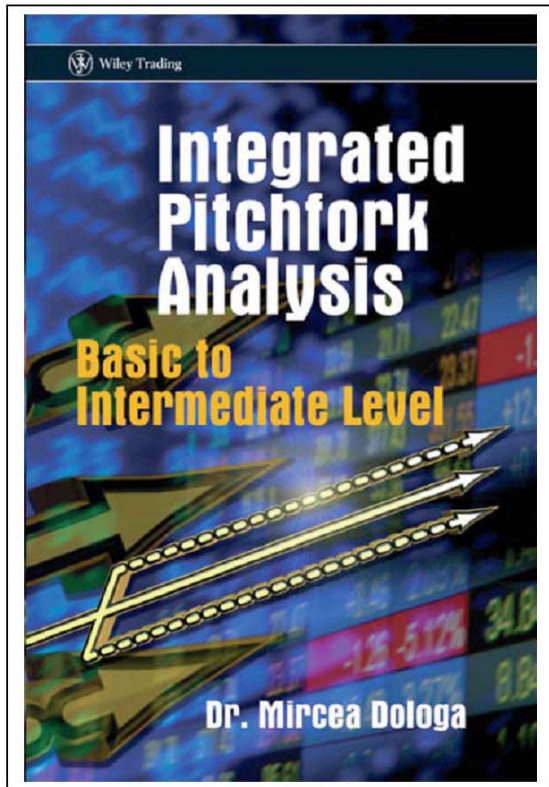


Excerpts: 444 Pages – 420 Charts



Breakthrough studies of Integrated Pitchfork Analysis

"Dr. Mircea Dologa picks up where Dr. Alan Andrews left off in his breakthrough studies of 'pitchfork' pattern analysis. In his new book, the author has taken the interpretation and application of 'pitchfork' patterns to an entirely new level. After studying Dr. Dologa's well written and very well illustrated book I will never look at a chart the same way again. What Dr. Dologa has done with 'pitchforks' is absolutely amazing. You've got to read it to believe it. Pitchfork patterns can provide so much practical and useful information that you will be referring to this book over and over. The book ends on a high note with an excellent chapter on Case Studies and Money Management. Traders will want to keep this powerful book handy for frequent reference. Highly recommended."

Chuck LeBeau, Director of Quantitative Analysis for SmartStops.net and co-author of *Computer Analysis of the Futures Market*, noted trader, lecturer and trading systems developer.

Integrated Pitchfork Analysis: Basic to Intermediate Level is an introductory text to the branch of Technical Analysis which uses the Andrews' pitchfork trading technique. Designed for traders with no experience of Pitchfork Analysis this book demonstrates how to analyse the markets and trade using pitchfork analysis, assisting the novice trader in achieving a consistent performance.

Written by experienced trader, Dr Mircea Dologa, the founder of www.pitchforktrader.com, the book begins by introducing and discussing the basic theory of pitchfork trading, providing a description of the technique, how to analyse the charts and how to make a decision based on that analysis. It then moves on to the more practical aspects about the low risk high-probability trade from its inception to its termination. Crucially expert guidance on money management and risk management techniques - when to get in, when to get out and where to locate the initial or trailing stops is also provided.

Ultimately *Integrated Pitchfork Analysis: Basic to Intermediate Level* will teach you how to trade, how to follow the markets and how to consistently make money.

International Praise for

Integrated Pitchfork Analysis Basic to Intermediate Level

"Dr. Mircea Dologa's book, Integrated Pitchfork Analysis, combines the breadth of evolving theory with the depth of experience acquired from years of practical application, leaving almost no stone unturned in an exploration of the Pitchfork and its application to profitable short-term trading. Many of Dr. Dologa's ideas are truly innovative, reflecting his understanding of human nature. It would be difficult to find a more complete coverage of Pitchfork trading. It is a mine of (literally) valuable information."

Tony Plummer, Director, Helmsman Economics Ltd, and author of *Forecasting Financial Markets: The Psychology of Successful Investing*.

"It has indeed been a privilege for me to have access to Dr Mircea Dologa's amazing analysis which I consider to be an extremely important contribution to Technical Analysis. His development of Integrated Pitchfork Analysis in synergy with existing state-of-the-art trading tools resulting in an easy to use professional edge technique has not been previously utilized. This undoubtedly increases the improvement of trading accuracy, leading to enhanced confidence with greater profitability for both trading and investing. This book is a truly remarkable achievement in the field of Technical Analysis and Dr. Dologa, like myself, is motivated to educate traders and investors on the wonderful world of Technical Analysis and how it can help them in these volatile markets. I believe Dr. Dologa will join the true Market Masters of the 21st Century."

Dawn Bolton-Smith, Founder-Member of the Australian Technical Analysis Association, Senior Technical Analyst, Educator & Writer.

"Dr. Mircea Dologa has masterfully defined and delineated the Median Line procedure that is central to Pitchfork Analysis and trading. His basic and intermediate theory and practice is a definitive work in this important realm of technical market analysis."

Professor Oliver Henry Pruden, Professor of Business Administration and Executive Director of the Institute for Technical Market Analysis, Golden Gate University, San Francisco, USA.



INTEGRATED PITCHFORK ANALYSIS

Basic to Intermediate Level

Dr. Mircea Dologa

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Introduction

Human nature tends to see what it expects to see . . . (Anon)

Common sense compels us to acquire a consistent technique that gives us the confidence to learn how to trade. This will not come without 'sweat and tears' but, as the Eastern sage says: 'What first brings pleasure, in the end gives only pain, but what at first causes pain, ends up in great pleasure.'

Trading should not be too difficult if you build on a solid foundation . . . just watch the basics!

Integrated Pitchfork Analysis is a coursebook focusing on the branch of Technical Analysis which uses the Andrews' pitchfork trading technique. The process begins with the underlying theory (basic and intermediate knowledge) and then, step by step, the practical aspects about the low-risk high-probability trade from its inception until its termination are covered. The emphasis is on the trade's management and money management. No prior knowledge of trading is required.

The course is divided into two parts. Volume I focuses on developing the basic knowledge of the pitchfork's morphology (study and description of a defined structure: definition, form, inflexion, derivation, and compounding) and its dynamic principles. It is indispensable to have this knowledge before using the more advanced concepts. Volumes II and III (in preparation) will focus on developing the multiple integrative methods that will greatly improve the chances of the trader being consistently successful.

Any professional trader will freely admit that it is vital to master just one main technique at a time. Once the learning process is accomplished, he can then apply his own rules and perceptions to help him become a trading force. Because each trader behaves slightly differently, he will use different methods to make decisions about entering a trade, exiting, stop losses, trail stops or projecting profit targets.

PUSH THE LIMITS OF YOUR LEARNING CURVE

The trading learning curve is like that of any other discipline. A neurosurgeon, an engineer or a teacher are continuously faced with new problems which are similar but not exactly identical to those previously encountered. In order to acquire consistently positive results, these professionals must repeatedly analyze problems from their past which will help them with those of the present. Would you allow your child to have surgery performed by an intern, or would you rather it was

performed by the chief surgeon? No physician would dare to operate alone after just a couple of weeks, months or even five years of learning the surgical techniques!

We cannot emphasize enough that chart interpretation and the wisdom of technical market behaviour cannot be learned overnight. This being said, we shouldn't be surprised that many of the 'wannabe' traders lose money and disappear after a couple of months. The richer the storehouse of experience, the more efficient the problem analysis will be. As a consequence, the consistency will improve and the trading results will ameliorate. However, most novice traders jump the gun and start trading after only a couple of months, if not weeks. Their thinking probably goes along the lines of, 'Even a stopped clock is right . . . twice a day!'

OMISSION AND INACTION

I couldn't proceed further with this process of imparting trading knowledge without mentioning the work of Jonathan Baron (<http://www.sas.upenn.edu/~baron/>), a 61-year-old psychology professor at the University of Pennsylvania. He has dedicated many years of his life to the study of judgement and decision-making, which he has described in wonderful detail in his latest book, *Thinking and Deciding*.

Knowing at least a bit about the omission phenomenon, coupled with inaction and decision-making processes, will greatly enhance our trading performance (see Chapter 19). Now, please don't get me wrong! My book is not about psychology even if, as a physician, I consider it is as important as food and shelter in the development of modern civilisation. This book is about short-term trading or, more specifically, about the pragmatic aspects of integrated pitchfork trading which will assist the novice trader in achieving a consistent performance.

NEVER AGAIN THE SNAKE OIL . . .

If the trader does not take the right approach to learning, not only could it cost him his shirt but he could be eliminated before he has had a chance to start making any money. After reading this book, common sense will dictate that you practise all the rules in order to get the most out of the charts.

- If you are a beginner, go to the web references listed below (we illustrate Dow Jones Cash Index and German Dax Cash Index URLs), and you'll find free delayed access for most of the securities:
 - <http://www.futuresource.com/charts/charts.jsp?s=DJY>
 - <http://www.futuresource.com/charts/charts.jsp?s=DAXY>
 - <http://www.prorealtime.com>
- We recommend the Advanced GET Charting, which is one of the most efficient, ergonomic and prolific charting tools available to the trader. We have been using it for years. You can take a 30-day free trial and see if the tool fits with your everyday practice: <http://www.esignal.com>
- Draw as many pitchforks as you can, especially in the pre-open. Become familiar with the intricacies of the pitchforks, rectangles, failures, and so on.

- Follow the charts during the day, simulating scenarios. Let the market come to you. Assess your post-market work and see if your judgements were good and, if not, why they failed.
- Discern whether there is some kind of correctable error in your judgement, a mistake in understanding the learning curve topics, or a sudden unexpected market condition.

More often than not, the novice traders do not focus on risk and money management as an essential part of their trading practice. This is due to greed and also to a poor understanding of the learning curve. As a first trading approach, their goal is to be right more than 50% of the time. However, trading is a business which is different to any other type of business. It is the only one where losing money is part of the way of life. The trader must understand the vital importance of the difference between losing tiny bits on average and consistently winning. Once you have learned how to lose these tiny bits, then and only then will you really start making money!

WHY A BOOK ON INTEGRATED PITCHFORK ANALYSIS?

As mentioned above, common sense encourages us to acquire a consistent technique that will give us confidence. Once you have decided to enter the highly competitive field of trading, you will quickly realize that this immense field can never be totally mastered. But one question arises: 'Do we really need to know all these topics?' The answer is, of course, 'No!'

The essence of becoming a consistently-successful trader is to understand the overall context of the market, and specialize in one of the techniques that works for various markets in any kind of tendency: trending or non-trending. In your quest for the 'Holy Grail' technique, you should be aware that by learning and cruising along with the 'smart money' people, you will acquire an inexhaustible edge.

As we have previously stated (at www.pitchforktrader.com):

... You should realize that in 2005 a large portion of the Chicago Mercantile Exchange (CME) floor traders and Chicago Board of Trade (CBOT) floor traders specialized in practising the pitchfork technique. They rely on it as part of their trading arsenal, in an off-floor environment. Our colleague, Timothy Morge, from www.medianline.com, conducted these professional and high quality exchange-sponsored seminars. We have for him, the deepest admiration and gratitude. We consider him, not only a master trader, but also a great teacher that has massively contributed to the development of the hyper-specialized field of pitchfork analysis, originated more than three quarters of a century ago and then continued by the late Dr. Alan H. Andrews, since the early 1960s.

So... sit down and think for a moment... if these people having the opulence of the smart money, who are using the best trading techniques that money can buy, are learning the pitchfork technique, what does it mean? Do they know something that the novices or the non-consistent traders ignore? The answer is a big 'Yes'.

They are convinced that the pitchfork technique should belong to their trading arsenal, because they have seen it at work... and it works. It is one of the best ways to consistency... so they adopted it. While the crowd is still far behind...

As we all know, the market price evolves in a *time—price* virtual space. In order to be consistent, both parameters should be taken into consideration. More often than not, traders do not apply

- The diversified efficiency in the various trending and sideways markets.
- And finally, the ergonomic and profitable trading efficiency in synergy with risk control.

Dr Mircea Dologa, MD, CTA
November, 2008
Paris, France
mircdologa@yahoo.com
Founder of www.pitchforktrader.com

Please read below the current disclaimer that the Federal Trade Commission (FTC) has proposed must be prominently displayed by anyone offering an investment course to the public.

Disclaimer

The purpose of this material is to provide you with a very powerful trading technique, named 'Integrated Pitchfork Analysis', a valuable tool in the financial markets. The text, the chart examples, or any part of this material are not to be taken as 'investment advice'. They are purely and strictly for educational purposes. Ultimately, you are responsible for all of your investment decisions. The data used in this material is believed to be from reliable sources but cannot be guaranteed.

There is no guarantee that this tool will continue to work in the future. 'Past performance is not indicative of future results'. You should understand that there is considerable risk of loss in the stock, futures or options markets. Neither the author, nor anyone else involved in the production of this material, will be liable for any loss, damage or liability directly or indirectly caused by the usage of this material.

Prelude

HOMework FOR THE READER: SPOTTING AND MANAGING A TRADE

0.1 Homework Instructions

In order to evaluate the reader's knowledge in comparison with that of the book's presentation we will assign in this section some homework for the reader, using the first three charts (Figs 0.1, 0.2 and 0.3). Your learning task is to study them carefully and try to find the best low-risk high-probability trading opportunity.

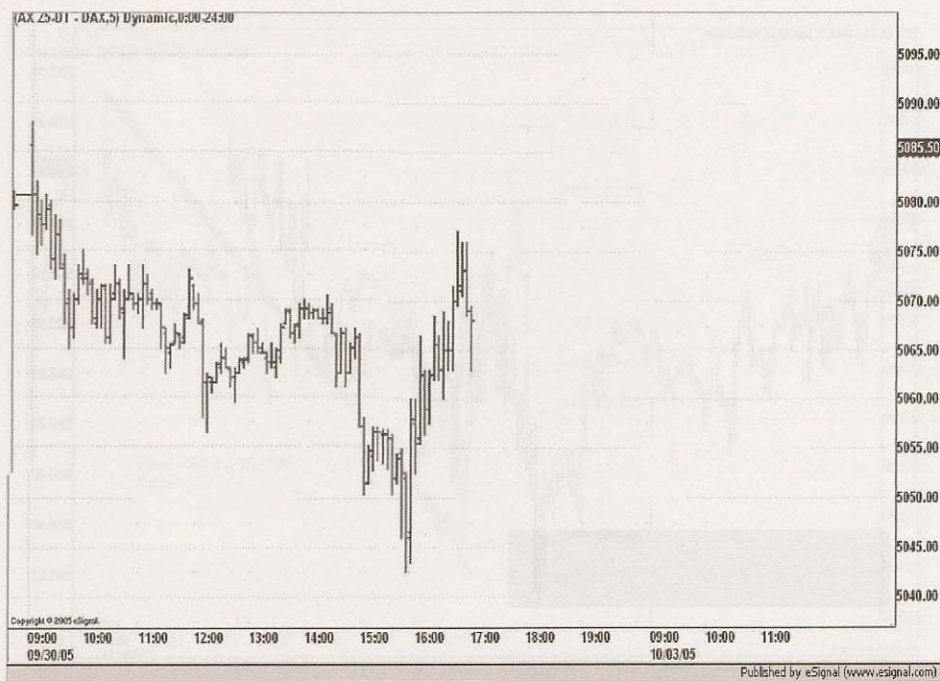


Figure 0.1 Homework chart: market under observation (Courtesy of www.pitchforktrader.com)

Do it in writing and take your time to study this example. Use only your trading experience as a guide. If you encounter difficulties, it means that this book is for you and that you will improve your knowledge after you have read and assimilated the information in this book.

Very few people are at ease in front of a naked chart. So do not blame yourself for anything . . . just study it. It takes what it takes!

After the three assignment charts, we will present in detail which trade will represent the best low-risk high-probability opportunity. Please do not be tempted to jump the gun and go straight to the chart solution. It will not be in your interest!

We wish you good luck!

Do not go to the next page, unless you have finished the homework!

0.2 Homework Solutions

Figures 0.4–0.10 offer a concise presentation of the homework and reveal the logical mechanisms of spotting and managing a low-risk high-probability trade. The synopsis table and the new lessons from the trade's execution, located at the end of this chapter, complete the assignment.

Figure 0.4 will help you implement your valuable chart markings:

- down-sloping trend line;
- labelling of the most current move (ABC swing);
- applying Fibonacci tools to monitor the activity of the local market.

All these start to take away the emptiness and incomprehension of the naked chart and begin the development of a competitive edge.

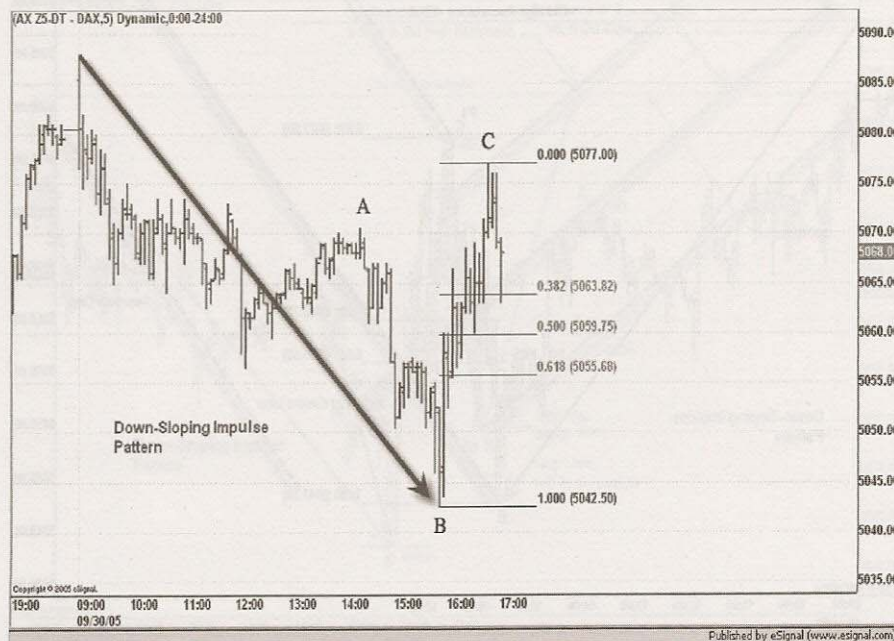


Figure 0.4 Implementing chart markings (Courtesy of www.pitchforktrader.com)

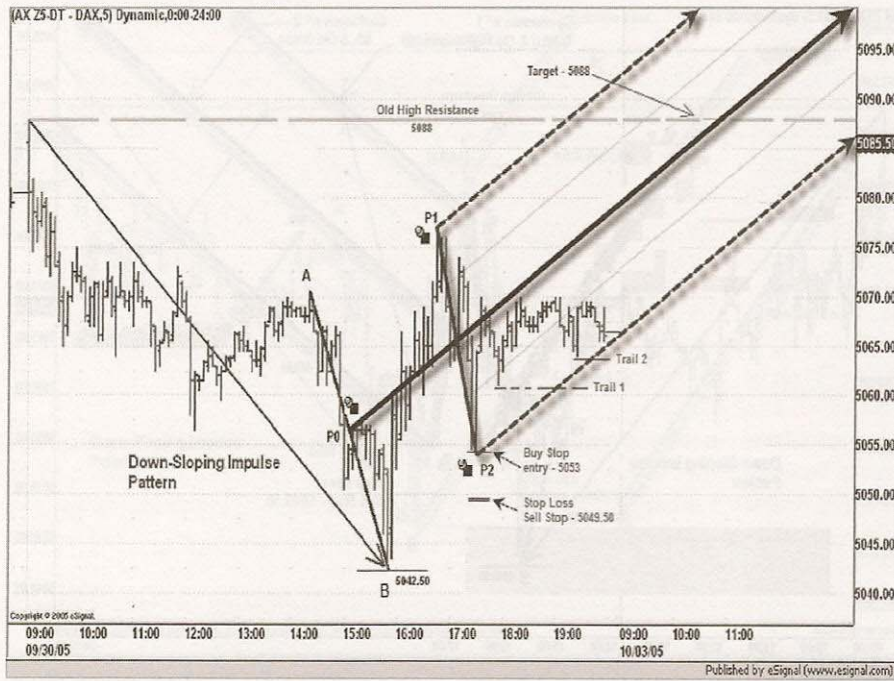


Figure 0.9 Schiff median line trade (cont.) (Courtesy of www.pitchforktrader.com)

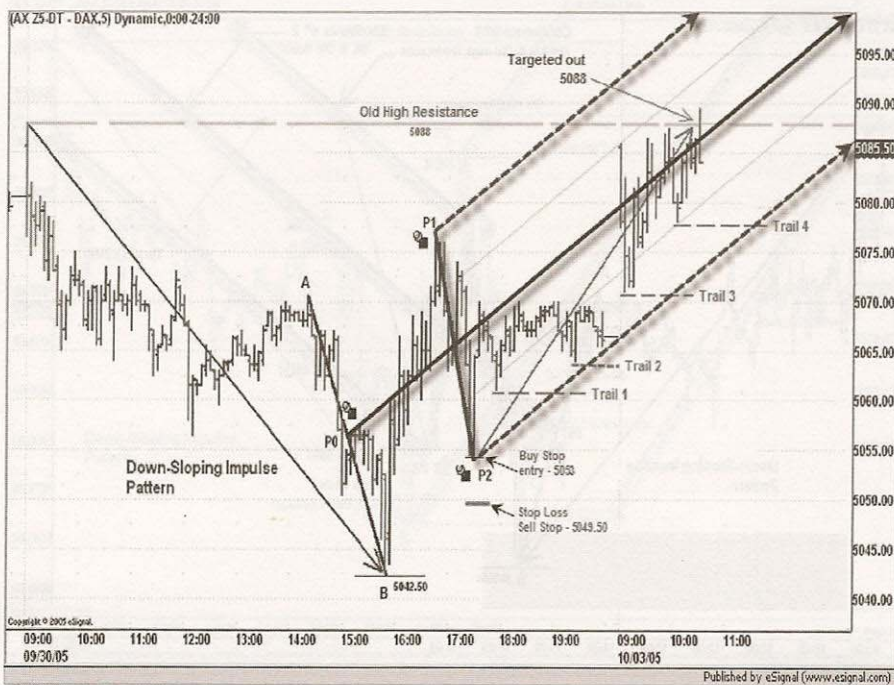


Figure 0.10 Reaching the logical profit objective (Courtesy of www.pitchforktrader.com)

1

The Birth of Pivots and the Pitchfork

The darkness of the unknown has always intrigued me. Whilst doing part of my residency in a New York City hospital, I was forever marvelling as our Emergency Medicine professor performed what seemed to be an almost magical examination on a comatose patient. He would spend only a few minutes observing the physical signs and quickly make his diagnosis. Then we eagerly waited for the results of the laboratory tests, which confirmed or negated the diagnosis. Most of the time, the professor's diagnosis was correct. Only years later have I come to understand the mechanism of his intuitive approach.

Whatever you decide to do in life, when starting from scratch you should always be aware of the 'knowledge building blocks' which will help you on your way, and trading is no different. Once you have mastered them, then and only then can you pursue more complex topics with competency. The approach given in this book guarantees a thorough understanding of the subject of pitchfork trading, and one that will shorten your learning curve, especially if you consistently practise the practical aspects. If you do so, you will be well on your way to applying intuition as part of your approach. Although it took him years of training and learning, my Emergency Medicine professor finally arrived at his goal: the planned intuition level. He could 'smell' a comatose junkie just by looking at him, or detect a potential suicide while inspecting the patient's nails, hair or clothes.

It might seem strange to associate Emergency Medicine and trading, but they both have the same strong impact on the psyche of the uninitiated person. When a person decides to take up trading, he or she will always be surprised by the emptiness of the chart, and will have the same feelings as the medical student on his first day in the Emergency Room. The emptiness, or 'nakedness', of the chart clearly illustrates the part of trading that new traders find the most perplexing (Fig. 1.1). With his eyes locked on to the vertical and horizontal axes, to the new trader the market appears to be completely motionless. At first, he is rather lost and, even if he has some idea of what trading is all about, does not know where to start.

This book will help the trader get over his initial bewilderment, and the charts are mapped in such a way that the left-to-right market movement on the time-wise horizontally oriented axis is clearly delineated.

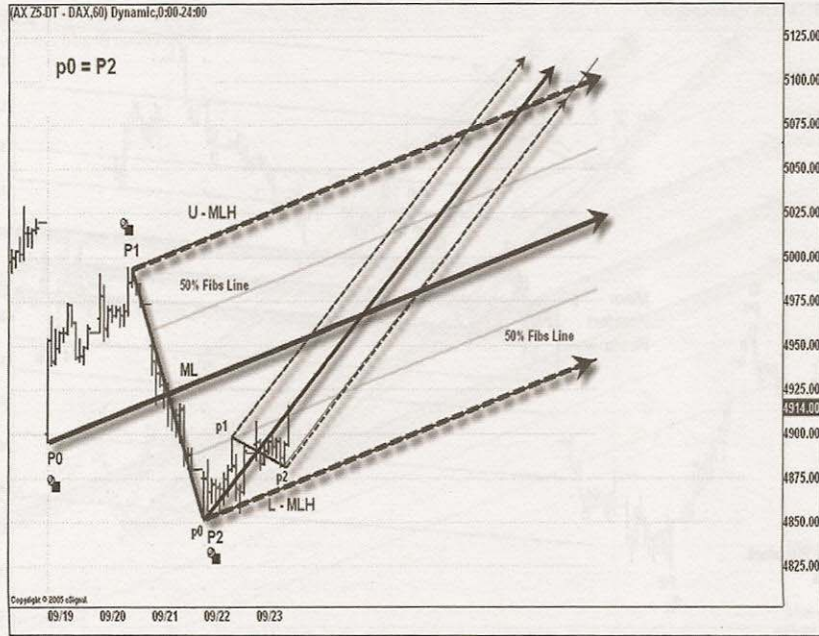


Figure 1.13 Creation of two PFs (Courtesy of www.pitchforktrader.com)

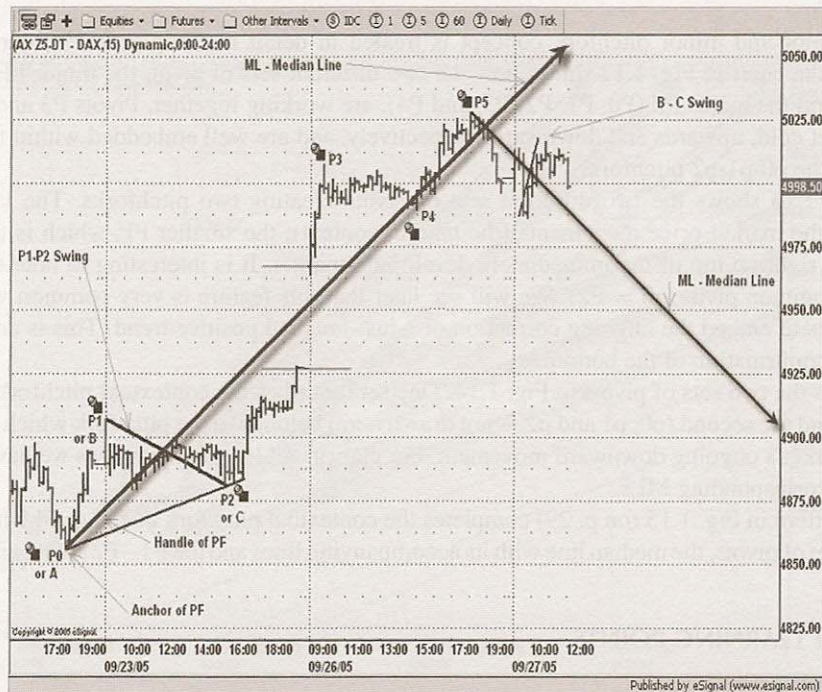


Figure 1.14 Stripped PF: MLs drawn only (Courtesy of www.pitchforktrader.com)

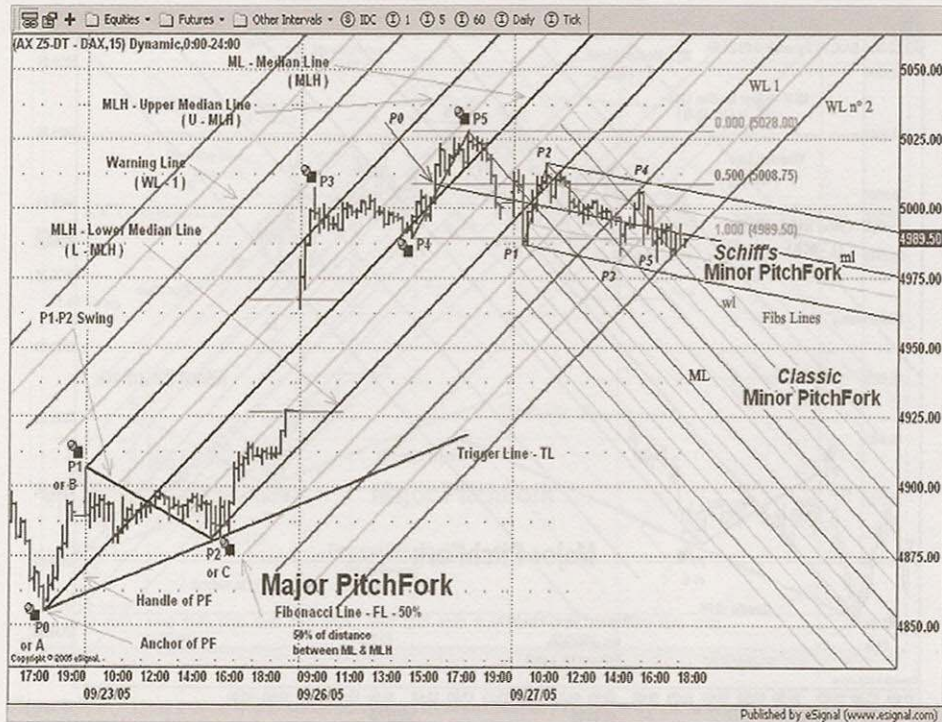


Figure 9.10 Using a new PF to describe a reversal (cont.) (Courtesy of www.pitchforktrader.com)

The market flow was embedded in the chart (Fig. 9.12 on p. 158) by three pitchforks:

- The first pitchfork, having the ML1, encloses the entire market, and almost forces the flow to take the lower channel formed by the ML1 and its lower ML.
- The second pitchfork (ML2) was drawn in the expectation that the market will take an up-sloping bias, which it does not, at least for the moment. We will see below that this pitchfork pattern results in a temporary up-sloping failure.
- The third pitchfork (ML3) is designed and drawn for a down-sloping bias.

In spite of drawing all three pitchforks we are not yet sufficiently ready to enter a low-risk high-probability trade. But . . . we have set up the context and followed the market in its local turbulence.

Careful observation of this labyrinth of lines and pitchforks reveals the following:

- The lower median line of the first pitchfork makes a strong and successful trigger line for pitchfork no. 2.
- The recent market (three bars behind) pierces it three times, zooming through but always closing above it.
- The last market bar is a perfect inside bar which, together with the piercing and closing above the line, gives a strong indication that an up-swing reversal is in the making.

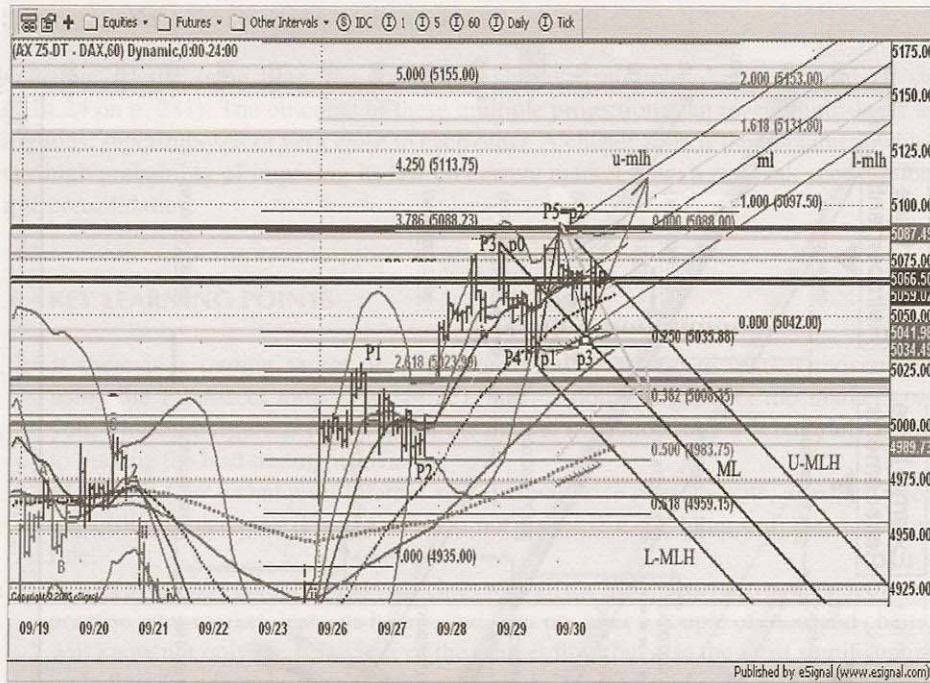


Figure 14.23 Applying Fibonacci price ratios' oblique lines to the development of a traditional pitchfork (cont.) (Courtesy of www.pitchforktrader.com)

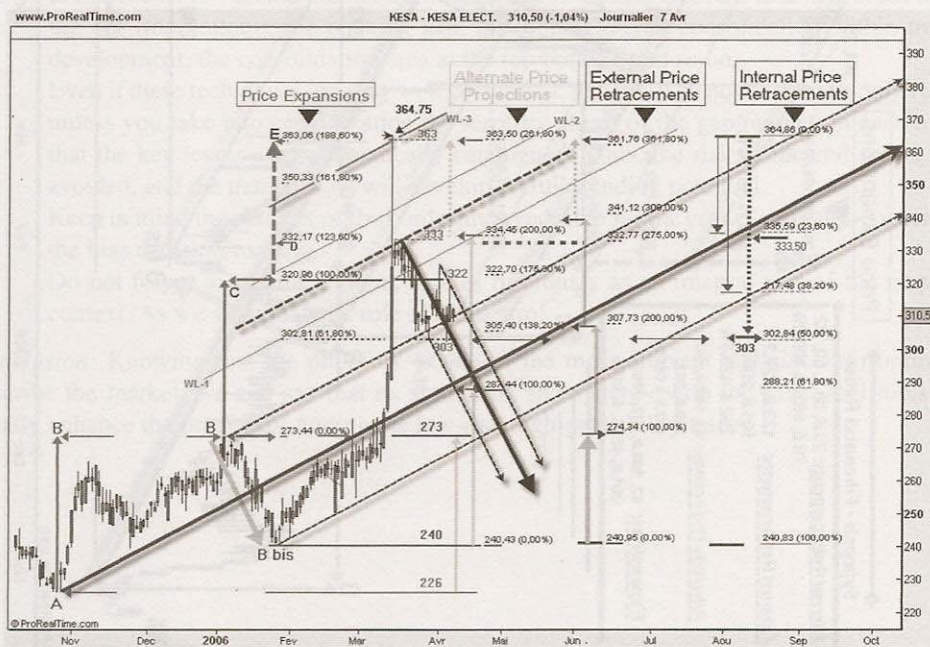


Figure 14.24 Obtaining a cluster zone (Courtesy of www.pitchforktrader.com)

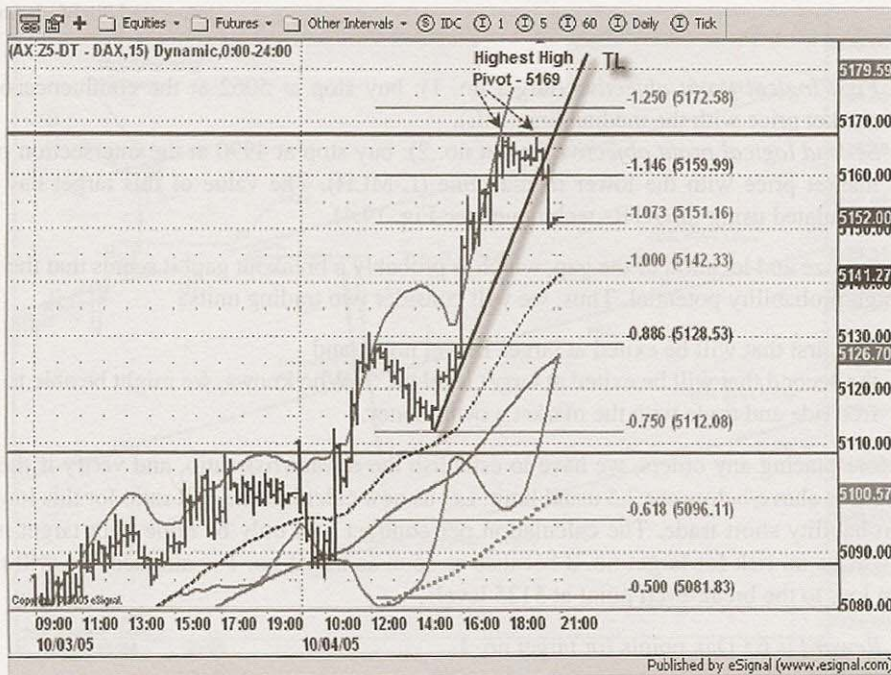


Figure 19.18 Beginning of a correction on a 15-min chart (Courtesy of www.pitchforktrader.com)

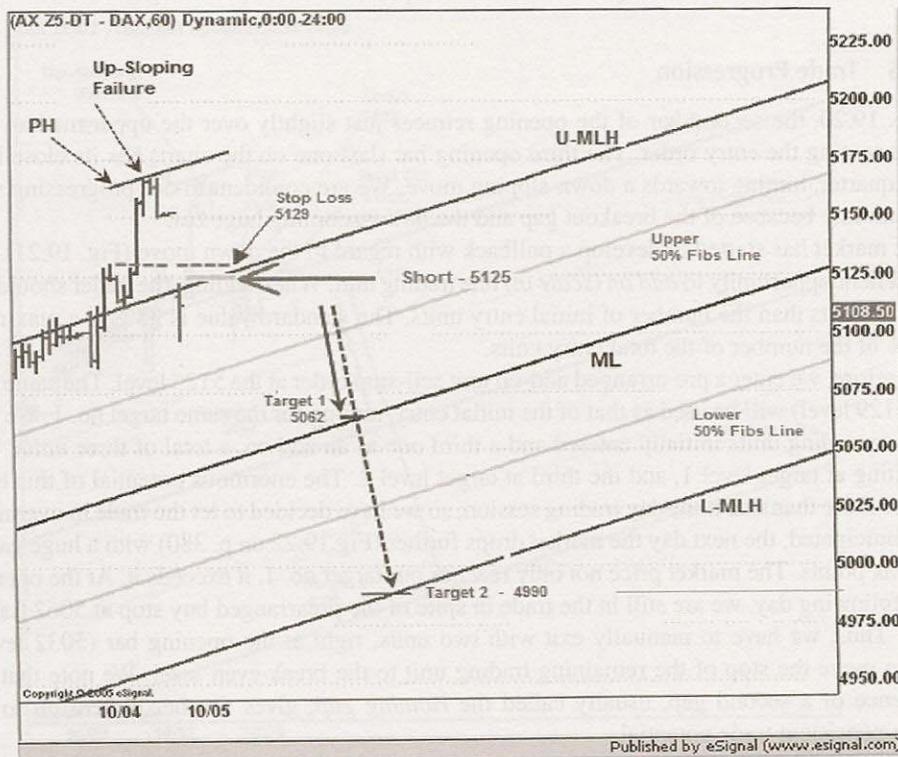


Figure 19.19 Calculating the optimal reward/risk ratio (R/R ratio) (Courtesy of www.pitchforktrader.com)

Confluence.

Defined as a gathering point, it is an intersection of multiple vectorial forces, which could promptly halt many of the kinetic forces. The greater the number and the impact of these forces, the stronger the halting power is. We can compare it with a rail road train depot towards which numerous tracks converge.

From our point of view, the exact meaning is the intersection of two lines, which may be horizontal with oblique or the intersection of two or more oblique trend lines. They mostly belong to the median line parallels of two or more different pitchforks (*major vs. major, major vs. minor, or minor vs. minor pitchforks*). We should not neglect the panoply of other lines, such as: Fibonacci ratio lines, old high/low levels, high/low/midpoint levels in old or recent gaps, and so on.

We consider a confluence valid *only* if the price bars either cross the intersection zone (*point*) or are very near, no further away than 1-3 bars.

Conservative Trade.

Whenever performing a trade, the trader can take bigger or smaller risks, which we say should be still within his capital preservation potential. When the risk is minimal with regard to trader's usual risk procedure, then the trade is qualified as conservative. It implies a lower profitability than the aggressive trade and probably a lower frequency of the overall trades. And remember, the trade's risk is lower! See also **Aggressive Trade**.

Context (of Market).

This term describes the conditions of the whole market in regard to its layout. Among other descriptive parameters, we can mention:

- Where is the price coming from?
- Where does it seem to be going?
- Is the market trending or non-trending?
- What is the market's exact location within the whole context?
- How high/low is the morning, afternoon or day's apogee (highest high)?
- What is the trend's slope like, or how did the price reach the current location?
- Was there continuous movement, or did the price jump directly towards the high/low of the chart?
- How did the day finish – perhaps at an extreme point of the chart, or was there a last gasp in pre-close with the market closing with a huge counter price bar?

Contextual Market.

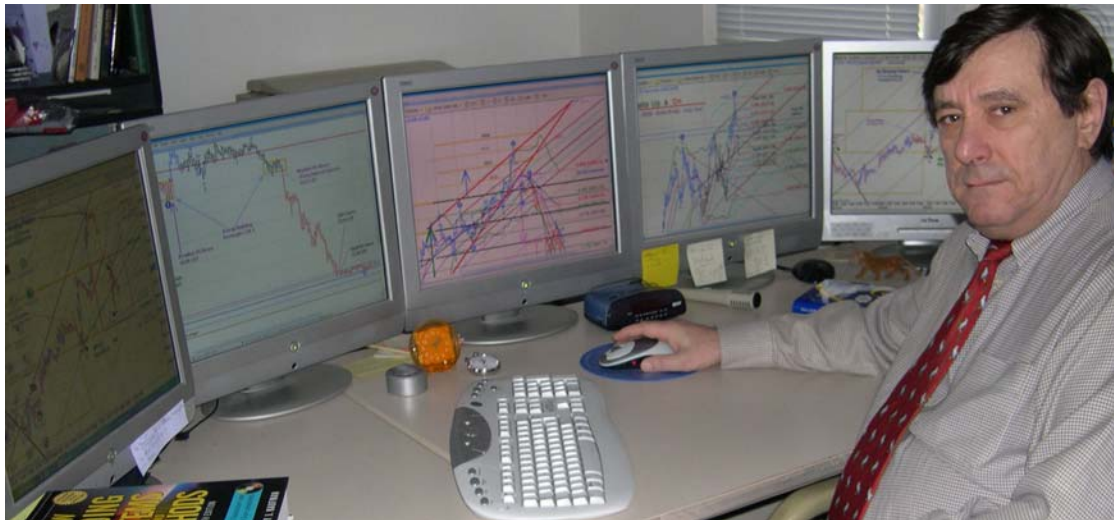
The entire market containing the local market.

Correction.

This term refers to a counter-move with regard to a prior trending move. One can also use the word *retracement*. The trader uses the Fibonacci ratio tools to quantify the degree of correction.

Criss-Cross Pattern Technique.

It is a sort of market mapping used through the *dispersion* mechanism of two different Action & Reaction Lines set-ups, sharing the same Center Line. A double overlapped Center Line is created, which is represented on the chart as a single trend line.



About the Author

Dr Mircea Dologa began his investment and trading career in the pharmaceutical and real estate industries in 1987. Once he passed the Series 7 and Series 3 exams, he realized the scarcity of the true 'know how' tools in financial literature and seminars. As a Commodity Trading Advisor (CTA), he founded a new teaching concept, mainly based on practical aspects of trading, for both newcomers and experienced traders. He is an international contributor to trading magazines in the USA (*Technical Analysis of Stocks & Commodities, Futures*); the United Kingdom (*The Technical Analyst*); Germany (*Traders* - English- and German-language editions); Australia (*Your Trading Edge*) and Asia (*The Trader's Journal*).

After reading hundreds of trading books and attending numerous seminars, the same question kept popping up: Where is the meat? Most of the time. . . it wasn't there!

The author's main thought during the two years of planning, conceiving and writing this book was how to revealing the practical aspects of trading. The key topic, continuously present in his mind, is described below.

This *Integrated Pitchfork Analysis* workbook is a way of bringing risk control to the trader using this technique. Risk control is the only factor that counts when building consistency – the same principle applies in any entrepreneurial activity. Risk dominance will be always present because of the trader's professional life. He knows that, of all businesses, trading is the only one that imposes planned losses. Risk management is the only element which will enable him 'to be or not to be' a consistent trader. The main idea throughout the book is: 'How to build consistency', and for that you have to religiously respect the saying: 'You make money, if you don't lose money'. The author sincerely hopes that he has accomplished this hard task of teaching and implementing trading consistency, but will let you, the trader, be the sole judge!

Dr Mircea Dologa attended New York University and Cooper Union School of Engineering and Science in New York and graduated from the latter with a B.S. in Theoretical Physics. He obtained his Doctorate in Medicine from the School of Medicine in Paris. After graduation and internship at the Mount Sinai Hospital in New York City and Xavier Bichat Hospital in Paris, he worked in the medical field of gastroenterology, and also took MBA courses in finance and business management at the University of South Carolina in Columbia and the French School of Business and Finance (HEC Paris France). After holding the position of Medical Director and later General Manager in a French pharmaceutical company, in 1992 he decided to focus exclusively on his investments and since then he has devoted his activity to financial markets. He lives with his wife and two daughters in Paris, France.

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