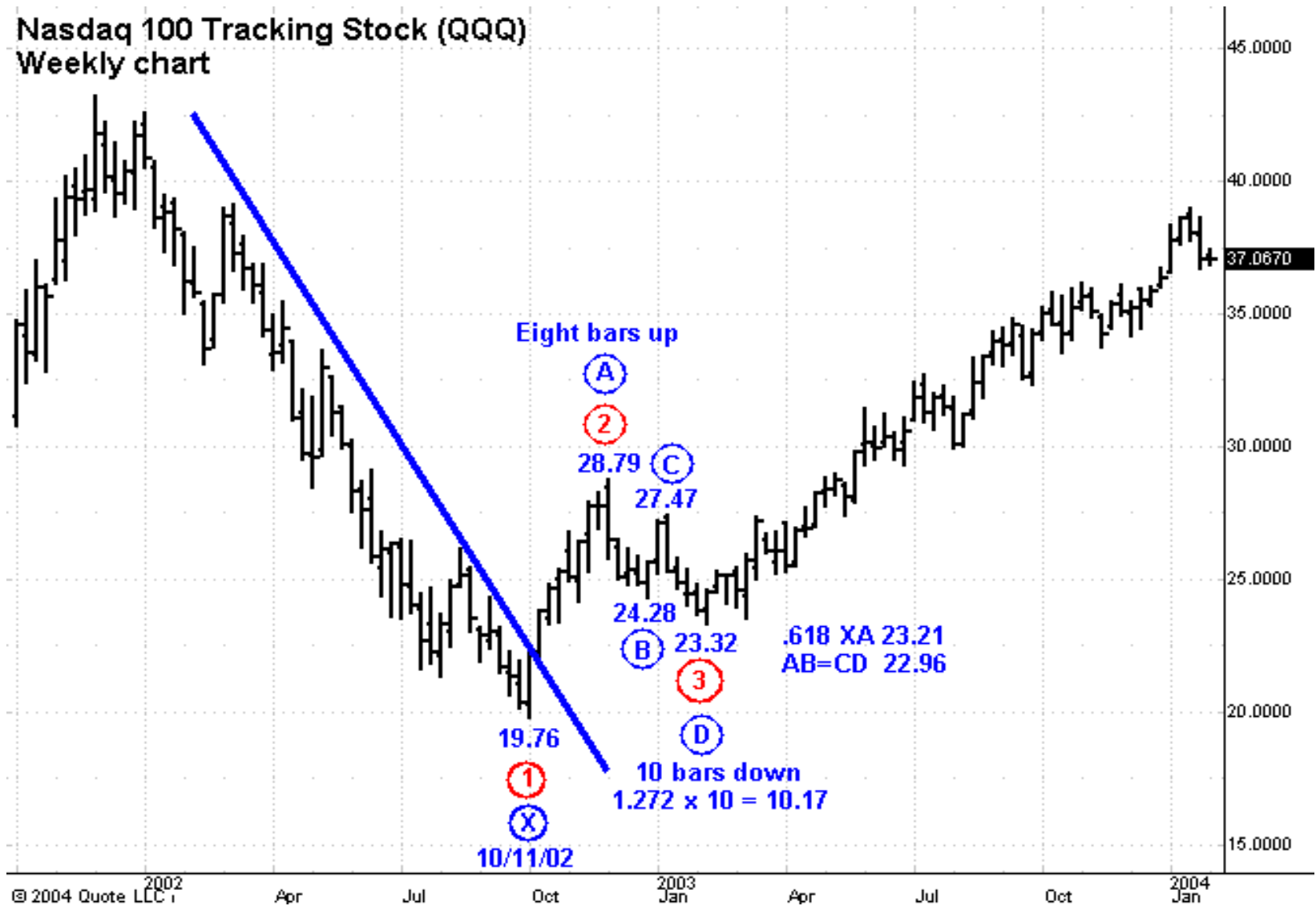
After making a 19.76 low on 10/11/02, the down trendline was broken and price traded to 28.79 and turned down. This established swing points 1 and 2 of the pattern.

The QQQ made a 23.32 low vs. the .618RT of the XA leg. There was an AB=CD pattern which came up short, not reaching 22.96, but there was time symmetry from the 19.76 low to the 23.32 low. The XA leg was eight bars and then a 1.272 Fib extension of 10 bars to 23.32.

More importantly, the 19.76 low was close to the longer-term 3.0 STDV band, so probability was excellent, in addition to the major 1,2,3 higher bottom reversal pattern.

Parallel Lines

Nasdaq 100 Tracking Stock (QQQ)
Weekly chart



Parallel Lines

24.28 (B) is the .50RT to 19.76 on four bars, and there was a reversal-bar entry above 25.90 if you had taken it, which ran to 27.47, +6.1%. Price reversed down to the next zone, which was the .618RT. There was another reversal-bar entry on more volume above 24.61, and price never looked back. If you had taken the .50RT entry, you had, at worst, a breakeven stop. The .618RT entry had price and time symmetry, but the .50RT wasn't necessarily a bad choice either.

Parallel Lines

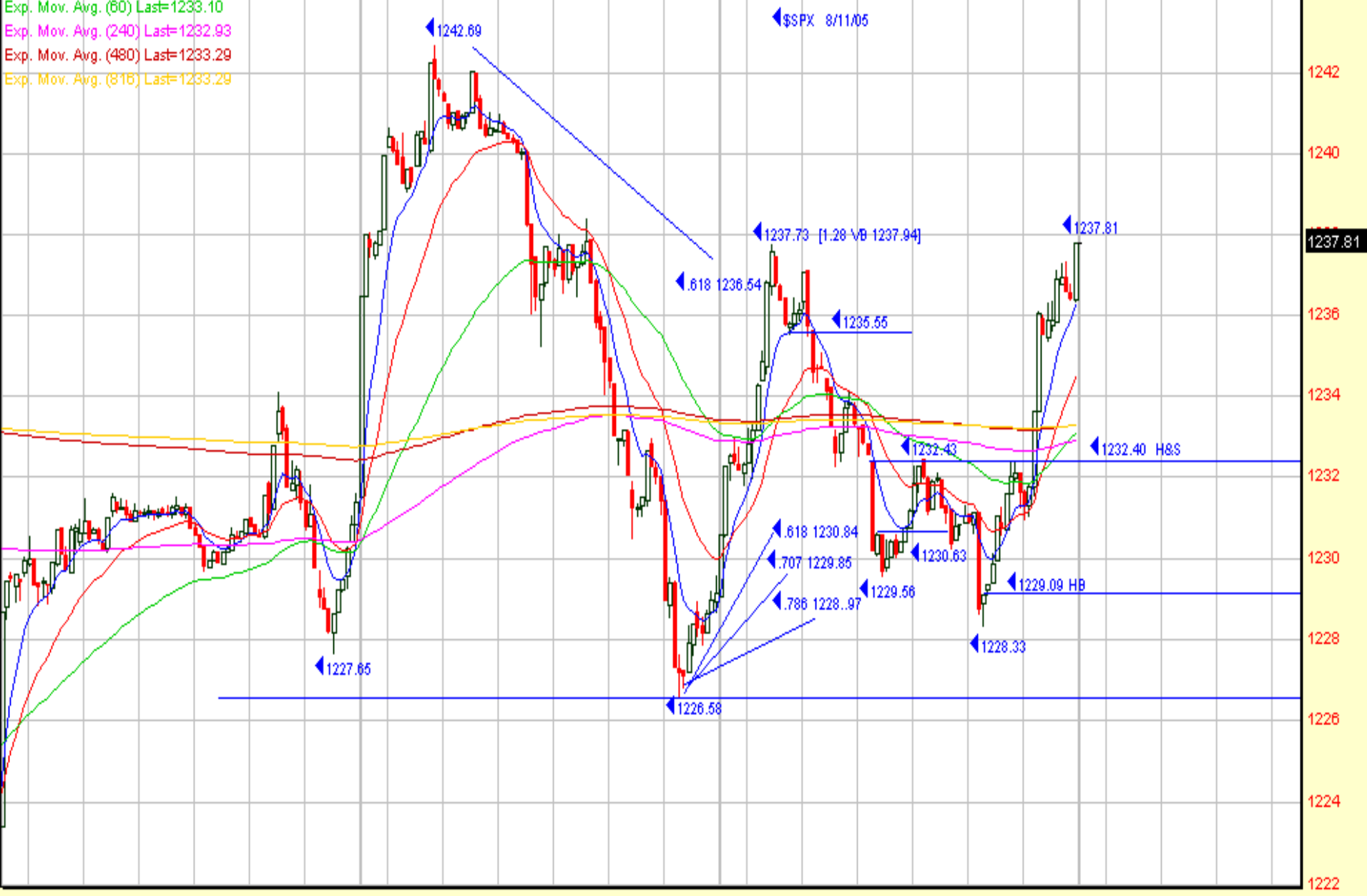
I have also included a candle chart of the same pattern to point out there is no difference, as the bars tell the same story on each chart. Candle charts, because of different colors, are better for scrolling many charts in a short time period.







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Chande Momentum Oscillator (15)

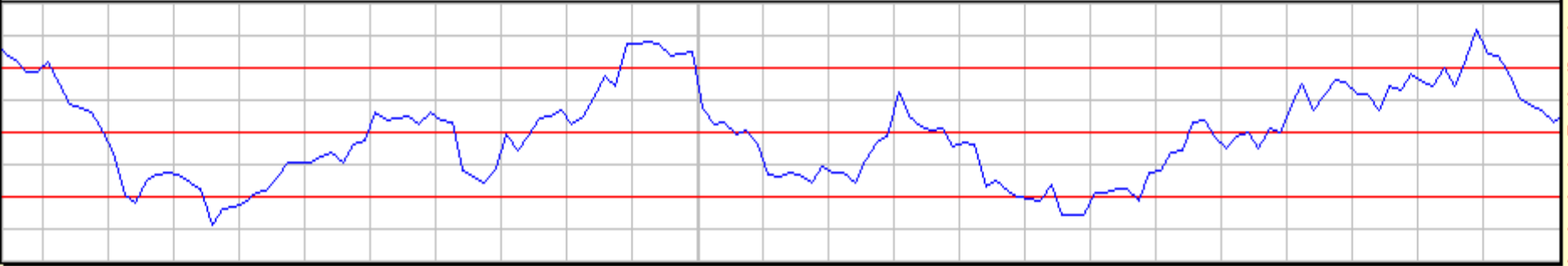


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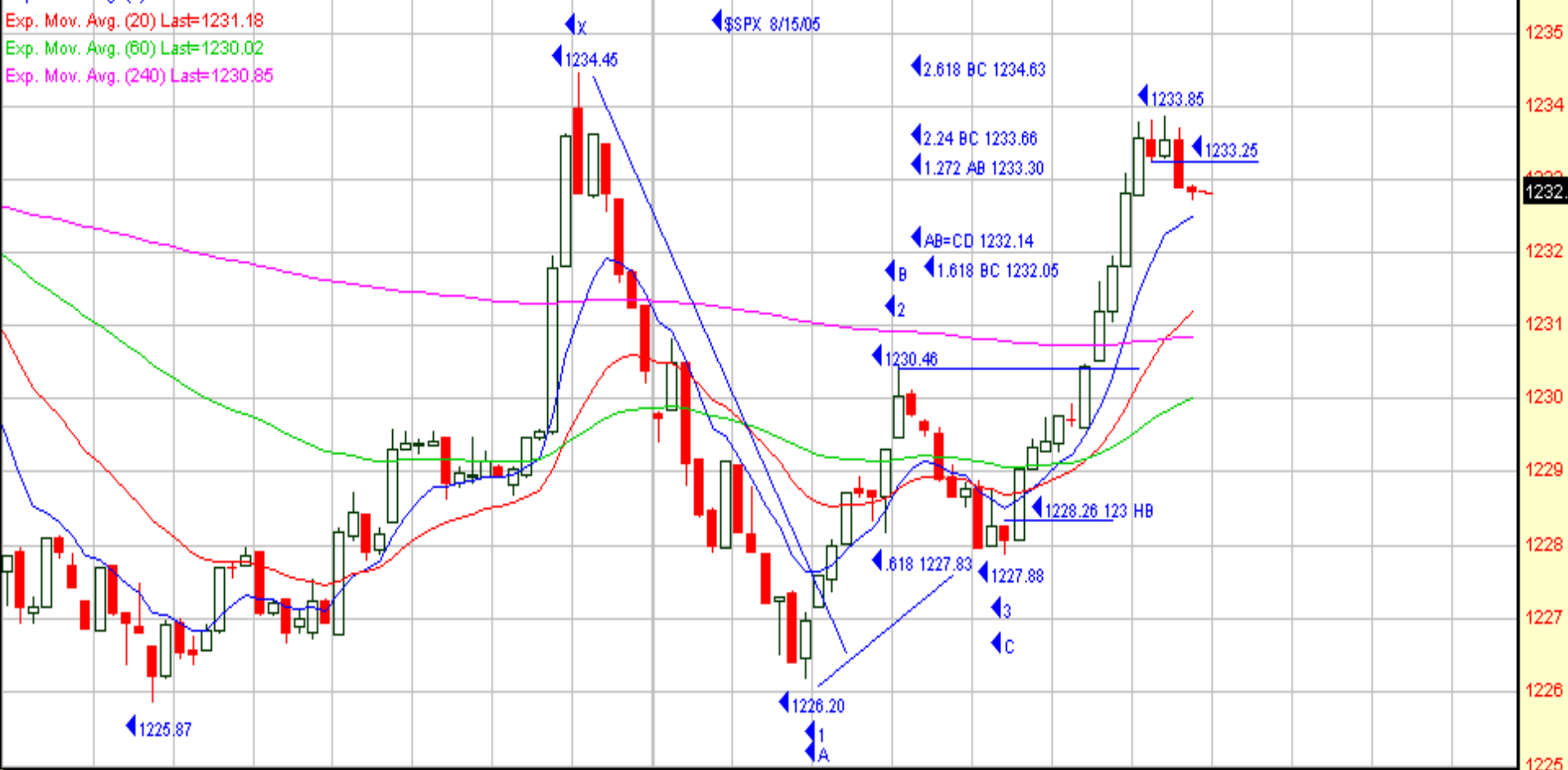


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Chande Momentum Oscillator (15)

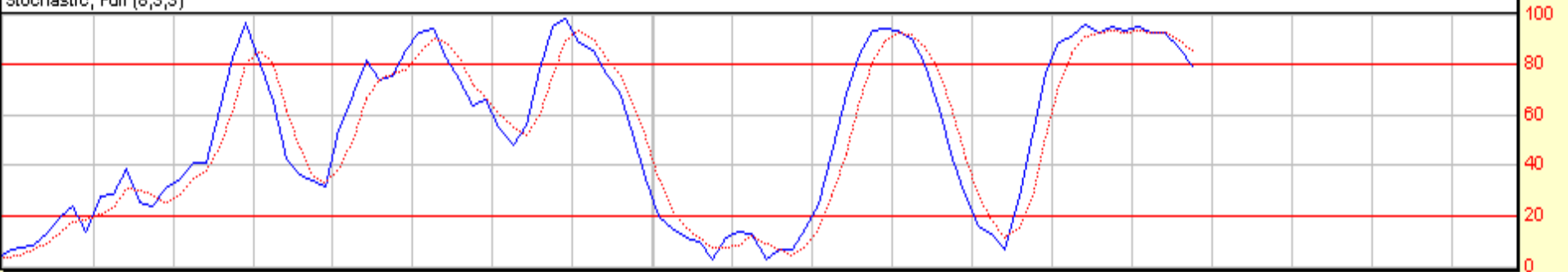


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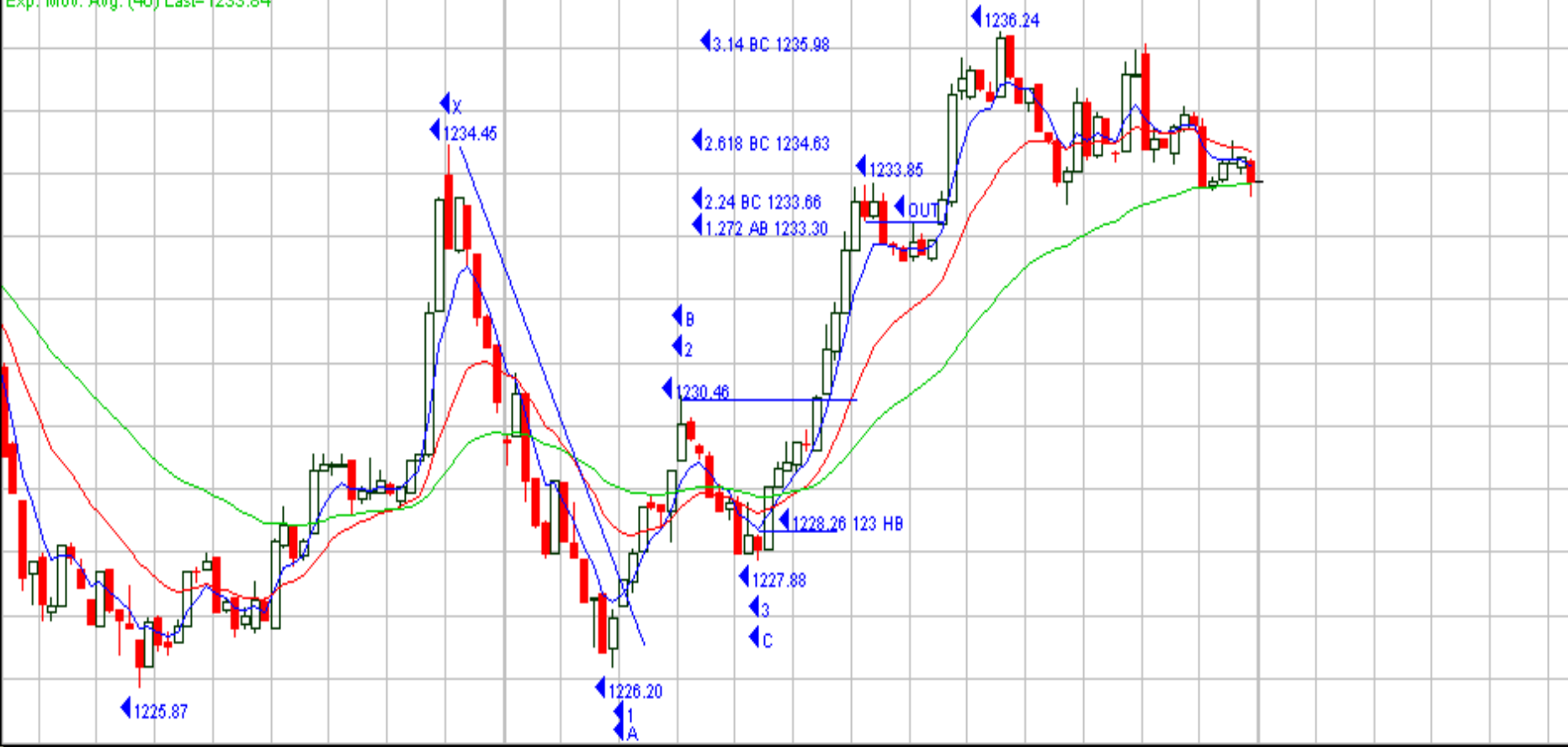
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Stochastic, Full (8,3,3)



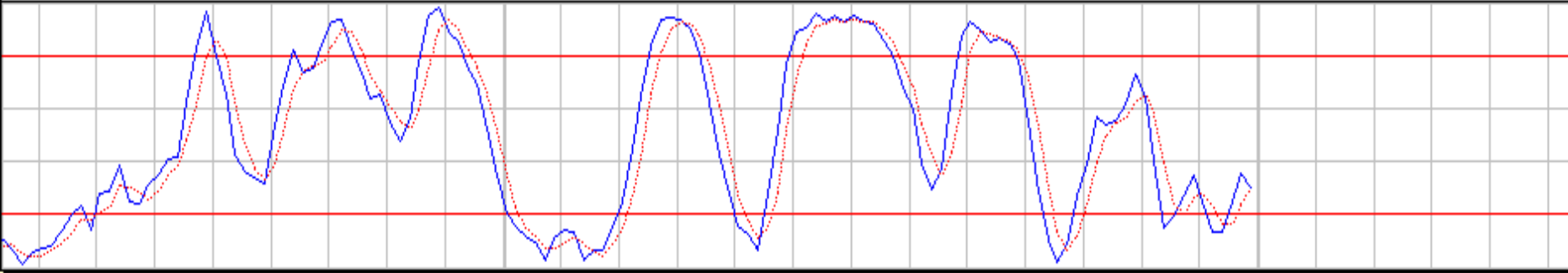
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Stochastic, Full (8,3,3)

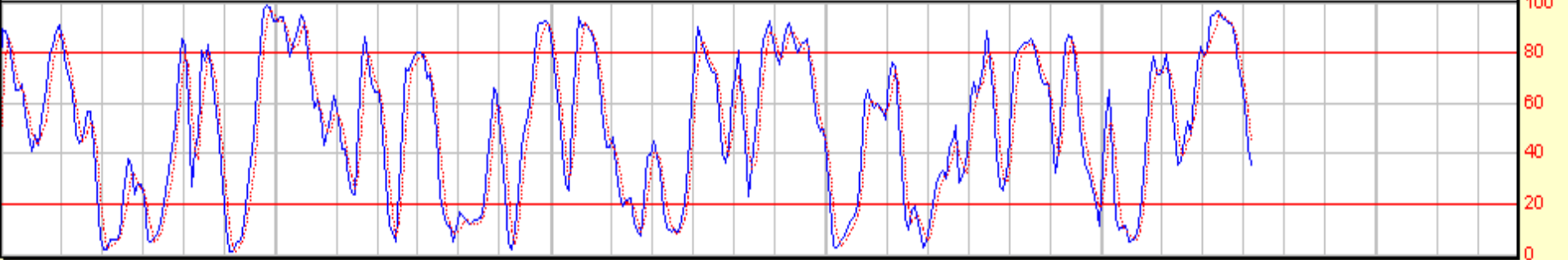


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Stochastic, Full (8,3,3)

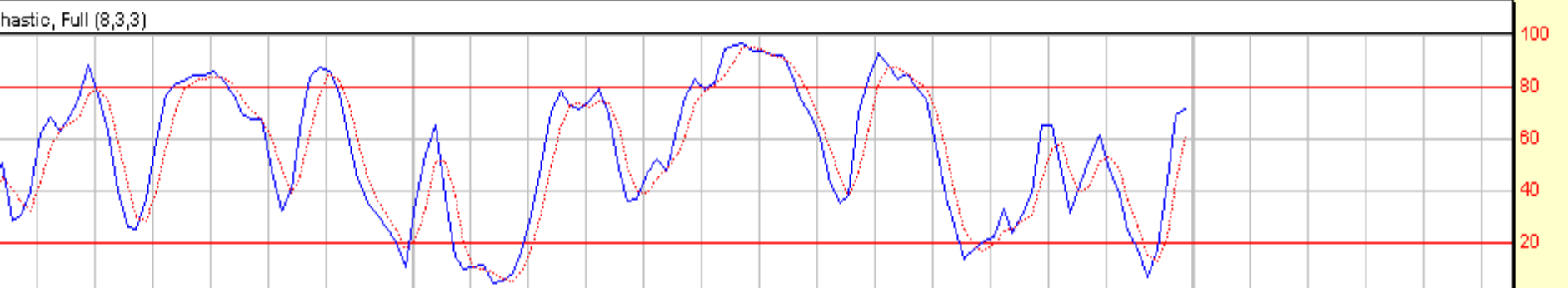


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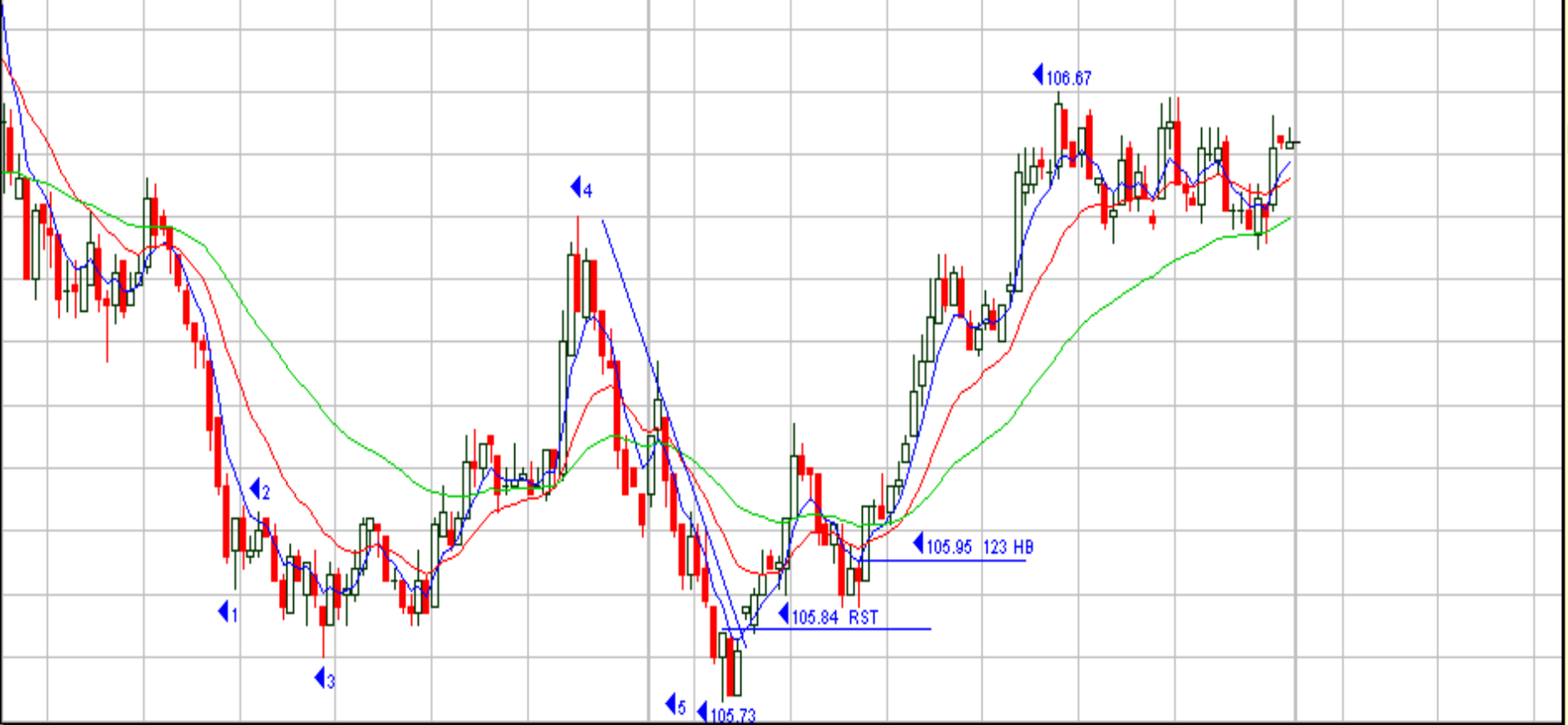
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stochastic, Full (8,3,3)



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Stochastic, Full (8,3,3)

