

How to Trade Gold Futures using the Language of Price to Guide Your Decisions

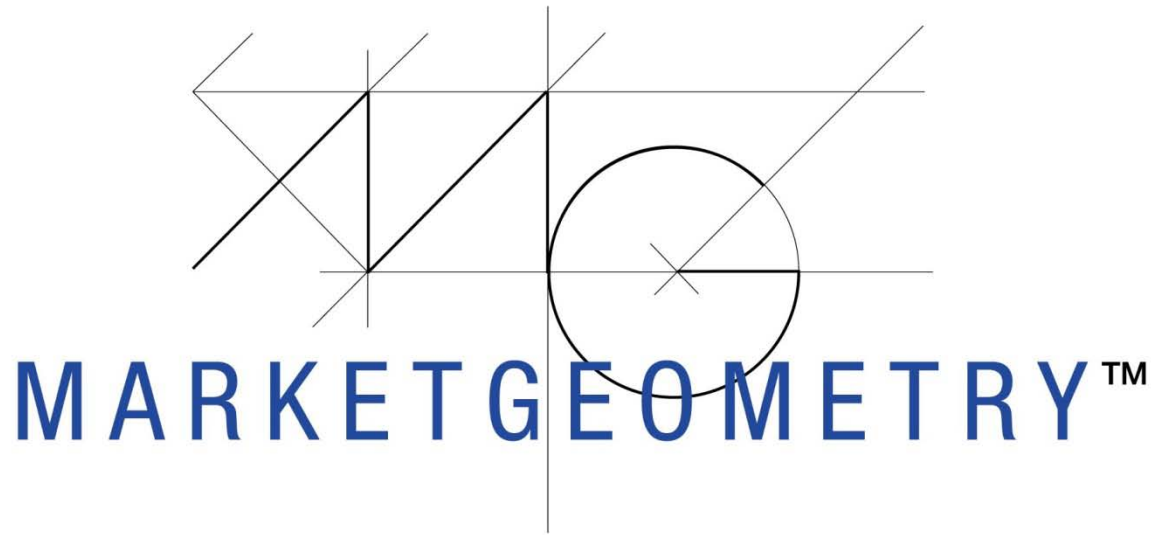


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Blackthorne Capital, Inc.

Internet Presentation Sponsored by Interactive Brokers December 15, 2011

www.marketgeometry.com

www.medianline.com



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In volatile market conditions, orders may not be filled as placed.

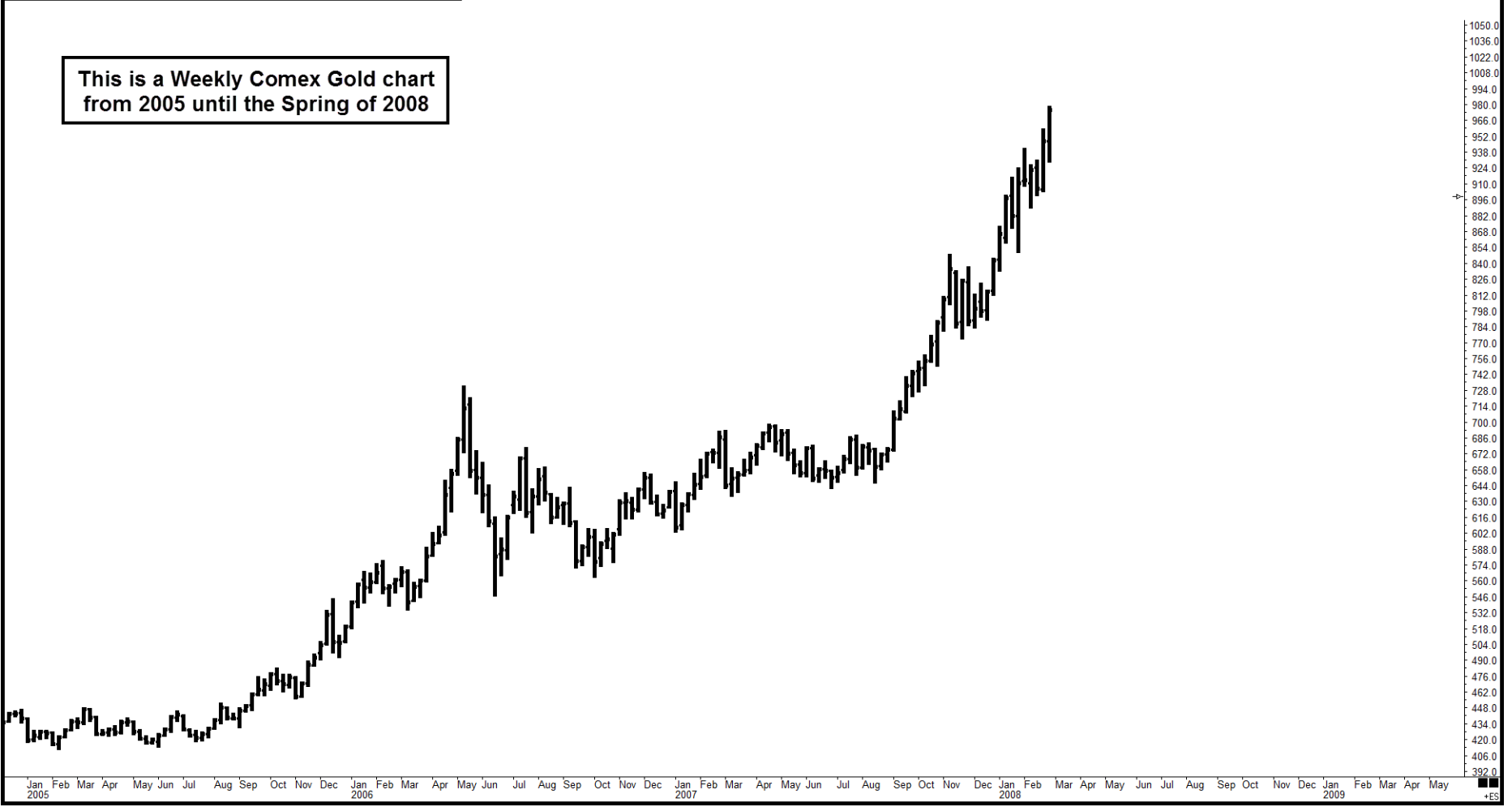
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This webcast is dedicated to my two early mentors: Dr. Alan Andrews, a great market researcher that applied Newtonian Physics in the 1920's to develop the Median Line, one of the only true leading indicators available to traders; and Amos Hostetter, a master of risk reward and money management and in my opinion, the best 'Campaign Trader' in the last 300 years.

Understanding the *Language of Price*:
A Study of the Weekly Comex Gold Futures Contract

This is a Weekly Comex Gold chart from 2005 until the Spring of 2008



1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
910.0
896.0
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490.0
476.0
462.0
448.0
434.0
420.0
406.0
392.0

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This is a Weekly Comex Gold chart from 2005 until the Spring of 2008



Simple Line of Force

Just drawing a Line of Force through the price action shows us that Price is in an Up Trend.

1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
910.0
896.0
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420.0
406.0
392.0

Jan 2005 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2006 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2007 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2008 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2009 Feb Mar Apr May

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Price can rise vertically, but it burns its potential energy quite quickly, so we know vertical moves are not sustainable.

This bar zooms through the Multi-Pivot Line and ignites a move higher. Let's call it the Point of Ignition.

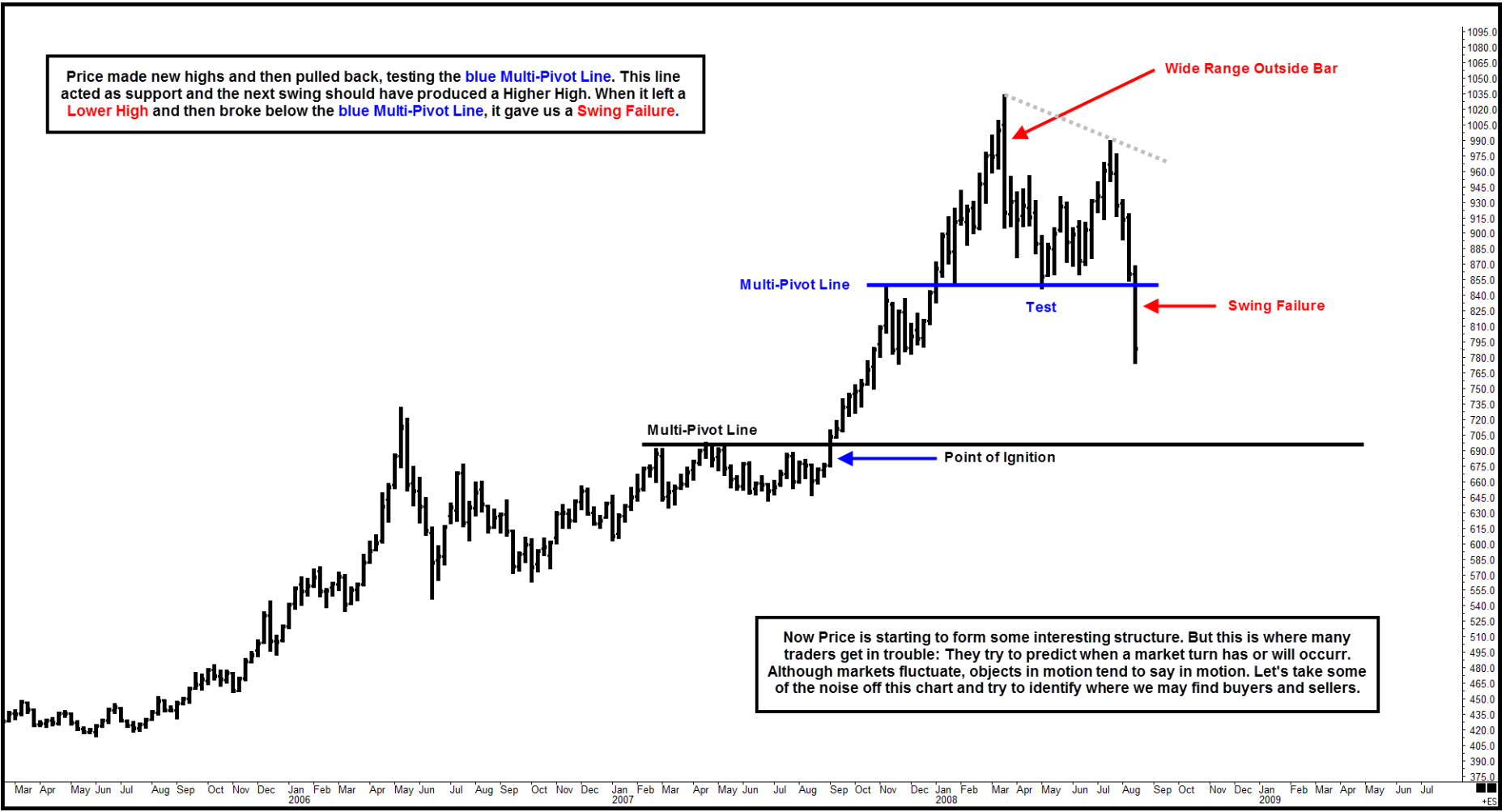
Prior High

Multi-Pivot Line

Price is making sustainable Higher Swing Highs and Lows

We need mature structure to draw meaningful Median Lines. Price has not recently given us any Major Swing Highs and Lows to draw from, so we'll wait. Price fluctuates and will give us Pivots to work with if we are patient.

Price made new highs and then pulled back, testing the blue Multi-Pivot Line. This line acted as support and the next swing should have produced a Higher High. When it left a Lower High and then broke below the blue Multi-Pivot Line, it gave us a Swing Failure.



Now Price is starting to form some interesting structure. But this is where many traders get in trouble: They try to predict when a market turn has or will occur. Although markets fluctuate, objects in motion tend to stay in motion. Let's take some of the noise off this chart and try to identify where we may find buyers and sellers.

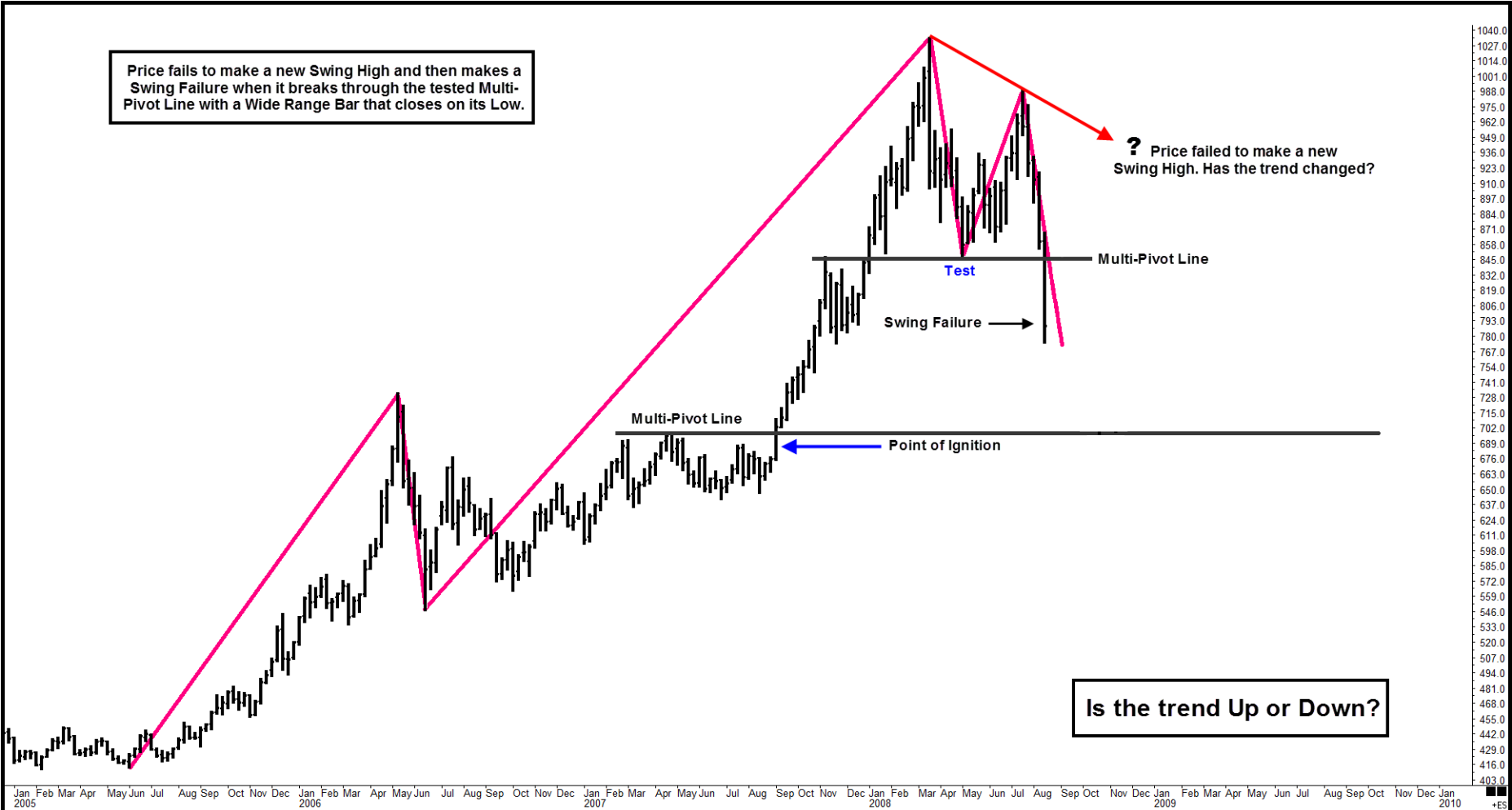
Price fails to make a new Swing High and then makes a Swing Failure when it breaks through the tested Multi-Pivot Line with a Wide Range Bar that closes on its Low.

? Price failed to make a new Swing High. Has the trend changed?

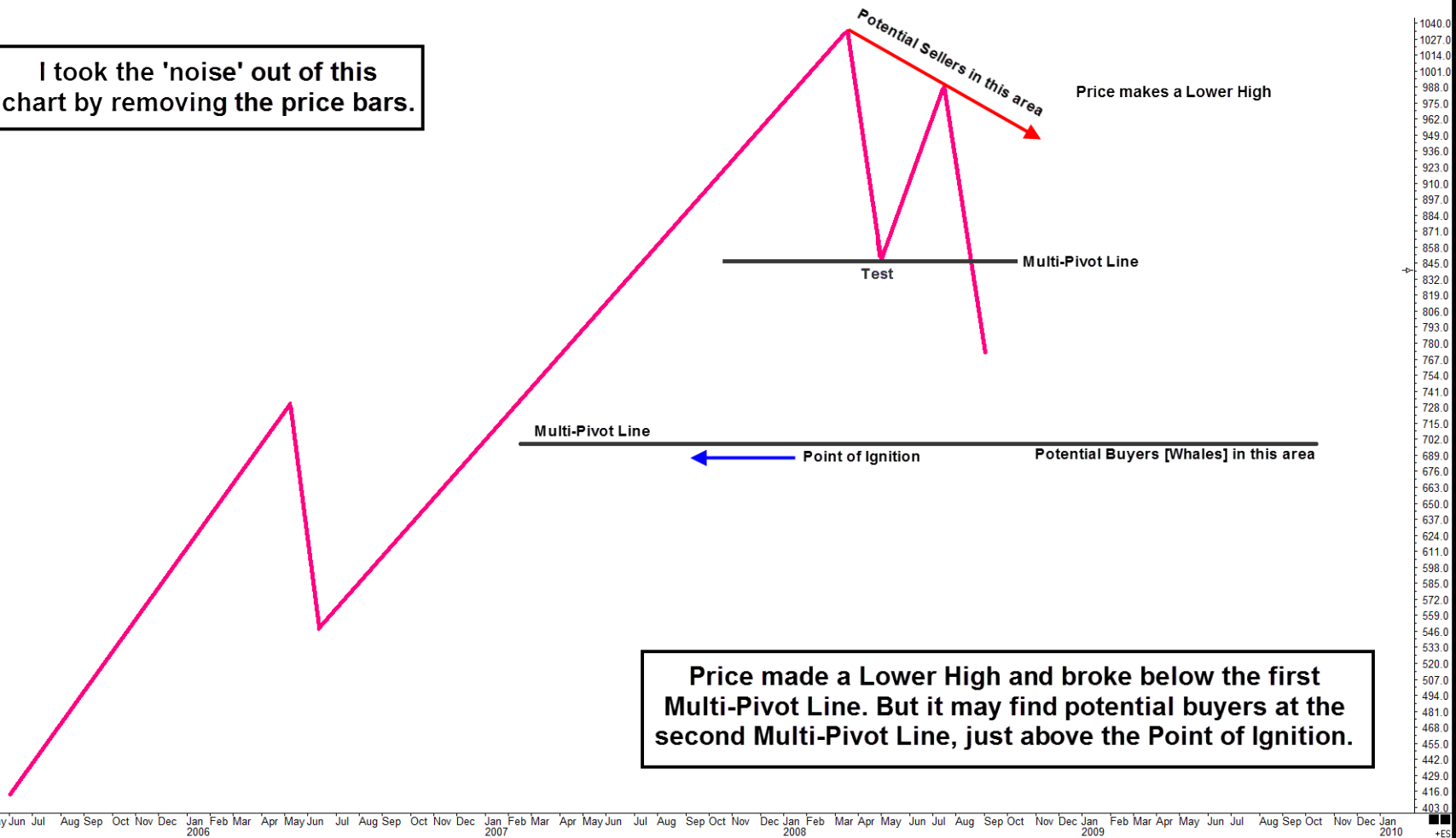
Multi-Pivot Line
Test
Swing Failure

Multi-Pivot Line
Point of Ignition

Is the trend Up or Down?



I took the 'noise' out of this chart by removing the price bars.

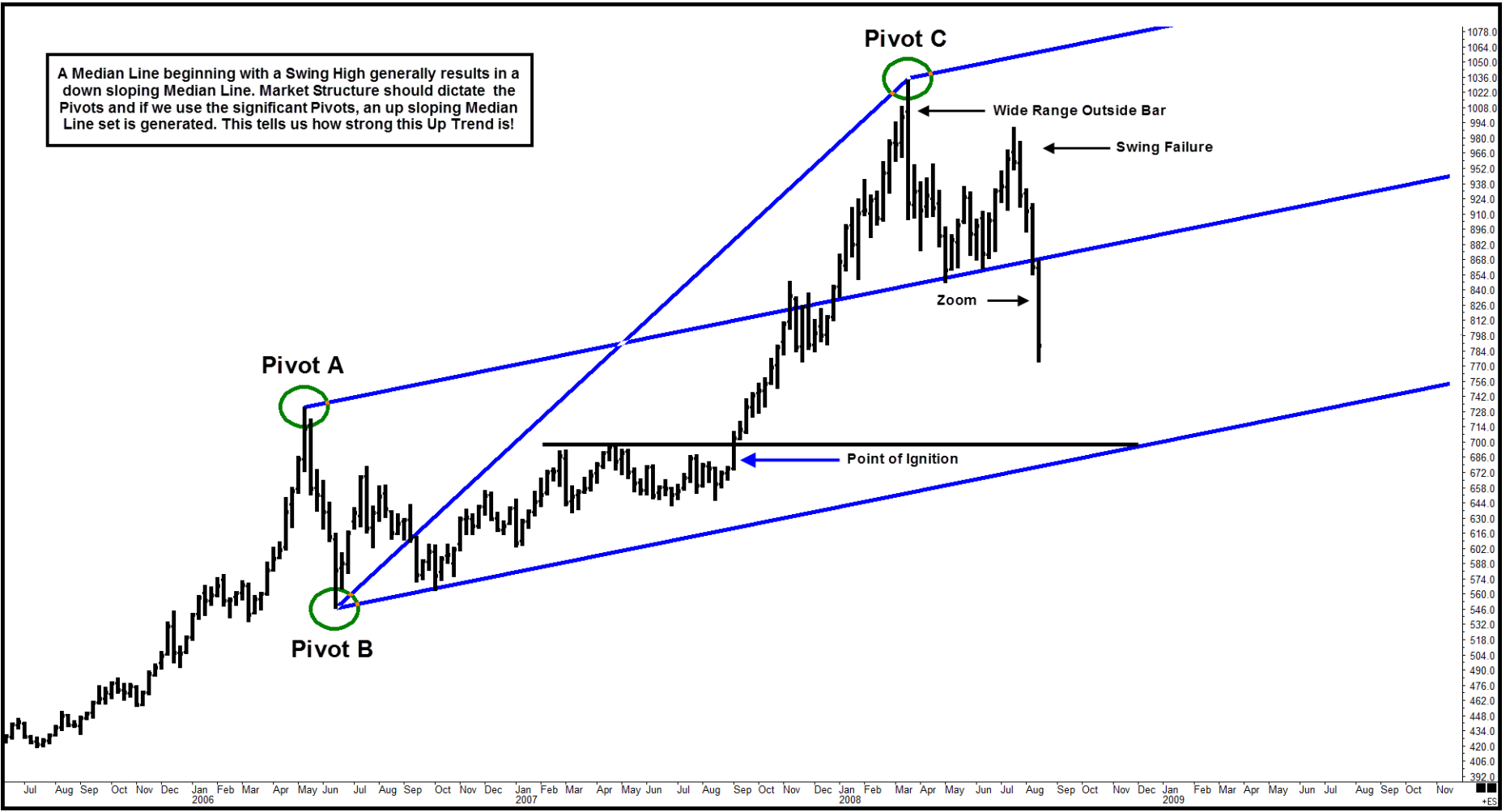


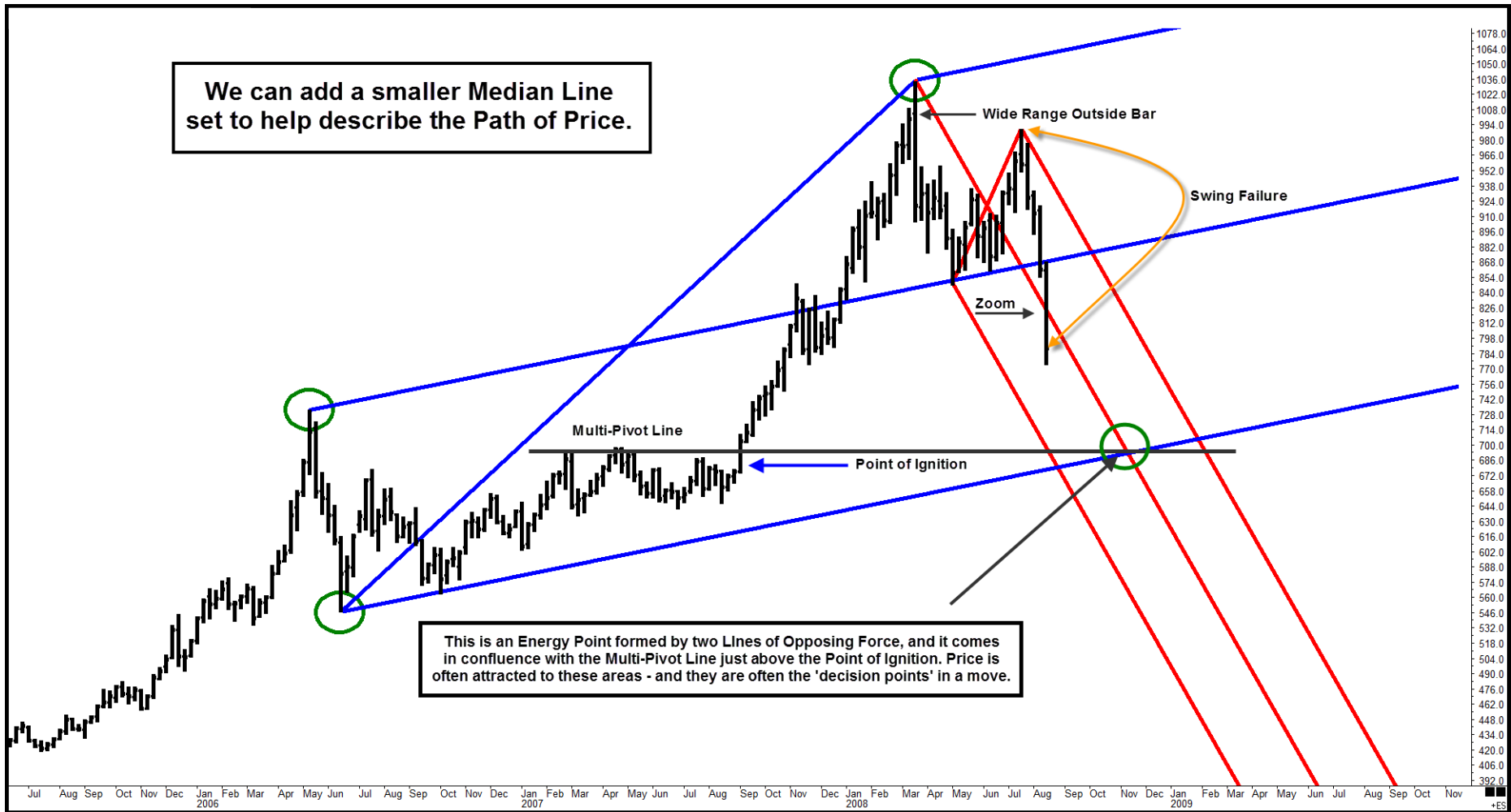
Price made new highs and then pulled back, testing the blue Multi-Pivot Line. This line acted as support and the next swing should have produced a Higher High. When it left a Lower High and then broke below the blue Multi-Pivot Line, it gave us a Swing Failure.



Now we have some mature Market Structure. I marked the extremes of the Market Structure and we'll try to use them to draw a Median Line.

A Median Line beginning with a Swing High generally results in a down sloping Median Line. Market Structure should dictate the Pivots and if we use the significant Pivots, an up sloping Median Line set is generated. This tells us how strong this Up Trend is!





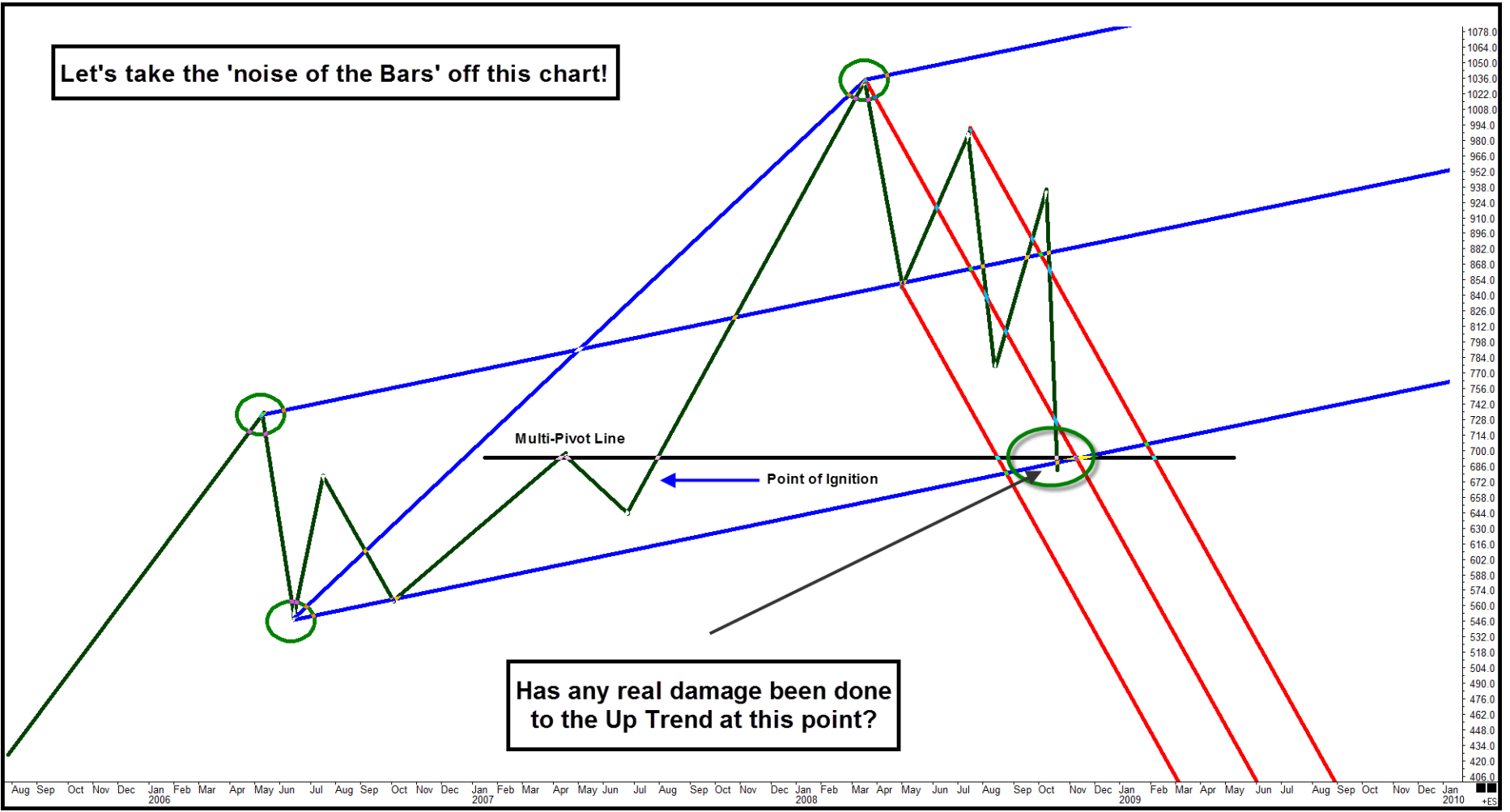
We can add a smaller Median Line set to help describe the Path of Price.

This is an Energy Point formed by two Lines of Opposing Force, and it comes in confluence with the Multi-Pivot Line just above the Point of Ignition. Price is often attracted to these areas - and they are often the 'decision points' in a move.

1078.0
1064.0
1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
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868.0
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630.0
616.0
602.0
588.0
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560.0
546.0
532.0
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434.0
420.0
406.0
392.0

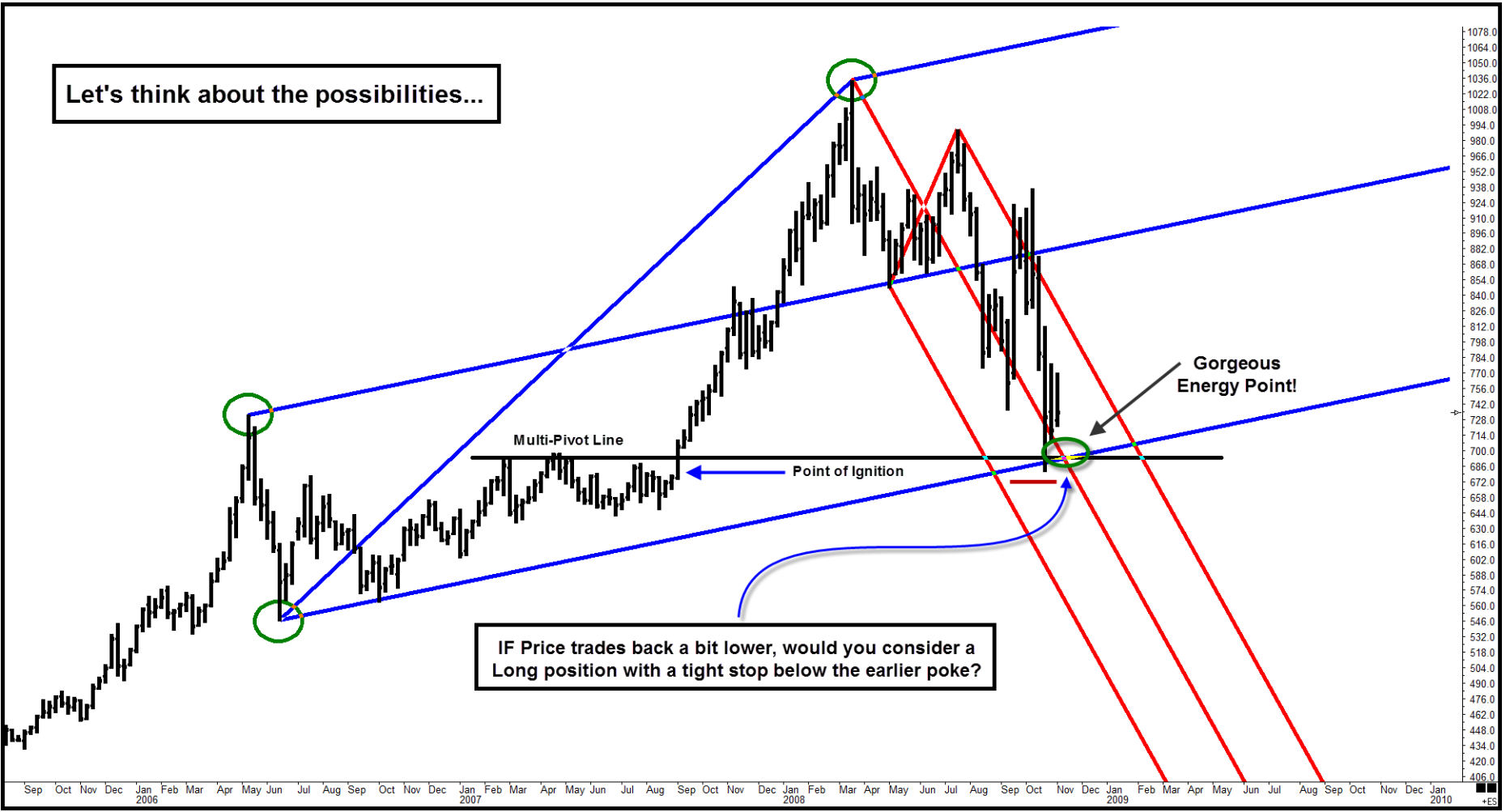
Jul Aug Sep Oct Nov Dec 2006 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2007 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2008 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009

Let's take the 'noise of the Bars' off this chart!



Has any real damage been done to the Up Trend at this point?

Let's think about the possibilities...

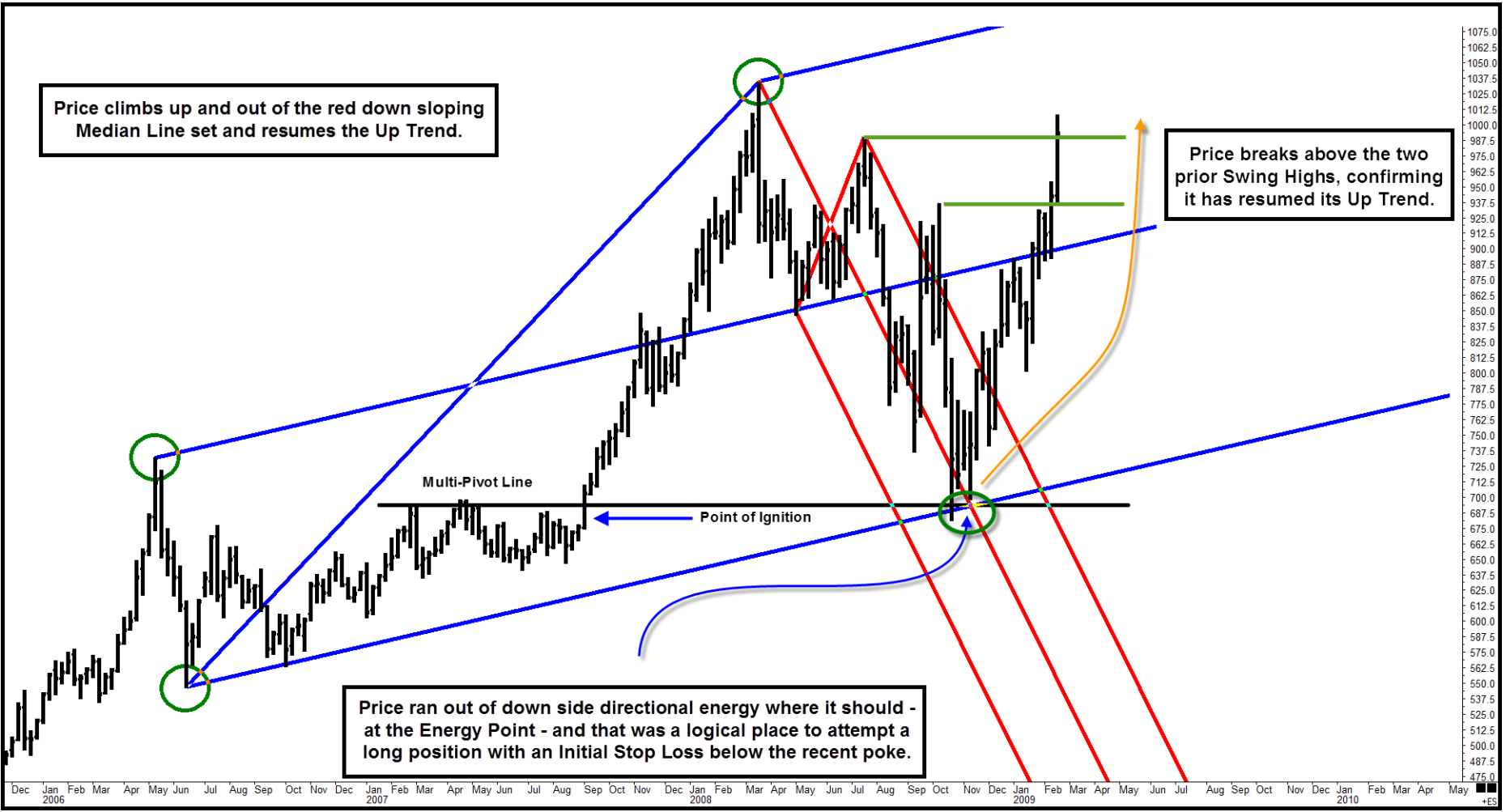


IF Price trades back a bit lower, would you consider a Long position with a tight stop below the earlier poke?

1078.0
1064.0
1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
910.0
896.0
882.0
868.0
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742.0
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672.0
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630.0
616.0
602.0
588.0
574.0
560.0
546.0
532.0
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490.0
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448.0
434.0
420.0
406.0

Sep Oct Nov Dec 2006 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2007 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2008 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2010

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Price climbs up and out of the red down sloping Median Line set and resumes the Up Trend.

Price breaks above the two prior Swing Highs, confirming it has resumed its Up Trend.

Price ran out of down side directional energy where it should - at the Energy Point - and that was a logical place to attempt a long position with an Initial Stop Loss below the recent poke.

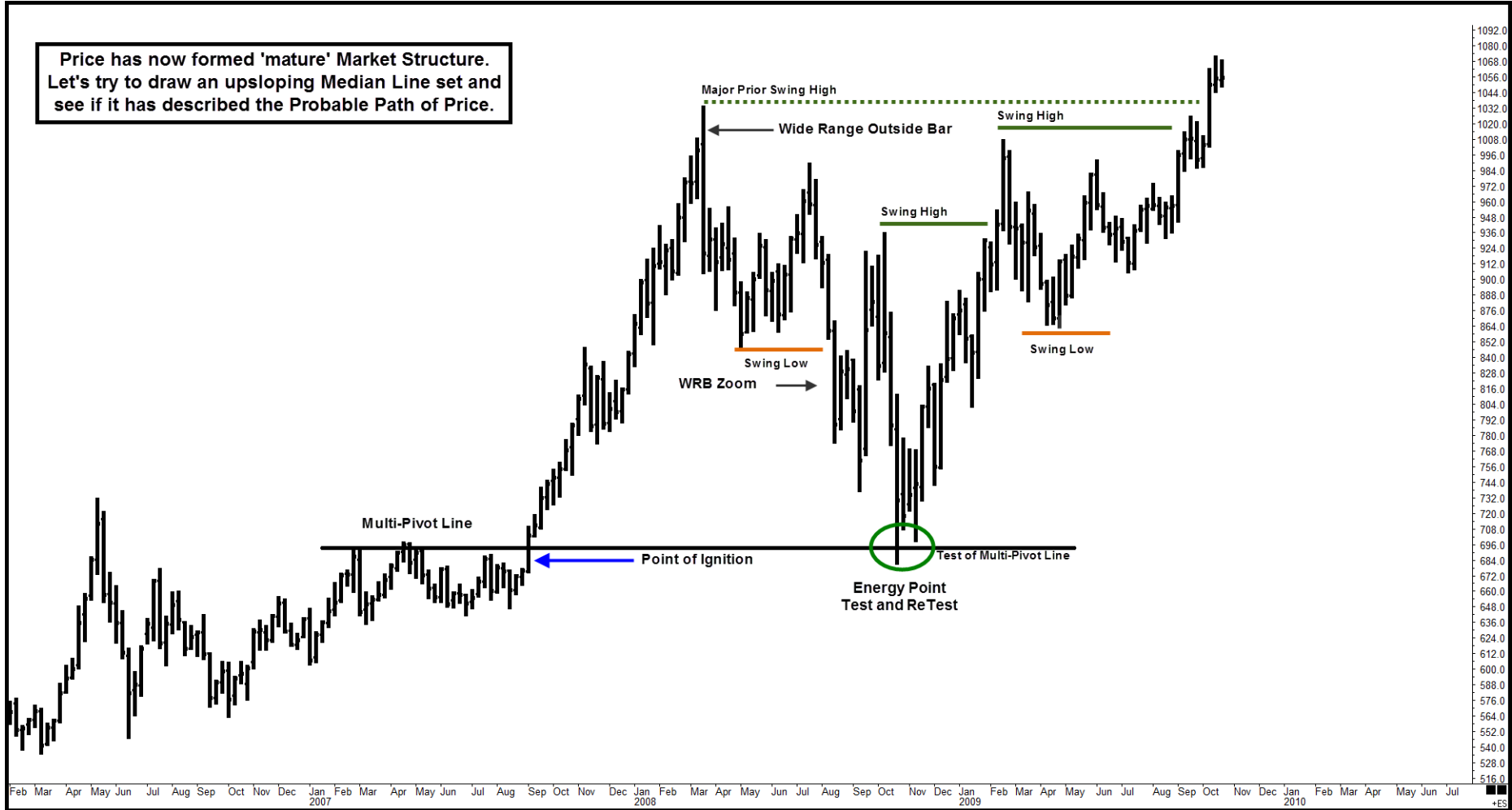
Multi-Pivot Line
 Point of Ignition

1075.0
 1062.5
 1050.0
 1037.5
 1025.0
 1012.5
 1000.0
 987.5
 975.0
 962.5
 950.0
 937.5
 925.0
 912.5
 900.0
 887.5
 875.0
 862.5
 850.0
 837.5
 825.0
 812.5
 800.0
 787.5
 775.0
 762.5
 750.0
 737.5
 725.0
 712.5
 700.0
 687.5
 675.0
 662.5
 650.0
 637.5
 625.0
 612.5
 600.0
 587.5
 575.0
 562.5
 550.0
 537.5
 525.0
 512.5
 500.0
 487.5
 475.0

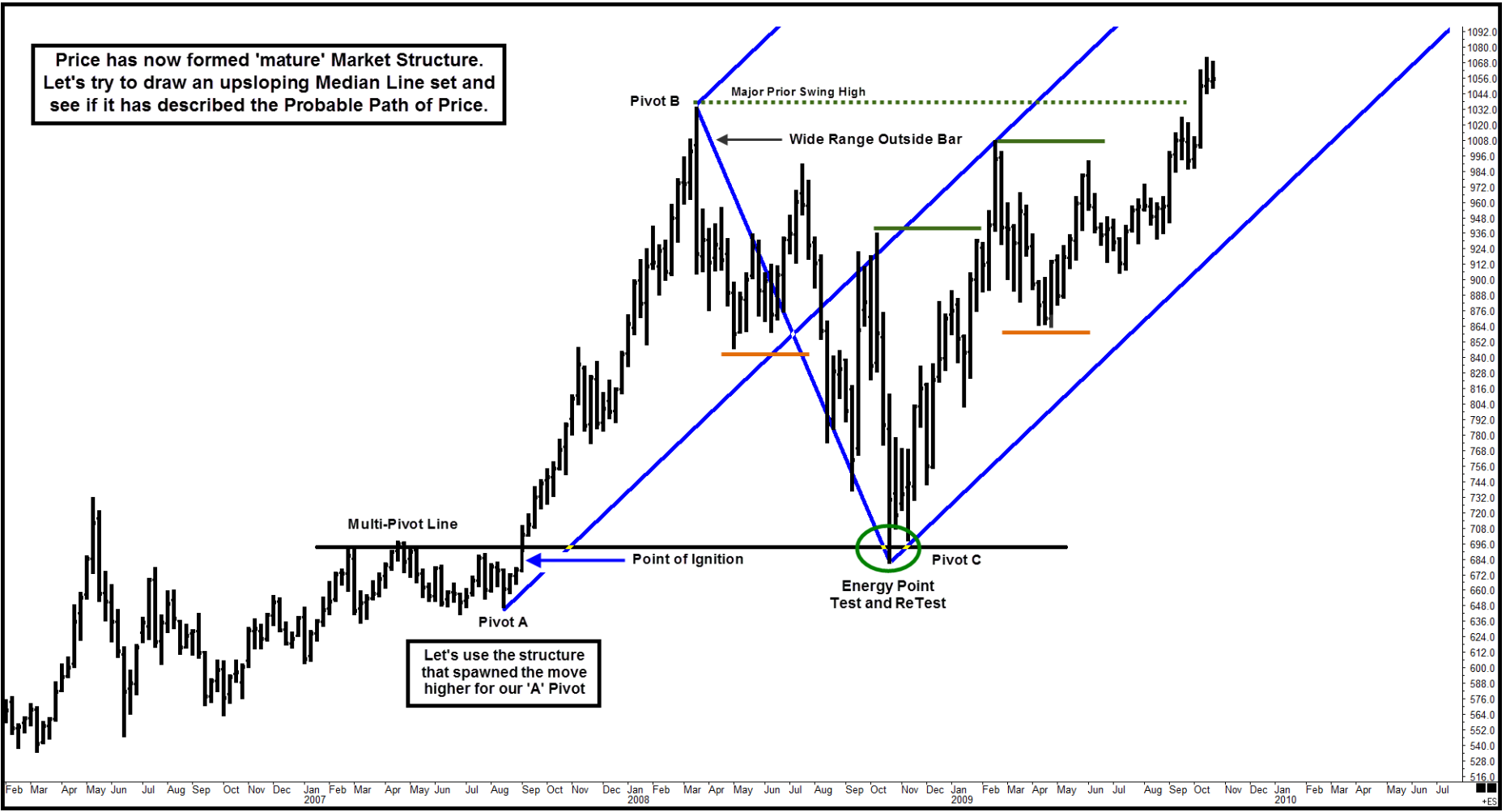
Dec 2006 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2007 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2008 Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec 2009 Jan Feb Mar Apr May 2010

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Price has now formed 'mature' Market Structure.
Let's try to draw an upsloping Median Line set and see if it has described the Probable Path of Price.

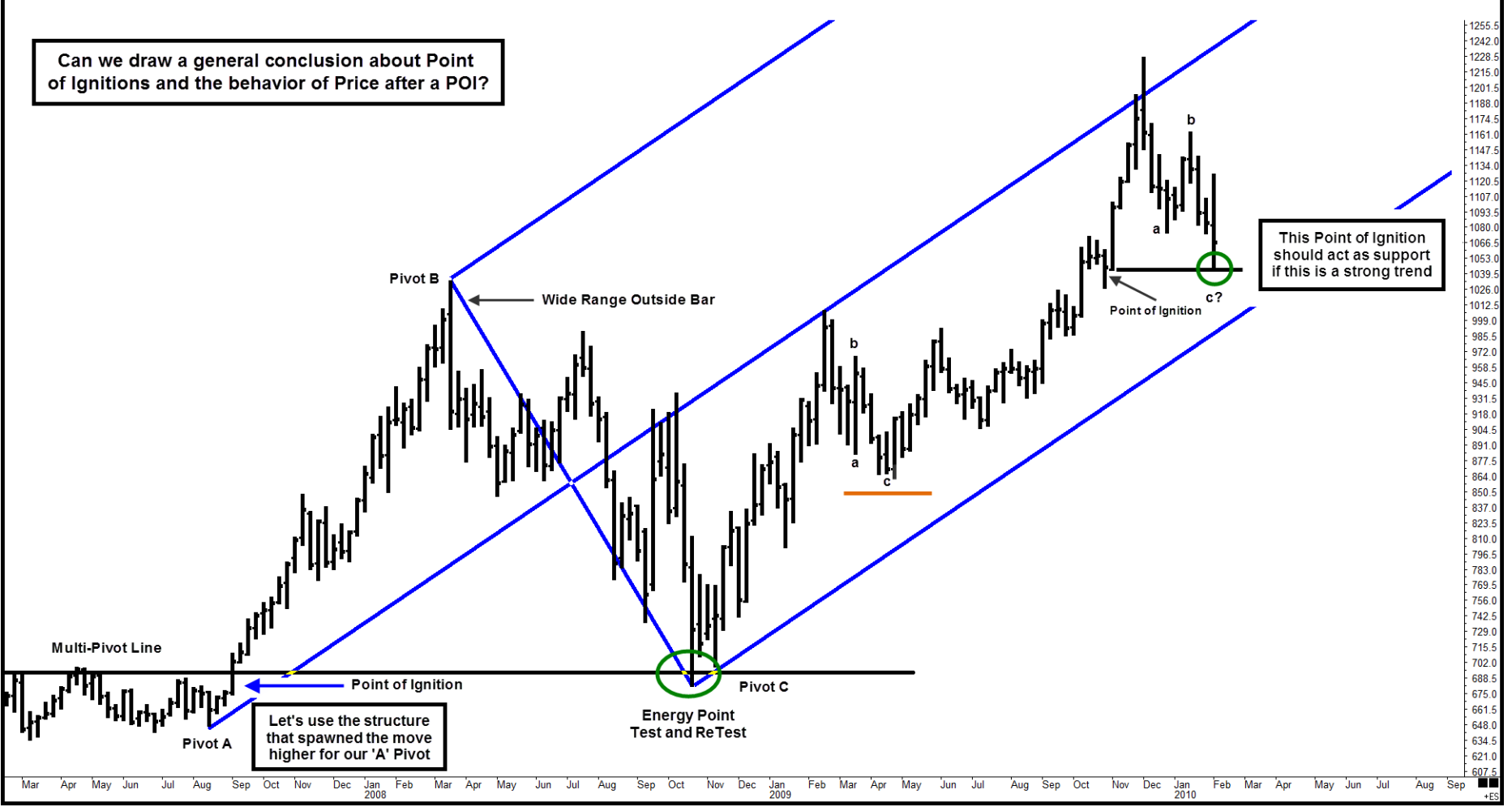


Price has now formed 'mature' Market Structure.
Let's try to draw an upsloping Median Line set and
see if it has described the Probable Path of Price.



Let's use the structure
that spawned the move
higher for our 'A' Pivot

Can we draw a general conclusion about Point of Ignitions and the behavior of Price after a POI?



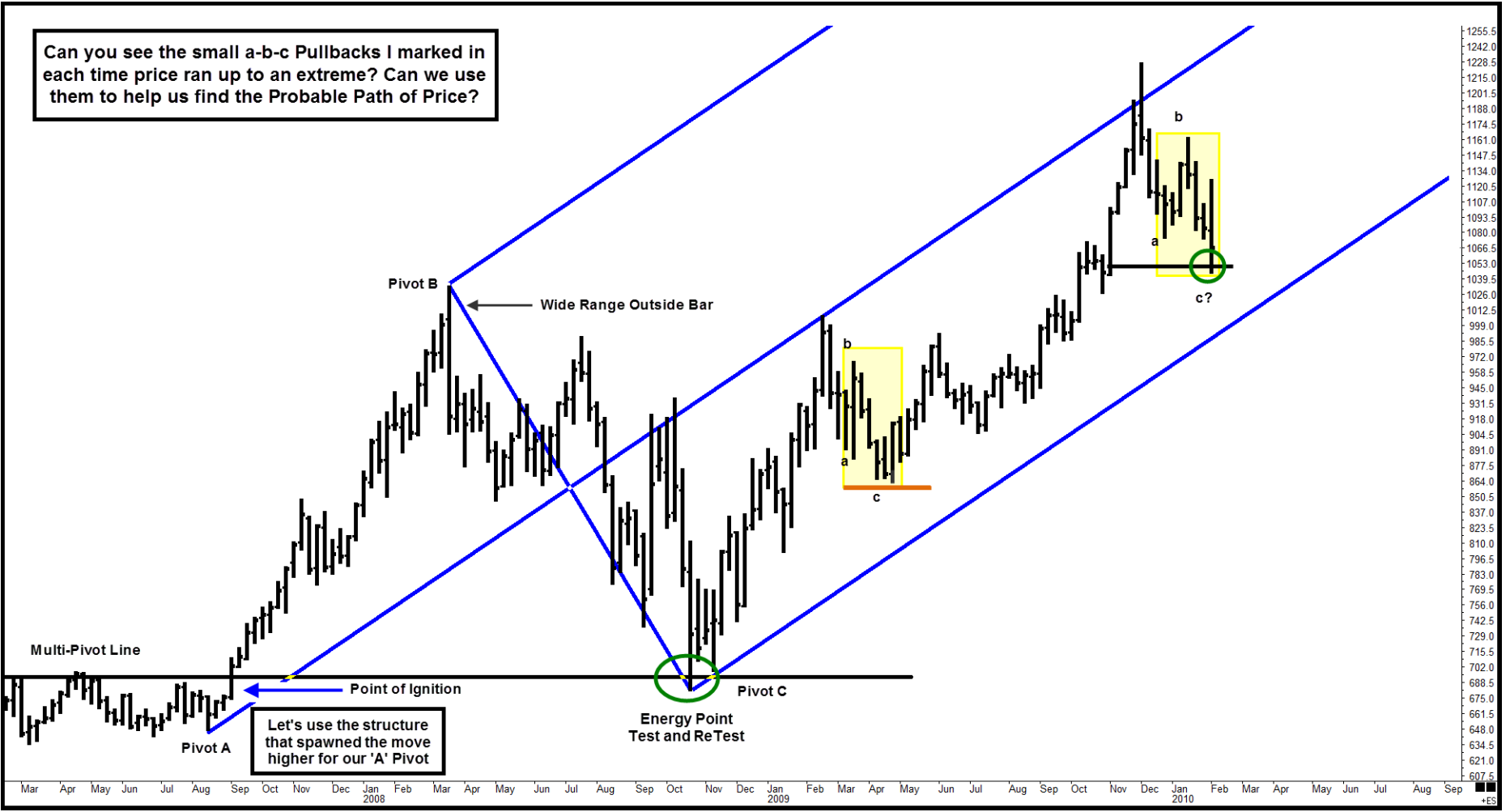
Let's use the structure that spawned the move higher for our 'A' Pivot

This Point of Ignition should act as support if this is a strong trend

1255.5
1242.0
1228.5
1215.0
1201.5
1188.0
1174.5
1161.0
1147.5
1134.0
1120.5
1107.0
1093.5
1080.0
1066.5
1053.0
1039.5
1026.0
1012.5
999.0
985.5
972.0
958.5
945.0
931.5
918.0
904.5
891.0
877.5
864.0
850.5
837.0
823.5
810.0
796.5
783.0
769.5
756.0
742.5
729.0
715.5
702.0
688.5
675.0
661.5
648.0
634.5
621.0
607.5

Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep
2008 2009 2010

Can you see the small a-b-c Pullbacks I marked in each time price ran up to an extreme? Can we use them to help us find the Probable Path of Price?

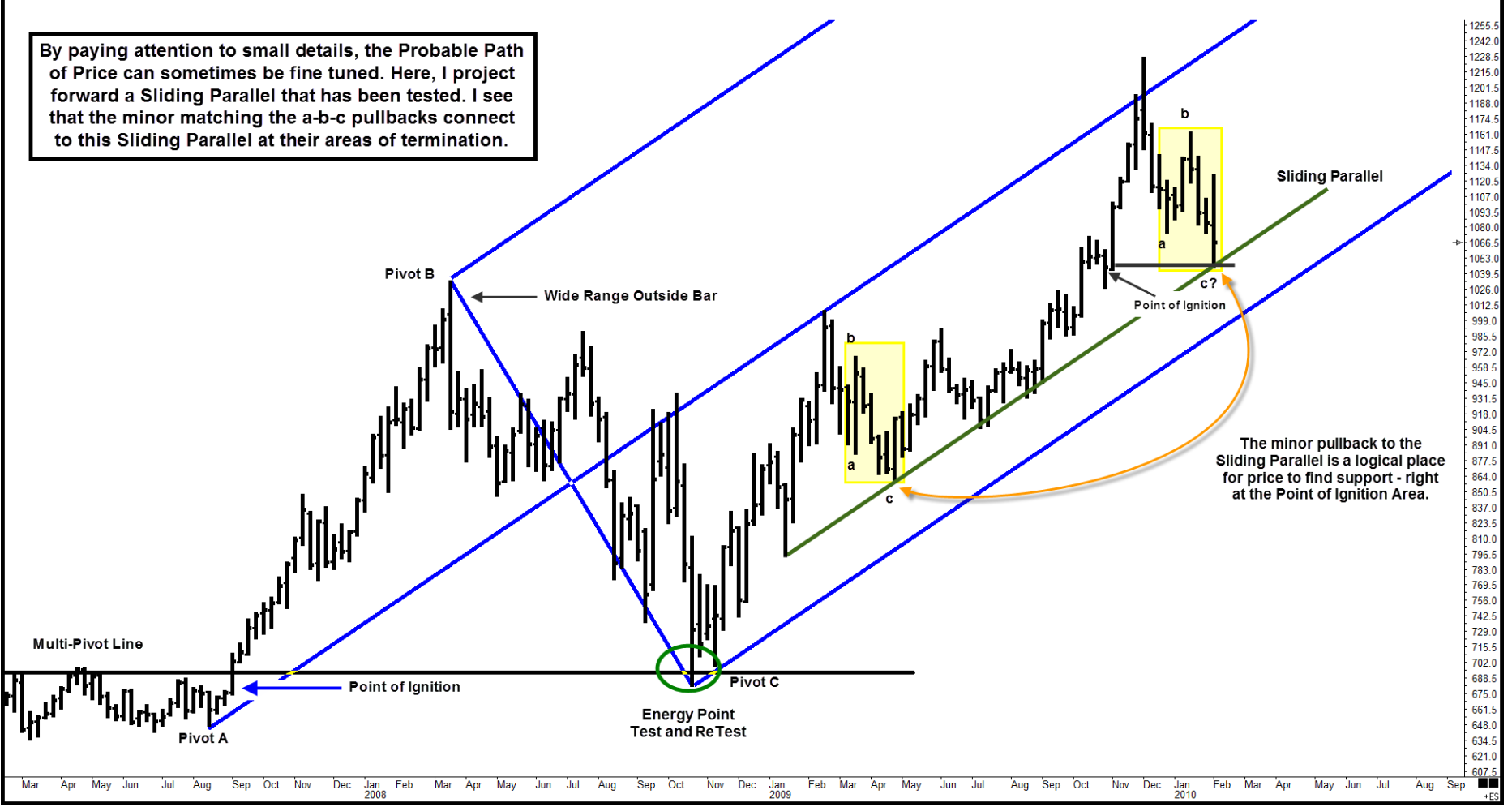


Let's use the structure that spawned the move higher for our 'A' Pivot

1256.5
1242.0
1228.5
1215.0
1201.5
1188.0
1174.5
1161.0
1147.5
1134.0
1120.5
1107.0
1093.5
1080.0
1066.5
1053.0
1039.5
1026.0
1012.5
999.0
985.5
972.0
958.5
945.0
931.5
918.0
904.5
891.0
877.5
864.0
850.5
837.0
823.5
810.0
796.5
783.0
769.5
756.0
742.5
729.0
715.5
702.0
688.5
675.0
661.5
648.0
634.5
621.0
607.5

Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2008 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2009 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2010 Feb Mar Apr May Jun Jul Aug Sep

By paying attention to small details, the Probable Path of Price can sometimes be fine tuned. Here, I project forward a Sliding Parallel that has been tested. I see that the minor matching the a-b-c pullbacks connect to this Sliding Parallel at their areas of termination.

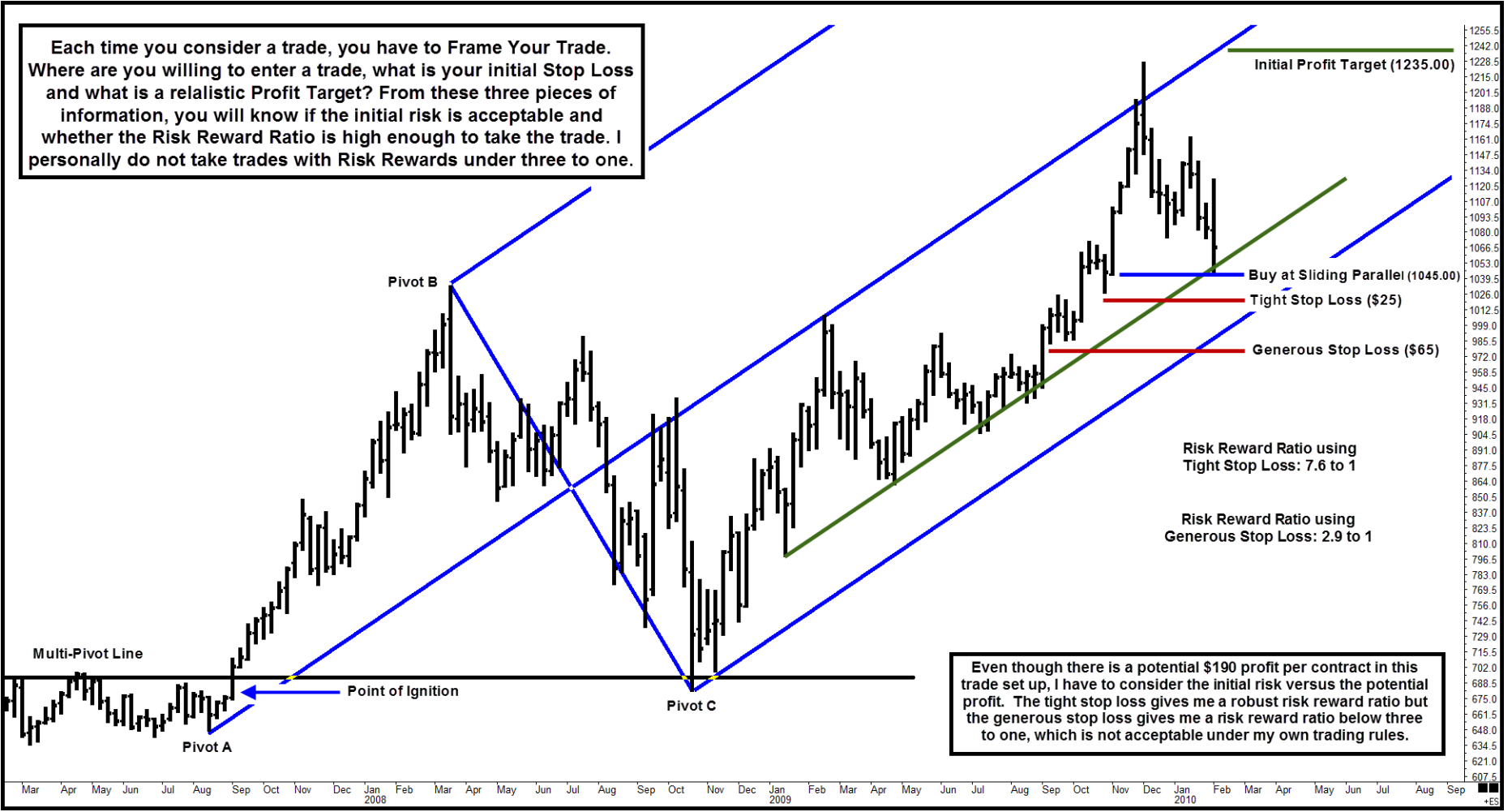


The minor pullback to the Sliding Parallel is a logical place for price to find support - right at the Point of Ignition Area.

1255.5
1242.0
1228.5
1215.0
1201.5
1188.0
1174.5
1161.0
1147.5
1134.0
1120.5
1107.0
1093.5
1080.0
1066.5
1053.0
1039.5
1026.0
1012.5
999.0
985.5
972.0
958.5
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877.5
864.0
850.5
837.0
823.5
810.0
796.5
783.0
769.5
756.0
742.5
729.0
715.5
702.0
688.5
675.0
661.5
648.0
634.5
621.0
607.5

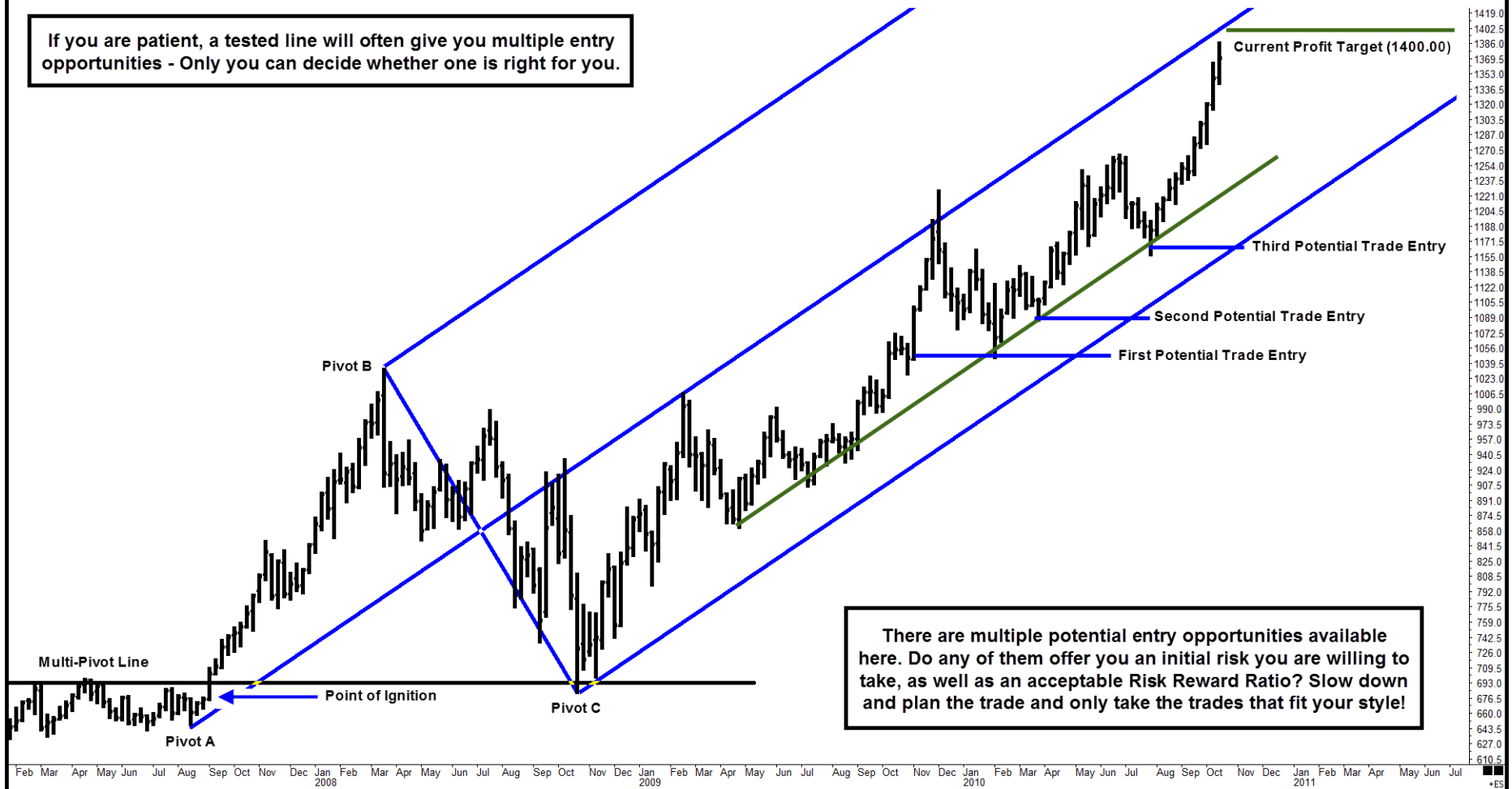
Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2009 Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan 2010 Feb Mar Apr May Jun Jul Aug Sep

Each time you consider a trade, you have to Frame Your Trade. Where are you willing to enter a trade, what is your initial Stop Loss and what is a realistic Profit Target? From these three pieces of information, you will know if the initial risk is acceptable and whether the Risk Reward Ratio is high enough to take the trade. I personally do not take trades with Risk Rewards under three to one.



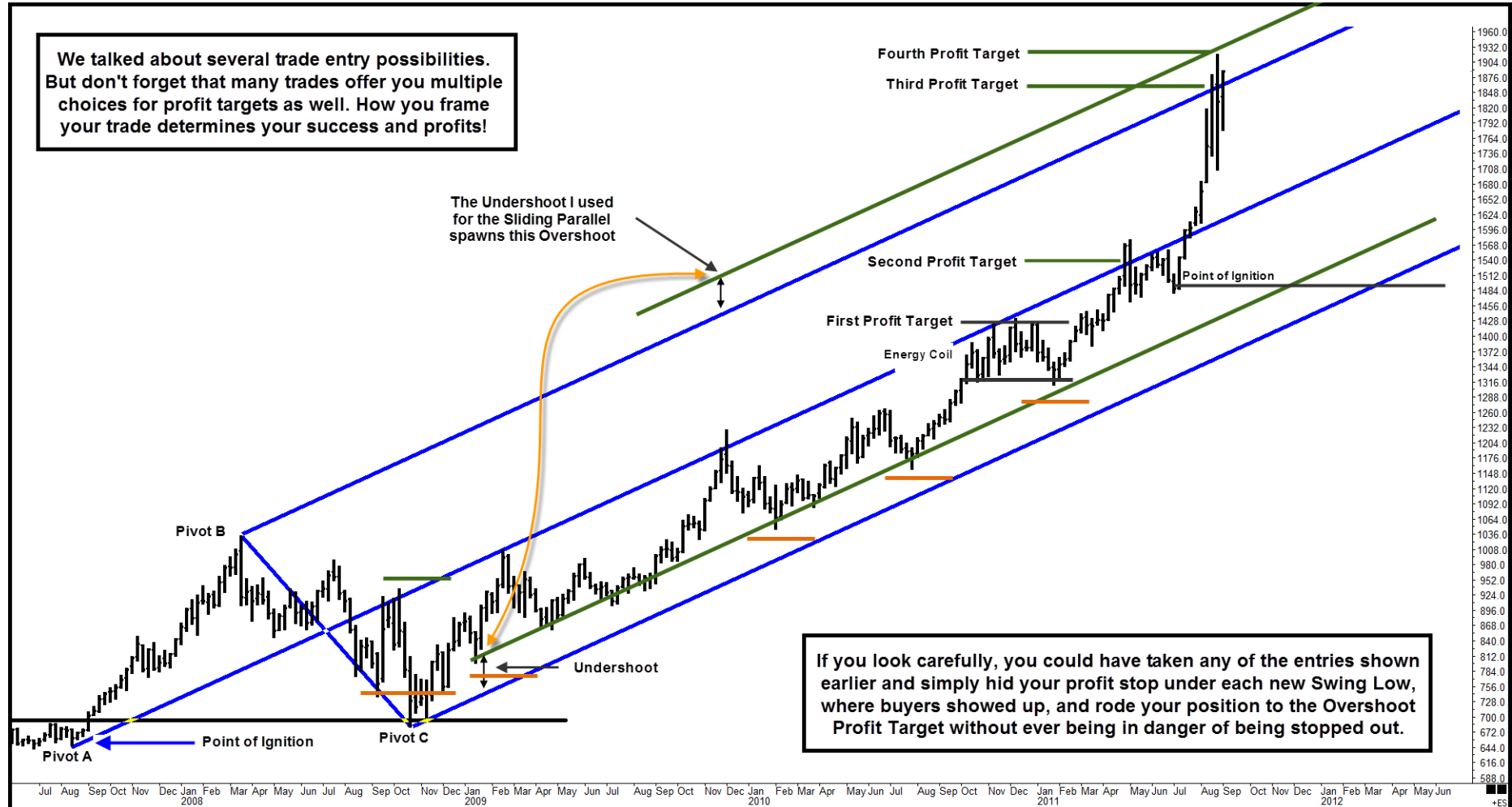
Even though there is a potential \$190 profit per contract in this trade set up, I have to consider the initial risk versus the potential profit. The tight stop loss gives me a robust risk reward ratio but the generous stop loss gives me a risk reward ratio below three to one, which is not acceptable under my own trading rules.

If you are patient, a tested line will often give you multiple entry opportunities - Only you can decide whether one is right for you.



There are multiple potential entry opportunities available here. Do any of them offer you an initial risk you are willing to take, as well as an acceptable Risk Reward Ratio? Slow down and plan the trade and only take the trades that fit your style!

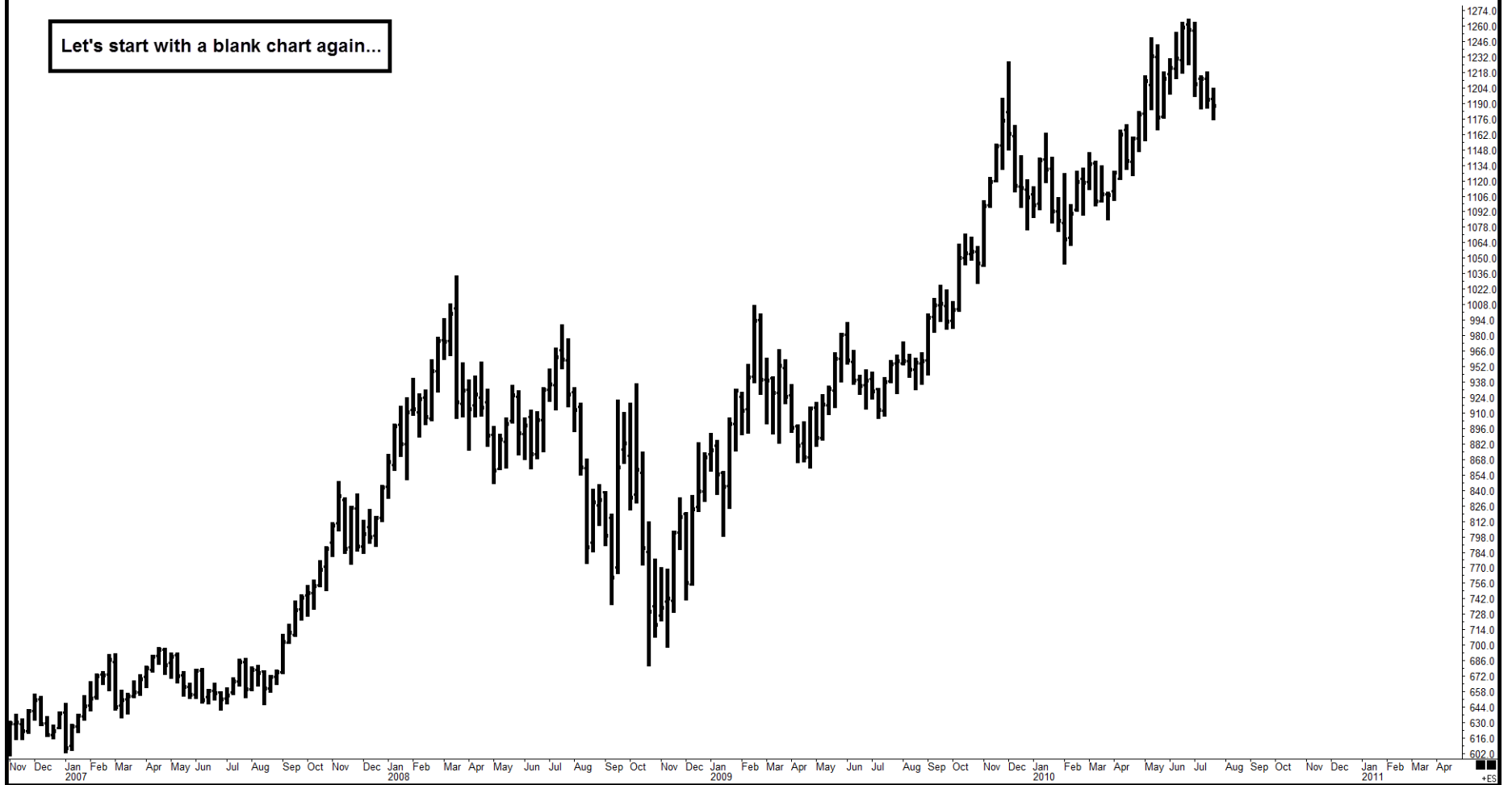
We talked about several trade entry possibilities. But don't forget that many trades offer you multiple choices for profit targets as well. How you frame your trade determines your success and profits!



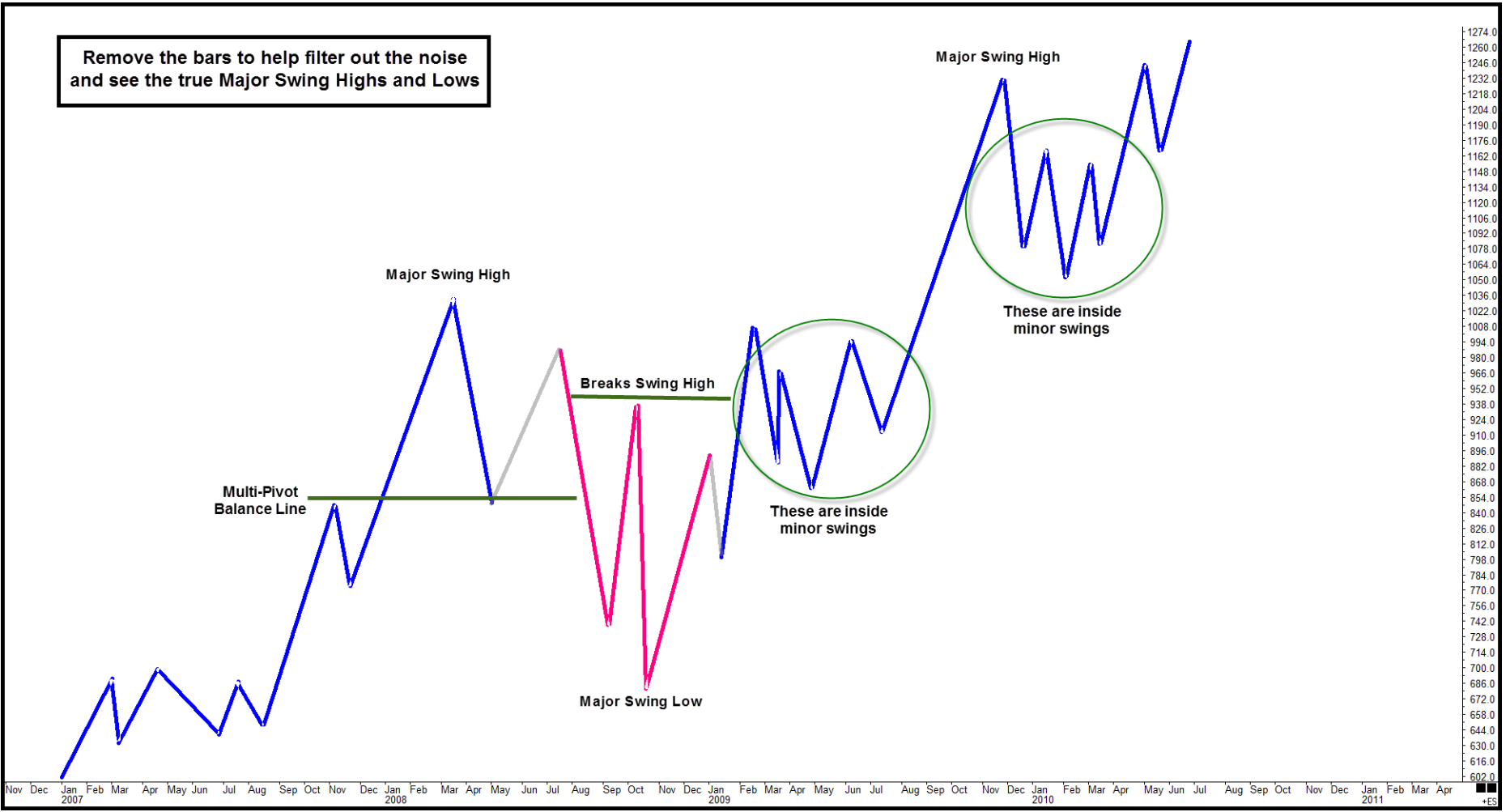
The Undershoot I used for the Sliding Parallel spawns this Overshoot

If you look carefully, you could have taken any of the entries shown earlier and simply hid your profit stop under each new Swing Low, where buyers showed up, and rode your position to the Overshoot Profit Target without ever being in danger of being stopped out.

Let's start with a blank chart again...

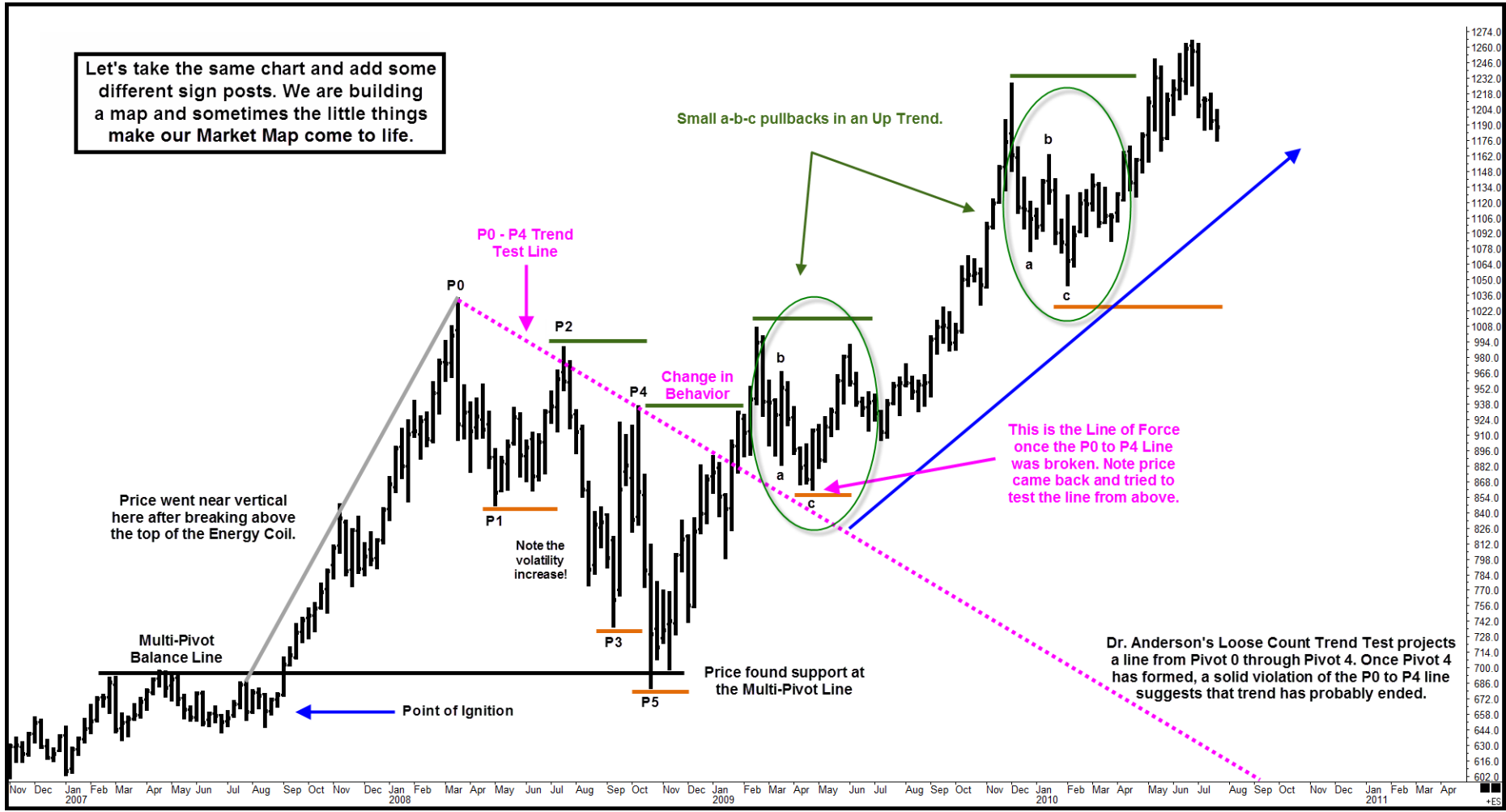


Remove the bars to help filter out the noise and see the true Major Swing Highs and Lows



1274.0
1260.0
1246.0
1232.0
1218.0
1204.0
1190.0
1176.0
1162.0
1148.0
1134.0
1120.0
1106.0
1092.0
1078.0
1064.0
1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
910.0
896.0
882.0
868.0
854.0
840.0
826.0
812.0
798.0
784.0
770.0
756.0
742.0
728.0
714.0
700.0
686.0
672.0
658.0
644.0
630.0
616.0
602.0

Let's take the same chart and add some different sign posts. We are building a map and sometimes the little things make our Market Map come to life.



1274.0
1260.0
1246.0
1232.0
1218.0
1204.0
1190.0
1176.0
1162.0
1148.0
1134.0
1120.0
1106.0
1092.0
1078.0
1064.0
1050.0
1036.0
1022.0
1008.0
994.0
980.0
966.0
952.0
938.0
924.0
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896.0
882.0
868.0
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756.0
742.0
728.0
714.0
700.0
686.0
672.0
658.0
644.0
630.0
616.0
602.0

Which Pivots do we use to draw a Median Line set from?

Price went near vertical here after breaking above the top of the Energy Coil.

Note the volatility increase!

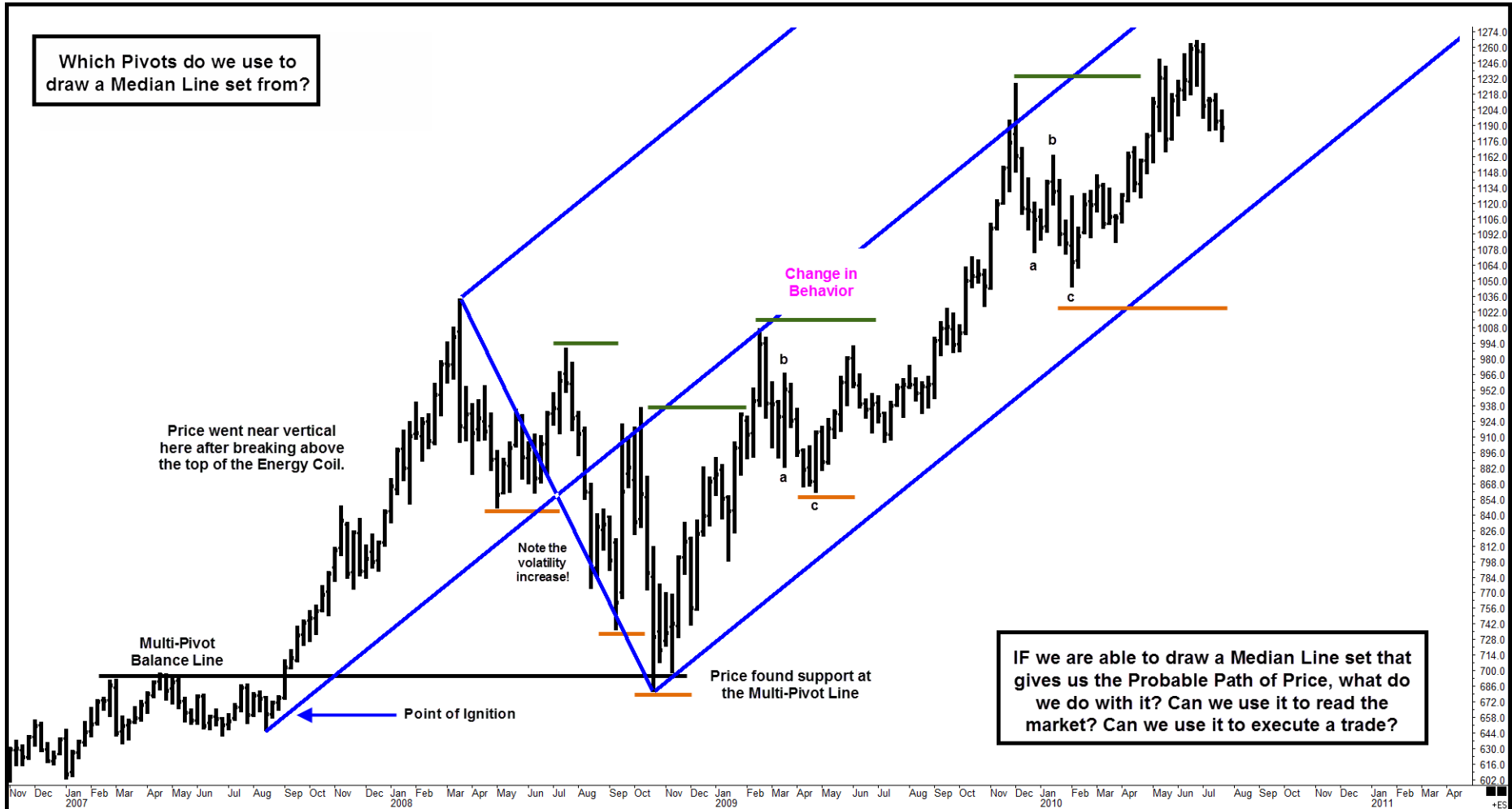
Change in Behavior

Multi-Pivot Balance Line

Point of Ignition

Price found support at the Multi-Pivot Line

IF we are able to draw a Median Line set that gives us the Probable Path of Price, what do we do with it? Can we use it to read the market? Can we use it to execute a trade?



Dr. Andrews stated and statistics show us that price reaches the Median Line 80 percent of the time. Price has met the Median Line Line twice and keeps stair stepping higher within the Median Line set.

Price went near vertical here after breaking above the top of the Energy Coil.

Note the volatility increase!

Price found support at the Multi-Pivot Line

IF we are able to draw a Median Line set that gives us the Probable Path of Price, what do we do with it? Can we use it to read the market? Can we use it to execute a trade?



This is a wonderful example of the Frequency of Price.

Price went near vertical here after breaking above the top of the Energy Coil.

Note the volatility increase!

Sliding Parallel

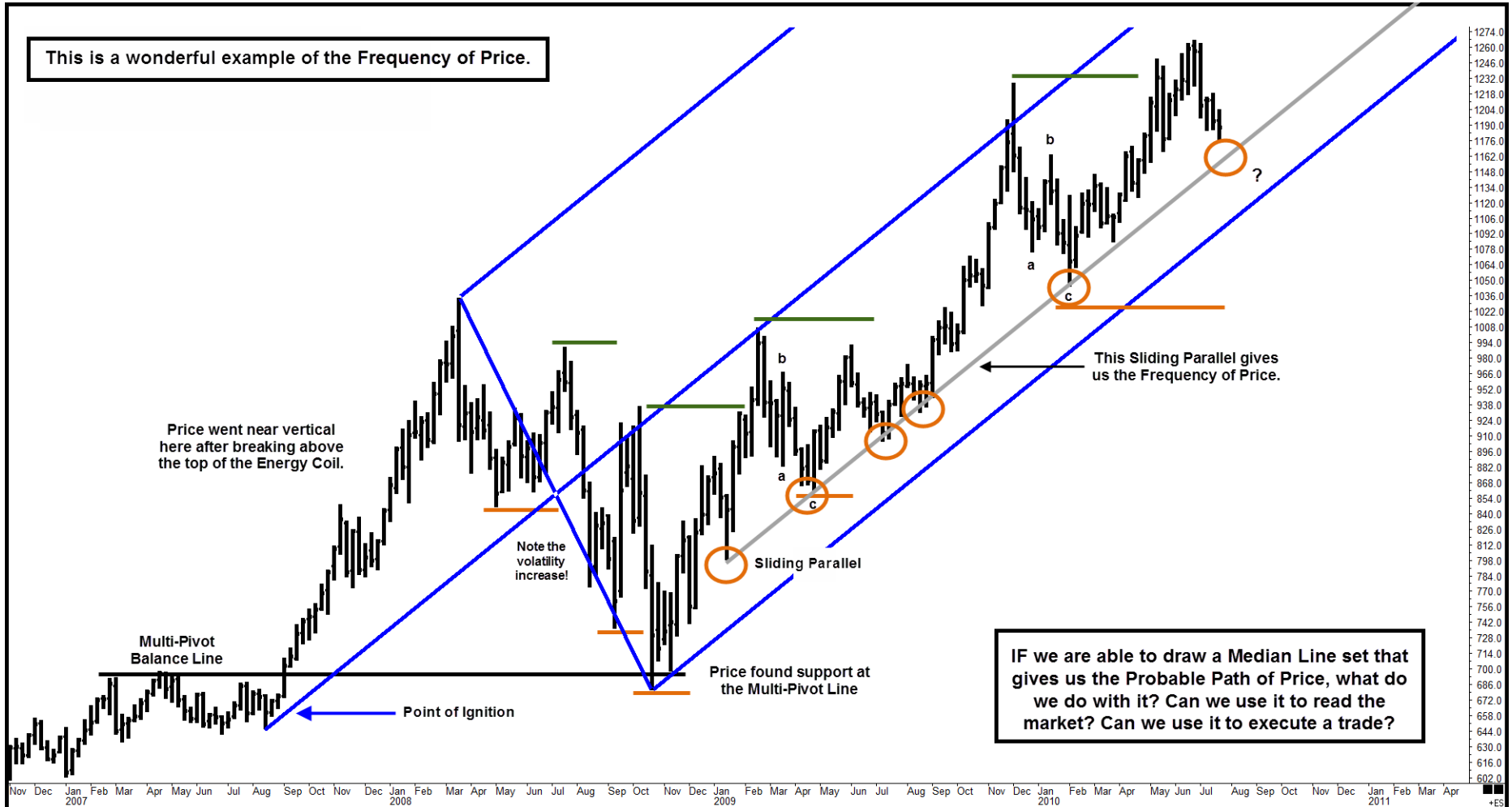
This Sliding Parallel gives us the Frequency of Price.

Price found support at the Multi-Pivot Line

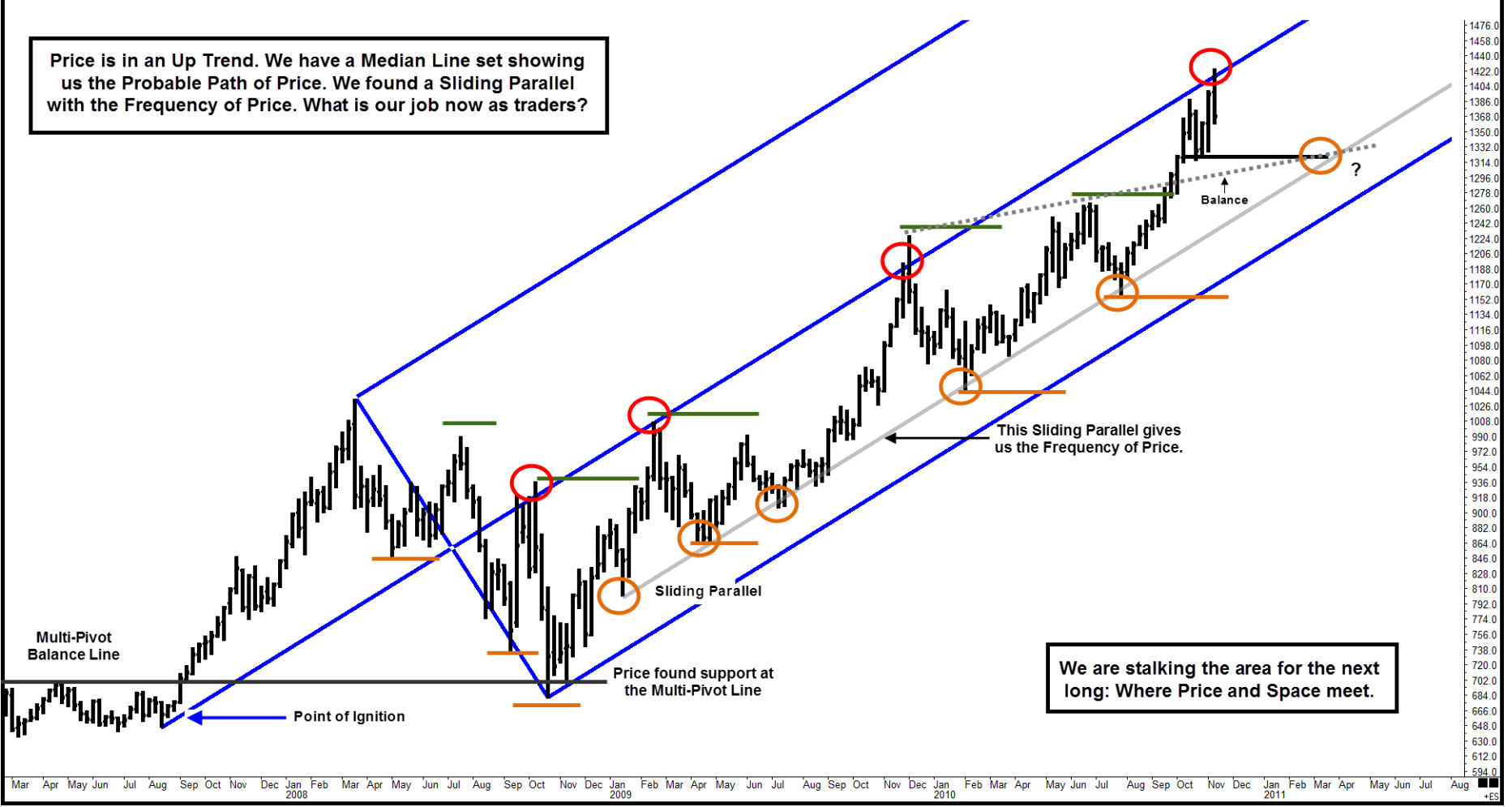
IF we are able to draw a Median Line set that gives us the Probable Path of Price, what do we do with it? Can we use it to read the market? Can we use it to execute a trade?

Multi-Pivot Balance Line

Point of Ignition



Price is in an Up Trend. We have a Median Line set showing us the Probable Path of Price. We found a Sliding Parallel with the Frequency of Price. What is our job now as traders?



This Sliding Parallel gives us the Frequency of Price.

We are stalking the area for the next long: Where Price and Space meet.

1476.0
1458.0
1440.0
1422.0
1404.0
1386.0
1368.0
1350.0
1332.0
1314.0
1296.0
1278.0
1260.0
1242.0
1224.0
1206.0
1188.0
1170.0
1152.0
1134.0
1116.0
1098.0
1080.0
1062.0
1044.0
1026.0
1008.0
990.0
972.0
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918.0
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648.0
630.0
612.0
594.0

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2008 2009 2010 2011

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The Sliding Parallel has given us many opportunities to get long this market. Will it give us an opportunity this time?



Price is too strong this time to reach the Sliding Parallel. This is a sign that Price may be picking up speed - and may finally break and trade through the up sloping Median Line.

This Sliding Parallel gives us the Frequency of Price.

Point of Ignition

Energy Point

Price spikes higher, finally going higher vertically. It's just about to test the Upper Parallel - How long can it keep up this Pace?

This is a vertical rally, unlikely to last.

This is a moderate sustainable rally.

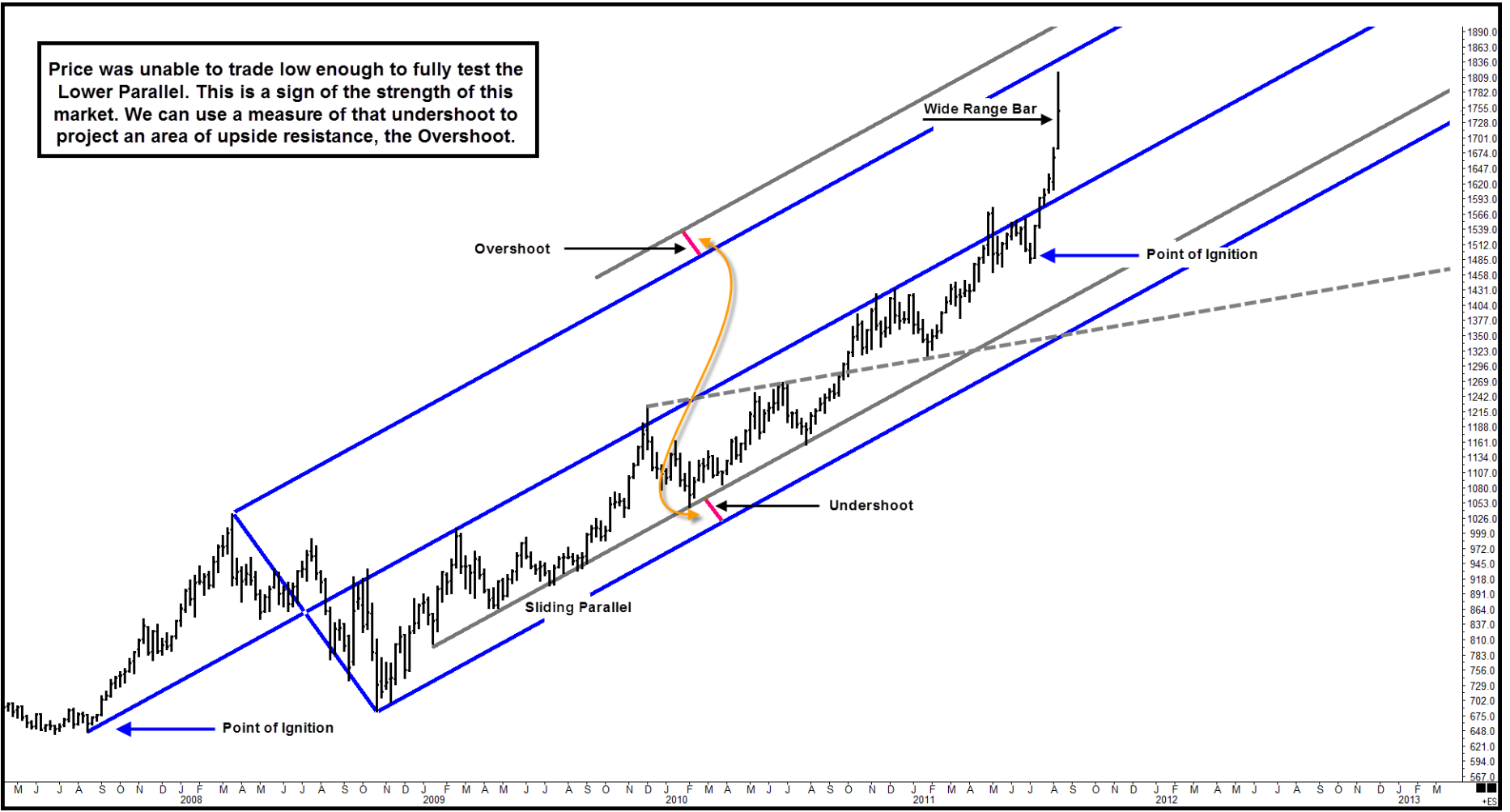


Wide Range Bar

Point of Ignition

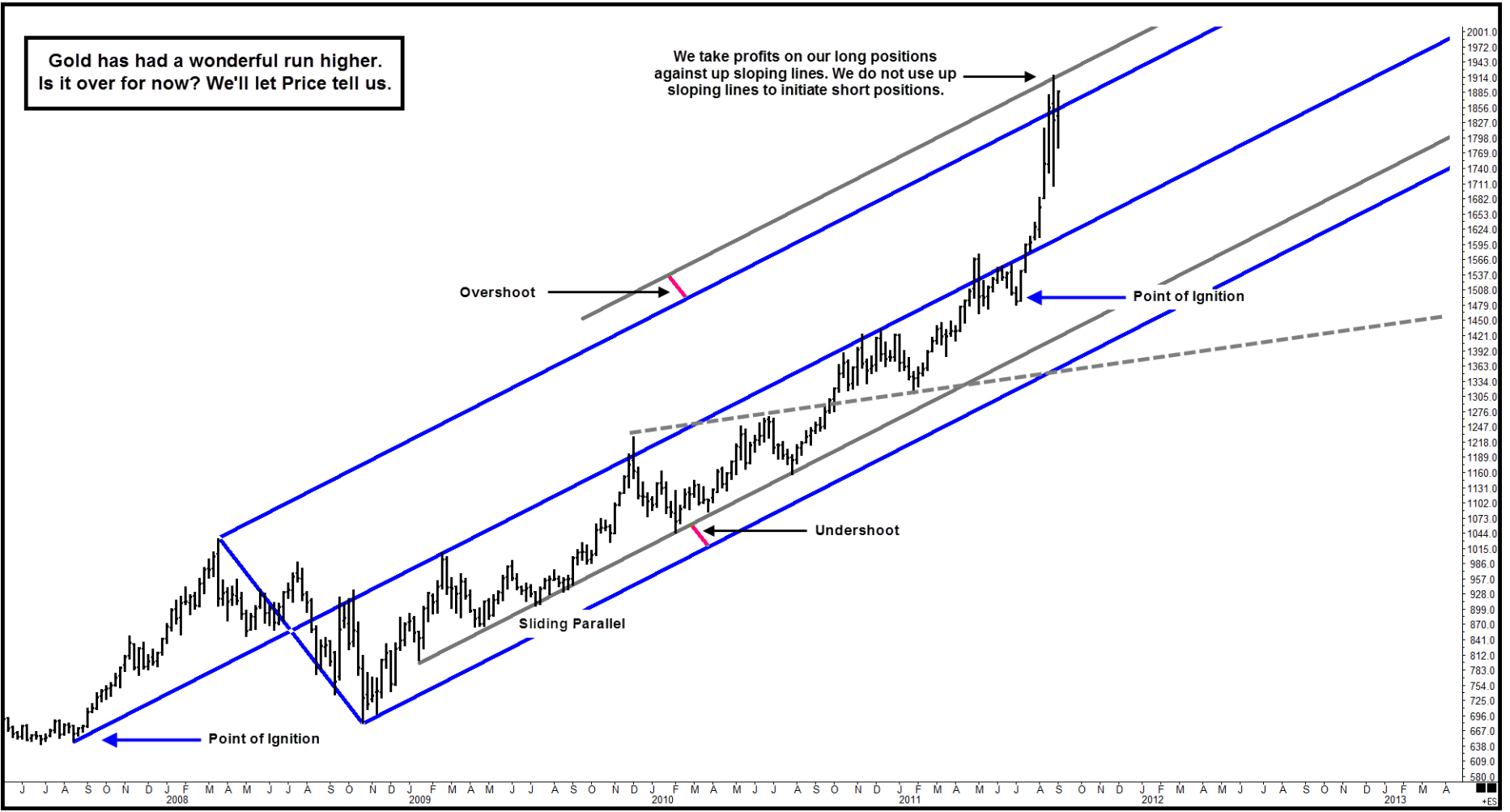
Point of Ignition

Price was unable to trade low enough to fully test the Lower Parallel. This is a sign of the strength of this market. We can use a measure of that undershoot to project an area of upside resistance, the Overshoot.

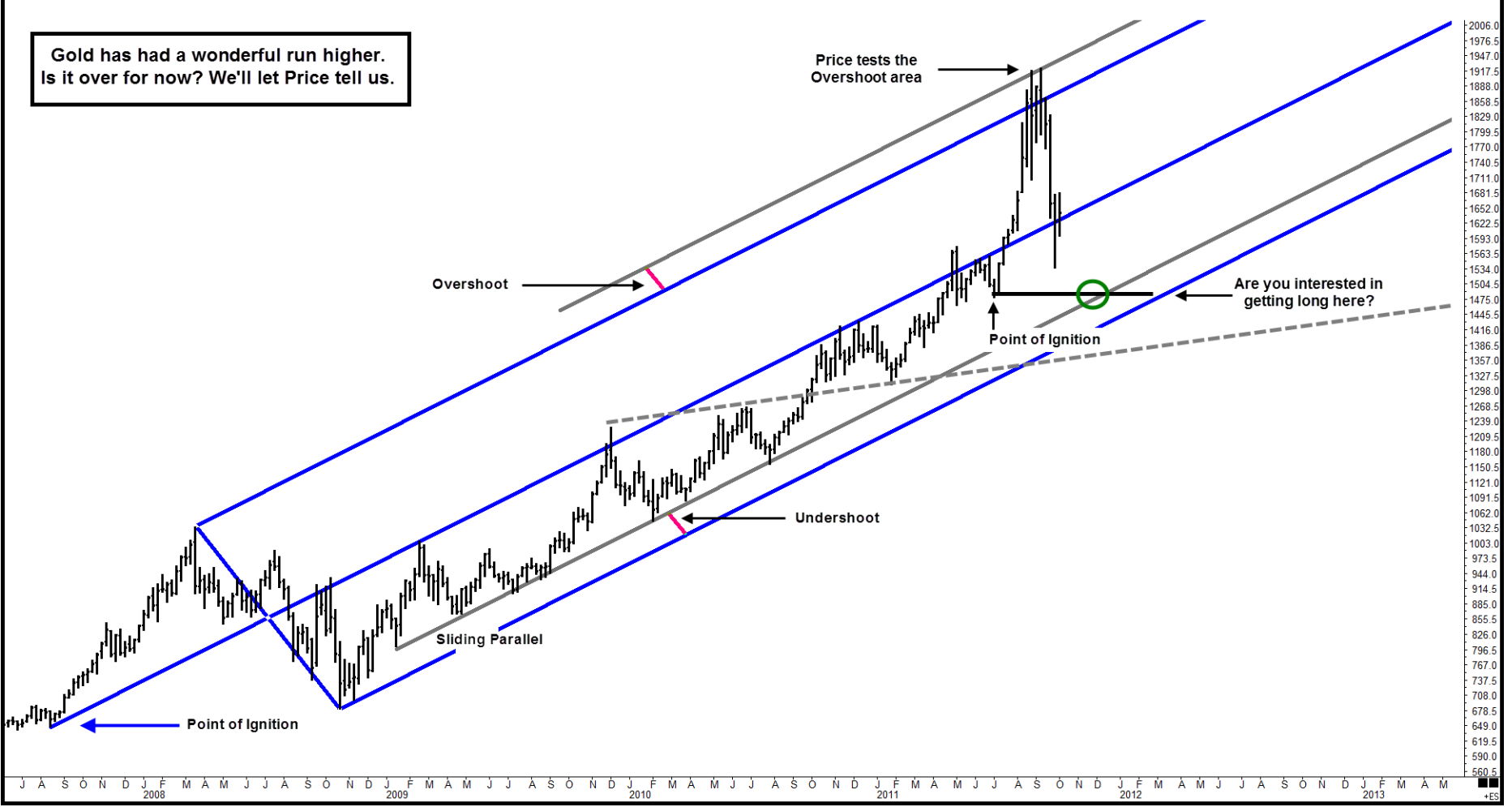


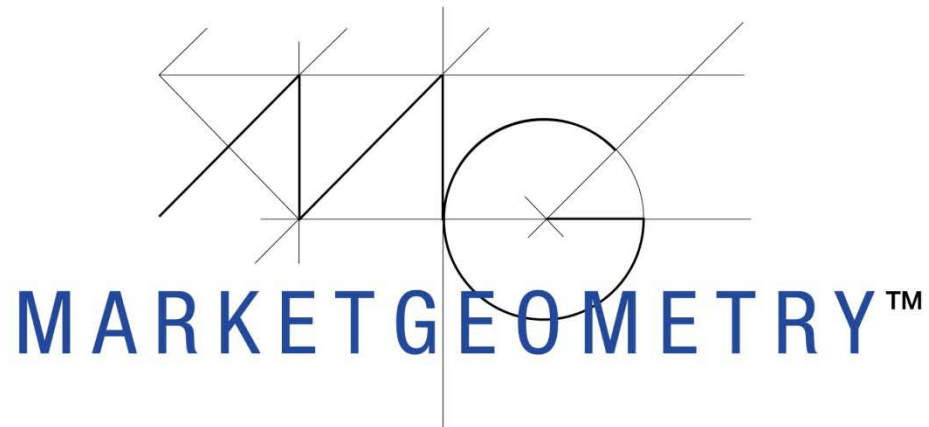
Gold has had a wonderful run higher. Is it over for now? We'll let Price tell us.

We take profits on our long positions against up sloping lines. We do not use up sloping lines to initiate short positions.



Gold has had a wonderful run higher.
Is it over for now? We'll let Price tell us.





Thank You for taking the time to attend this session. Questions?

“Master your tools, master yourself.”

®Timothy Morge