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# How to Find Cyclical Stocks

## by Miles Evans

Anyone who saw Priceline (NASDAQ:PCLN) this week can appreciate nailing a cyclical stock with strong, consistent growth. We see this all the time, but how do we consistently scan for these golden opportunities?

Cyclical growth stocks are a swing trader's wet dream. According to Investopedia a cyclical stock is "A stock that rises quickly when economic growth is strong and falls rapidly when growth is slowing down."

Famous fund manager Peter Lynch in his 1993 hit *Beating the Street*, listed cyclicals as one of the more important criteria when evaluating stocks.

Hedge funds and savvy traders have always put a premium on equities following cyclical trends,

or exhibiting earnings growth reliably time after time. Periods of diminished growth or an overall depressed market often follows earnings or growth periods, allowing a trader an entry point on these juggernauts.

Check out this weekly chart below for Priceline (NASDAQ:PCLN) for an example of a very strong performing consumer cyclical over the last few years.

So how do you find these stocks? Most cyclical investors will tell you to buy when the P/E ratio is low, and sell when the P/E ratio is high (when earnings are at the peak). The other criteria is simply via a stock's price action. Analyze which months the price was high vs when it was low. Look at these values over an extended period of time and watch for a pattern. If you see a pattern you should be able to determine an entry and exit point.

One thing to keep in mind is that cyclicals often rise very quickly on positive news and drop very quickly in a less favorable market. Another important thing we learn from looking at historical earnings patterns on equities is that it is unpredictable, and like the overall markets does not always go our way. You'll need to be nimble when trading cyclicals and keep in mind that a buy/hold type of strategy will have you pulling your hair out fast. The idea is to get in prior to a cyclical event, and be out quickly if the trade goes our way.

Many cyclical stocks live in the retail sector. AAPL, LULU, ATVI, are all examples. Stocks that revolve around some commodities, like agricultural yields, are also normally following cyclical trends. Automobiles, housing, travel, you'll find that many stocks often follow fairly reliable cyclical trends.

Read more from Miles Evans at [StockRants.com](http://StockRants.com)





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**Website:** [www.TradeMiner.com](http://www.TradeMiner.com)

**Product:** **TradeMiner**, Software for finding seasonal cycles, trends, and patterns in Stock, Futures & Forex.

**Requirements:** WinXP/Vista/Mac OSX/Lynix 200 MD free hard disk space, 1024x768 screen resolution (minimum) Larger recommended. RAM 2GB (more is better). Requires Internet connectivity for installation, but not to run the application itself. CPU: 2.4 GHz or higher.

**Price:** \$197 each version, Stocks, Futures, & Forex, no monthly fee, one time a year data cube update \$69.00 each version.

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The TradeMiner software is available for Stocks, Futures, and Forex, and the main premise of TradeMiner is that markets tend to move in cycles and trends, with these cycles and trends tending to repeat themselves over time, and knowing how to recognize these trends, understanding how they work, and paying attention to when they are most likely to occur, will help any trader make more informed trading decisions. Even though this review focuses solely on TradeMiner for stocks, the features of both the Futures and Forex TradeMiner platforms are very similar so many of the features mentioned here are included in those packages as well.

TradeMiner allows you to dig through years of historical stock price data, of all of the stocks that are listed in the S&P 500, the Dow 30, and the Nasdaq 100. In addition, the software will sort through this data and help tell you what to trade and when to trade it, with the characteristics of the trade being specified

by you. By allowing you to easily analyze the historical price data of these actively traded stocks you will be able to quickly uncover cycles and trends that meet your search criteria. The design of the software makes it easy to get started and, after a short time, the easy-to-use format allows you to navigate the software quickly and easily. Even though the software does have a pretty basic design, making it easy for anyone to use, it has everything that is needed to quickly sort through large amounts of data and uncover investment opportunities.

In addition to being very intuitive, the software is also very user friendly. The data that you input is in paragraph format, making it easy to key in your desired search criteria. For example, a typical search would look something like this (with the data in bold being the criteria)... "Prospect for trades in the Month of: April. Find trades that win at least 95% of the time, showing Buy. List trades that last at least 10 trading day(s), but no more than 30 trading days. Mine at least 15 years of history. Dig Now!" You can "dig" through the data according to which month you are looking to find opportunities, what length of trading period those opportunities should be, and what type of order you are looking, as well as the probability of that trade being a winning trade. In addition to looking for any stock within a certain month, you can also mine a specific stock to find out when the best time to trade that stock is, historically.

There are two basic steps to the mining process and there are also two basic screens, which includes the "mine" tab and the "portfolio" tab. The "mine" tab is where you input your criteria, as shown in the previous example, and where you get your results. The results are ranked according to the individual score of each trade with the best trades showing up first. You are able to sort the results by the type of position you are looking to take (i.e., buy or sell), the stock symbol of the trade, the enter/exit dates of the trade, and many other important trade characteristics. At the bottom of each tab you are able to click through three separate charts, based on which trade



Figure A-1

you currently have highlighted. These three charts include an equity curve showing the historical return characteristics of the trade, a histogram with year-over-year profit and loss data, and a pie chart that shows the average risk and average reward of the trade.

To provide an example of how easy the software is to navigate, I ran a simulation that mined all of stocks in the S&P 500, the Dow Jones Composite, and the Nasdaq 100. This simulation mined all trades in the month of May, including both buy and sell trades, which lasted at least 5 days but no more than 30 days, and had a 95% success rate as well as a minimum of 12 years of historical data (see figure A-1). After clicking "Dig Now!" it took approximately 40 seconds to mine through all of the stocks and produced a total of 67, with 45 of the results being sell trades and 27 buy trades (see figure A-2). In order to find the most successful trades I sorted the results so that the trades were ranked in descending order with the most successful trades listed first. You can also sort the results by any of the other 31 criteria so that you can quickly filter through the results and find the trades that your investment criteria. Since I typically prefer short-term trades, over long-term trades, but will sometimes trade for longer time

frames depending on what trading opportunities are available, I sorted the results by clicking on the "Cal Days" tab so that each trade was listed in order according to the total number of days of each trade. Looking over to the "Score" column, and seeing multiple trades with green dots (which is the color of the highest ranked trades and, by the way, makes it really easy to find the most profitable trades) and even a few with score of 5 (which is the highest numerical score possible), I can quickly see that there are many short-term trades to pick from. To screen the trades a bit further I scanned the results for trades that covered different time periods in the month and I also looked for a mix of "Buy" and "Sell" entry orders as well, so that I could find both long and short trading opportunities. I was able to find 8 trades that were spread out throughout the entire month, which will be plenty of trades for me since I tend to have a concentrated portfolio with only a few trades at a time, with five being "Buy" (long) positions and three being "Sell" (short) positions. After checking the box next to each of the trades and clicking the "Add Selected" button, I clicked on the "Step 2: Portfolio" tab to create a portfolio of the trades that I had selected. In the "Step 2: Portfolio" tab I am now able to print either detailed information on each trade or simply a short summary of all of the individual trades



Figure A-2

that met my criteria. That's it! In a little less than 5 minutes I now have detailed information on 8 trades, which I will trade in the month of May, that have a historically high probability of success.

There are also two more important tabs that I should quickly mention. If you click on the "Settings" tab you can select the universe of stocks that you want the software to mine through, which can simply be all active stocks in each index or one of the individual indexes (as I mentioned earlier, the index options include the S&P 500, the Dow 30, and the Nasdaq 100). The last tab is the "Education" tab and when you click on this tab your browser will open and you will have access to education material from the TradeMiner website. Since education is one of the most important aspects of successful investing, this is definitely a very valuable feature of the software and it is included in each of the TradeMiner packages. TradeMiner for stocks, specifically, has multiple training videos to help you get started, multiple educational videos, audio interviews with some of the greatest traders of all time, educational PDF lessons, webinars, and a TradeMiner manual that makes it

easy to quickly learn the software inside and out. There are definitely enough resources to help turn anyone into a knowledgeable trader, and as Benjamin Franklin once said, "An investment in knowledge always pays the best interest."

In summary, TradeMiner is a great tool for any trader who is looking to gain an investing edge by mining through large amounts of historical stock information, analyzing trends and cycles, in order to find potential trading opportunities. Even though the TradeMiner software is based on complex mathematical formulas that allow the software to quickly mine, sort, and organize large amounts of historical data, the simple interface makes using the software so easy that anyone can quickly learn how to navigate the software and be finding winning trades in almost no time at all. By giving each user the ability identify the market trends and cycles that tend to repeat themselves over time, the TradeMiner software is definitely a must-have for any trader, from beginning traders to seasoned professionals, who is looking for a statistical edge in the markets.

The advertisement features a large green starburst in the top left corner with the text 'New Version'. The main title 'TradeMiner 2.0' is displayed in large green letters. Below the title are three product boxes for 'STOCKS', 'FUTURES', and 'FOREX'. Each box has a blue background with a miner character and the text 'TradeMiner Accurately Identify Trends and Market Cycles'. Below the boxes is a list of features:

- No Monthly Data Subscription Fee
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- Trade Only the Highest Probability Markets
- Get Above Market Returns
- Significantly Lower Your Average Risk
- Get Up To 40 Years of Historical Data

At the bottom, the website address [www.TradeMiner.com](http://www.TradeMiner.com) is displayed in large black letters.

# A Look At Gann Fan

by Kent Kofoed



*Kent Kofoed*

W.D. Gann, a successful stock and commodities trader, developed multiple technical analysis tools that were based on geometric angles, which were used to draw lines on charts in order to help identify important support and resistance areas where each angle was a division of time and price. These angles, when drawn in groups, are what make up the Gann Fan. Prior to digging into the concepts that underlie the Gann Fan, to try and provide a little background information on the subject, I am going to briefly go over some trend line basics that will be beneficial in understanding how, and why, the Gann Fan is used.

Trend lines are one of the easiest and most widely used tools in technical analysis, and will typically be drawn in an uptrend or a downtrend. An uptrend is drawn up and to the right as the trend continues to make higher highs and higher lows over time, while the downtrend is drawn down and to the right as the trend continues to make lower highs and lower lows over time. In addition, a typical uptrend (downtrend) will need two highs (lows) in order to provide evidence of a trend, and three highs (lows) in order to confirm that the trend is valid. Another important point about trends is that the longer a trend has been intact, and the greater the number of times that the trend has been tested (i.e. the number of

times that the support/resistance levels have been reached), the greater the significance of the trend and the less likely that the trend line will be broken. The average trend line will typically have a 45-degree slope, but the slope of the trend line can also be steeper or flatter than 45 degrees. Since 45 degrees is the average slope of a trend line, a trend line with a 75-degree slope, for example, will tend to revert back to the 45-degree slope over time. A slope that is greater than 45 degrees will typically not be sustainable for any significant amount of time; conversely, a slope that is less than the average will typically accelerate (i.e. steepen) until it moves back in line with the equilibrium level of the slope. This 45-degree angle is the most important angle to Gann and it is represented with a one-to-one movement of time relative to price (I will provide some more information on this concept shortly).

Whenever the price of an asset trades in an uptrend (downtrend) and it reaches a prominent top (bottom), the price will typically decline (rally) off of this high (low), and W.D. Gann would divide this price action into eights, as well as thirds, and market action would be watched near these levels due to their historical significance. According to Gann the most important retracement levels are 50%, 37.5%, and 62.5%,

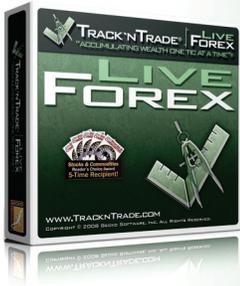
ranked in descending order of importance, with the rest of the levels believed to have diminishing importance the further the level is from the 50% retracement (see Table 1-1, at the end of this article, for a list of the retracement levels based on Gann's angles and percentages). Some of these retracement levels probably look familiar since they are similar to the levels used in other technical analysis indicators such as the Elliot Wave Theory and the Dow Theory. The 50% retracement is simply one of the most common retracement levels watched by chartists, and the 33% and 67%

*Figure 1-1:*



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retracement levels are both used in Dow theory.

Going back to the concept of the angle of the trend, and the one-to-one relationship between time and price, it is important to think in terms of units of time, and units of price, in order to understand why the degree of the angle is important. Since the 45-degree angle is represented by a 1x1 relationship between price and time (i.e. when time moves forward by one unit, price moves forward by one unit as well), a 1x2 relationship will be equal to 63.75 degrees and, inversely, a 2x1 relationship will be equal to 26.25 degrees, where each inverse relationship is equal to 90 degrees (see Table 1-2 for a list of Gann's geometric angles). The 1x2 angle means that as time moves forward by 1 unit price will move forward by 2 units, while a 2x1 angle has an inverse relationship (time moves forward by 2 units as price moves forward by 1 unit). If you think about these angles as if they are a right triangle, then the calculation of each of these angles are very easy and can be calculated with the two known sides (i.e. the 2x1, or 1x2, time multiplied by price relationship) and a known angle within the right

triangle (i.e. the 90-degree angle that every right triangle has). Just in case things are getting a little hard to follow, and to make things a little bit easier to understand, I have included some figures where I have photoshopped in right triangles on top of the chart that I created with Track 'n Trade 5.0 (which I will be showing in a bit to provide an example of the Gann fan). Figure 1-1 is a 1x1 angle so both side B (time) and side C (price) would both be equal to 1 unit, with angle X being equal to 45 degrees (in order to spare you from having to re-live middle-school geometry, I am skipping the calculation of each angle). Figure 1-2 is the exact same concept, and will use the exact same equation, except that it has a 2x1 angle and side B (time) is equal to 2, side C (price) is equal to 1, and Angle Y is equal to 26.25 degrees. Figure 1-3, on the other hand, has an inverse relationship with Figure 1-2 (it is a 1x2 angle instead of a 2x1 angle), so side C (price) is equal to 1, side B (time) is equal to 2, and angle Z is equal to 63.75 degrees.

In Figure 1-4, shown below, I combined the triangles from each of the previous figures and, in order to clean things up a bit, I removed everything but the 1x2,

1x1 and 2x1 trend lines. This figure is the Gann Fan in its most basic form. In Figure 1-5, shown below, you will see the actual Gann Fan that is included in the Track 'n Trade 5.0 software.

The chart used for each of the figures is a chart where the price has been trading below the 45-degree trend line,

indicating that the current rate of change will likely increase in the future, if the current trend persists, in order to move back to the historical average rate of change. In addition to measuring the rate of change, the Gann Fan trend lines also act as support and resistance levels, and, according

Figure 1-2:



Figure 1-3:



Figure 1-4:



to W.D. Gann, when one of these trend lines is broken, by the price range of an entire day, the price will typically move to the next trend line. For example, using Figure 1-5 above, if the price breaks the 2x1 trend line it will likely move down and touch the 3x1 trend line, which will become the new support level while the previous 2x1 support trend line will become the new resistance level. If the opposite occurs and the 1x1 trend line is broken, things are exactly the same except that they are in the inverse direction (i.e. 1x2 will be the new resistance level and 1x1 will be the new support level). The Gann fan can also be used as an indicator of relative performance (relative to the market as a whole), depending on which angle the current price is above or below, since, according to W.D. Gann the 45-degree angle is the average rate of change, so variation from this historical average can be viewed as relative outperformance or relative underperformance. For example, if the stock price is above the 1x1 angle then it has been outperforming the market on a relative basis and if it has been trading below the 1x1 angle then it has been underperforming the market on a relative basis.

Figure 1-5:



In summary, the Gann fan is based on W.D. Gann's geometric angles that are used to identify important support and resistance levels, and, in addition, as a measure of relative performance. According to Gann, the Gann fan should be drawn from important tops, and important bottoms, moving from the left of the chart to the right of the chart. Also, this should be done on a one-to-one basis (i.e. the area that the Gann fan covers should be square) so that the Gann fan is proportional and accurate. Alone, the Gann fan provides useful information but combining the Gann fan with other technical analysis tools, such as percentage retracements, can also be very beneficial because the tools can be used to help confirm a trading signal. For example, if percentage retracements are used with the Gann fan, then horizontal lines will be drawn on the chart as well. The horizontal lines (typically the 37.5%, 50%, and 62.5% retracement lines), combined with the three most-common Gann fan lines (the 26.25 degree, 45 degree, and 63.75 degree), identify the center of gravity of the chart, according to Gann. If there was a 50% retracement to the 45-degree trend line, for example, the combination of the two indicators would increase the overall significance of the support level.

Table 1-1:\*

1/8	=	12.5%
2/8	=	25.0%
1/3	=	33.0%
3/8	=	37.5%
4/8	=	50.0%
5/8	=	62.5%
2/3	=	67.0%
6/8	=	75.0%
7/8	=	87.5%

Table 1-2:\*

1x8	=	82.50°
1x4	=	75.00°
1x3	=	71.25°
1x2	=	63.75°
1x1	=	45.00°
2x1	=	26.25°
3x1	=	67.00°
4x1	=	75.00°
8x1	=	87.50°

\*These tables are based on W.D. Gann's geometric angles and percentages.

Kent Kofoed is a research analyst with Gecko Software, & PitNews Magazine. You can find more details about Gecko Software, and their line of trading platforms on the web at: [www.GeckoSoftware.com](http://www.GeckoSoftware.com)

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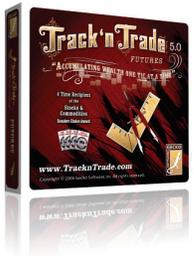


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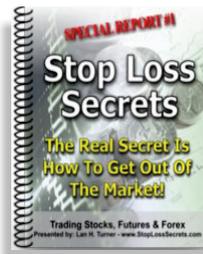
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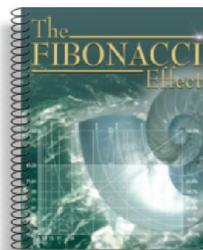
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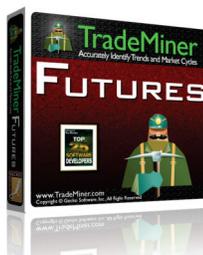
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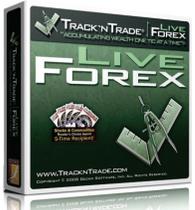


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