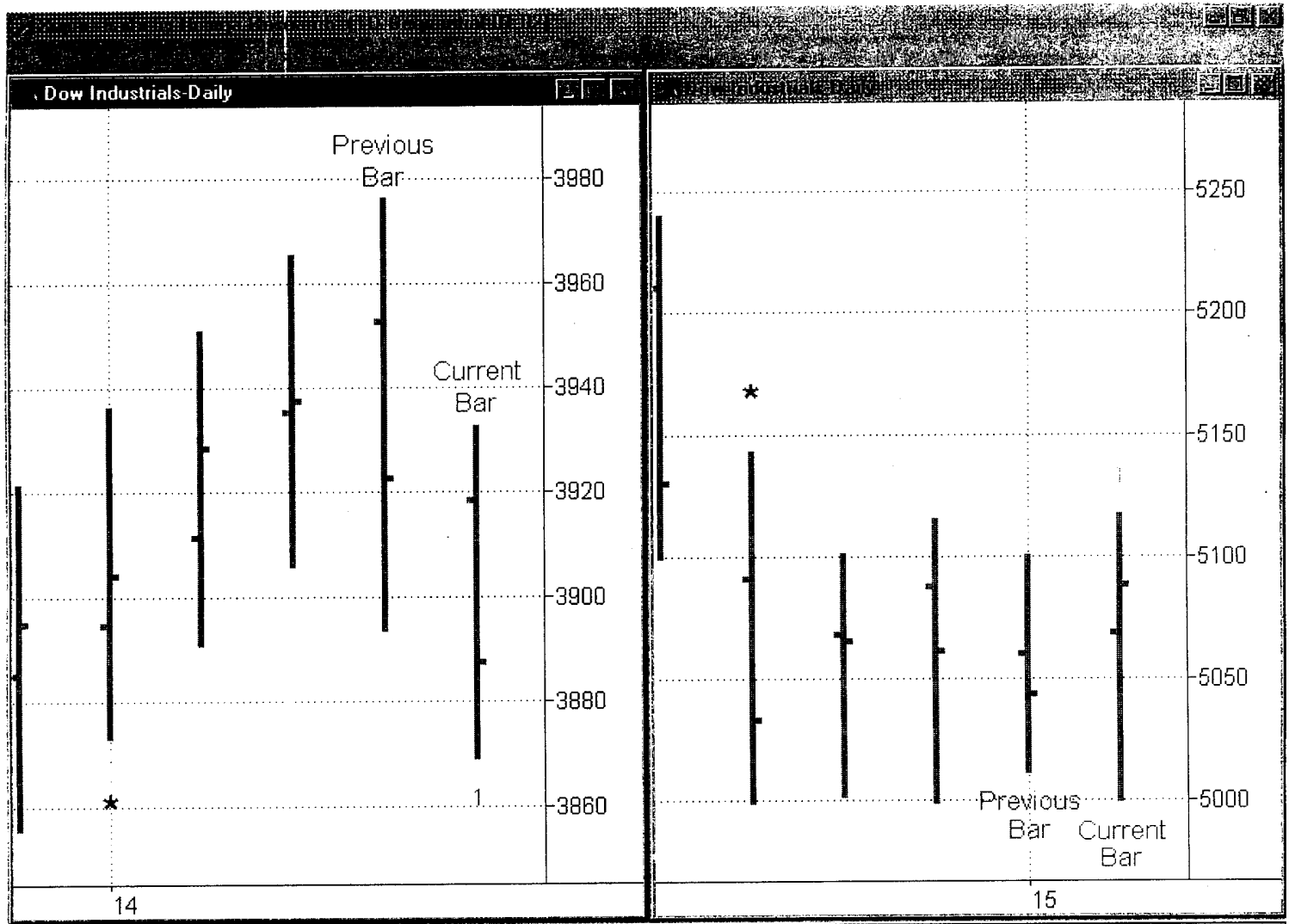


TD SEQUENTIAL™



## 1. First Bar of a BUY Setup

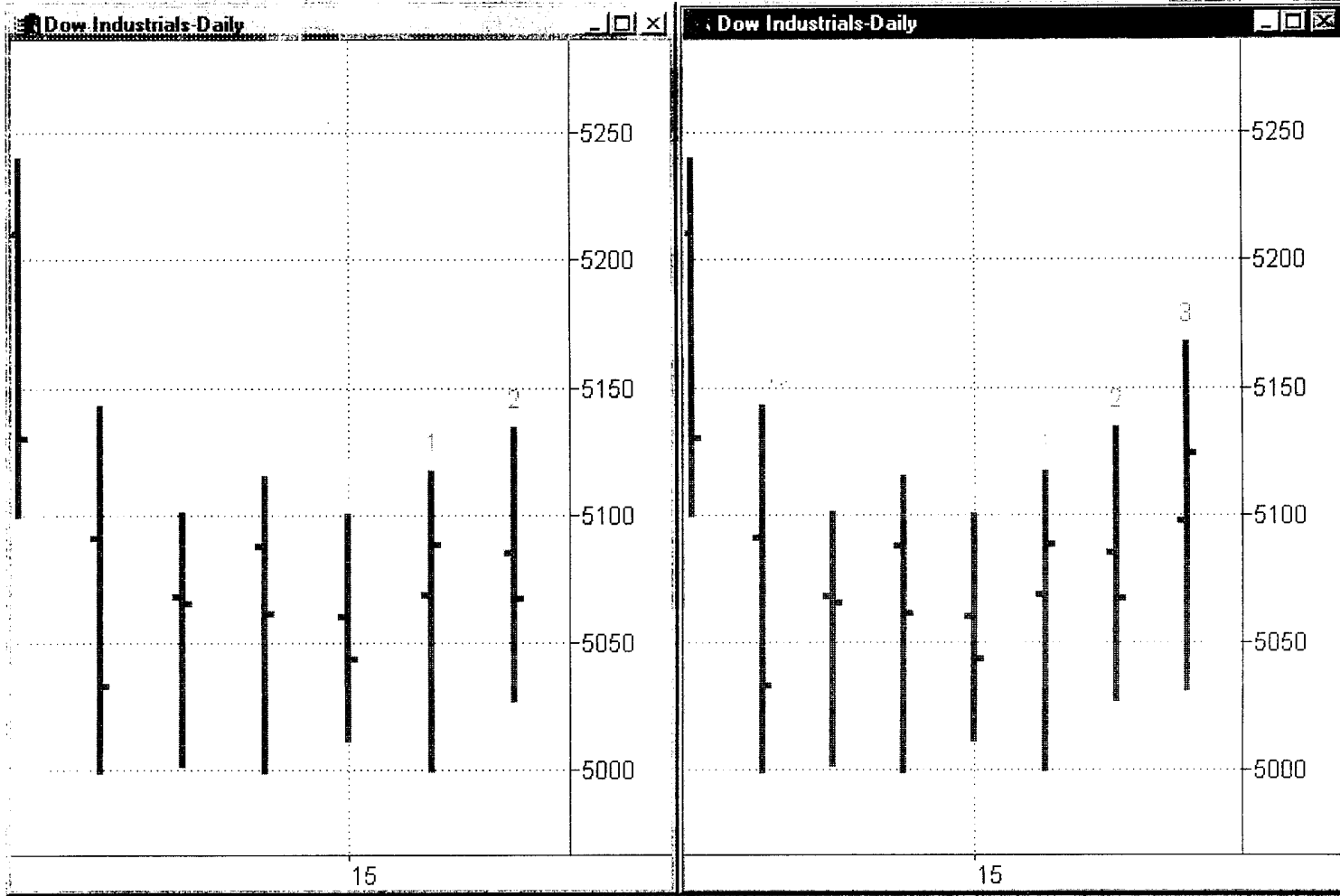
A *BUY Setup* bar is any bar which closes LESS than the close 4 bars earlier.

For a *BUY Setup* to begin a 'Price Flip' must occur. A 'Price Flip' occurs when the current bar closes LESS than the close 4 bars earlier and the close of the preceding bar is GREATER THAN OR EQUAL TO the close 4 bars earlier. This indicates a change in the trend.

## 2. First Bar of a SELL Setup

A *SELL Setup* bar is any bar which closes GREATER than the close 4 bars earlier.

Similar to a *BUY Setup*, a *SELL Setup* cannot begin until a 'Price Flip' occurs. This happens when the current bar closes GREATER than the close 4 bars earlier and the close of the preceding bar is LESS THAN OR EQUAL TO the close 4 bars earlier. Again, indicating a change in the trend.



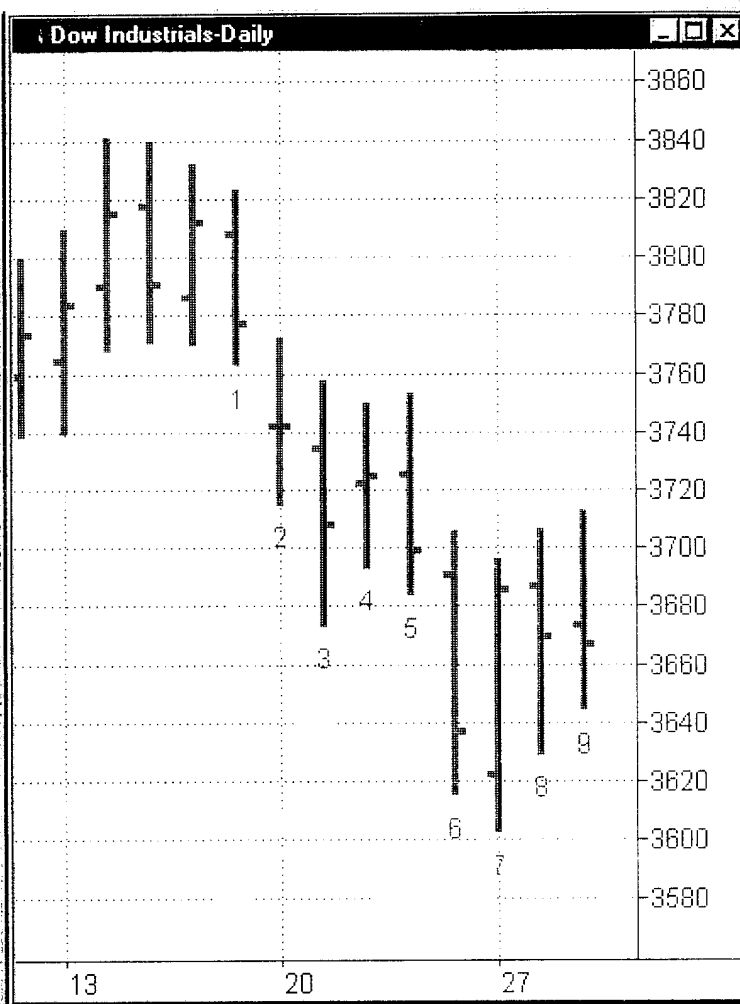
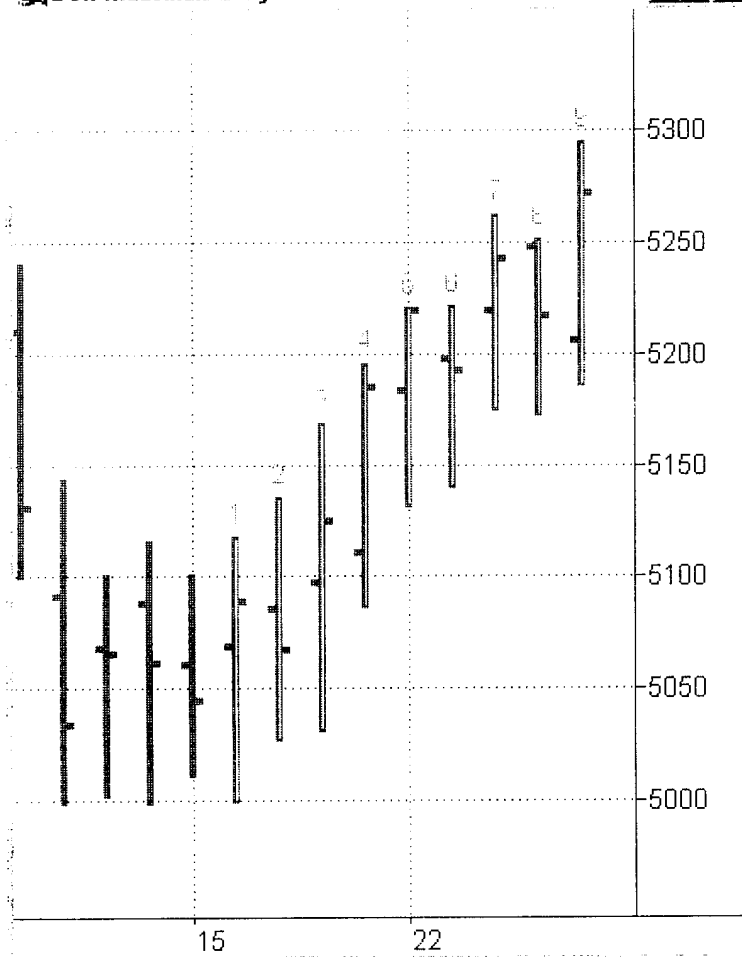
### 3. Second Bar of a SELL Setup

Although *Setup* bar #2 closes LESS than the close of *Setup* bar #1, it still closes slightly GREATER than the close 4 bars earlier, thereby fulfilling the Setup requirement.

Note: In order for a SELL *Setup* bar to qualify, the current bar needs only to be GREATER than the close 4 bars earlier (not all bars between).

### 4. Third bar of a SELL Setup

*Setup* continues to qualify with the current bar (#3), closing GREATER than the close 4 bars earlier.



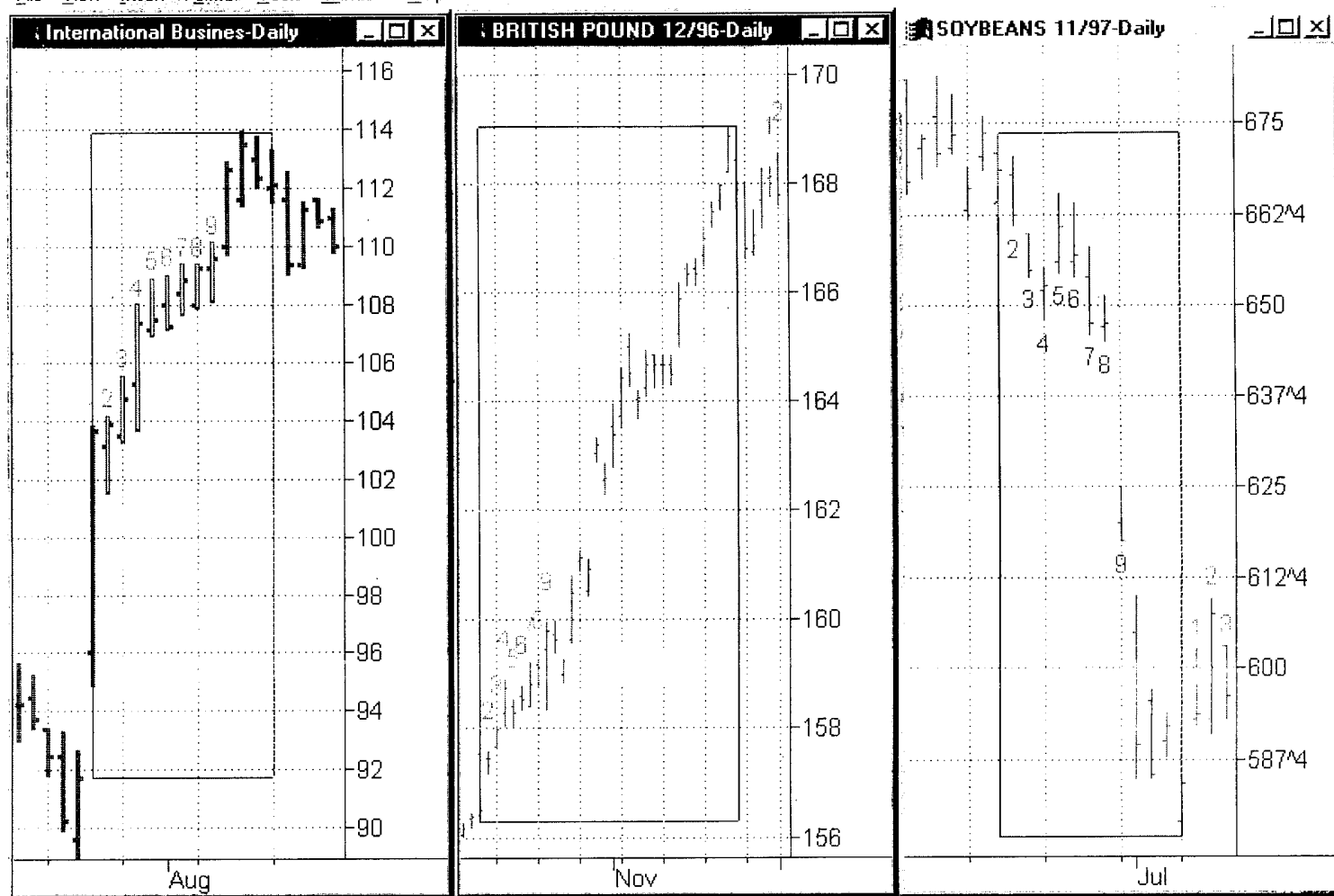
### 5. An Example of a Complete SELL Setup

Above is the MINIMUM requirement for a SELL Setup. Nine consecutive closes GREATER than the close 4 bars earlier.

Upon completion of a SELL Setup, a painted box will appear around the Setup bars beginning with Setup bar #1 and extending through and including Setup bar #9. The height of this box is determined by the extreme high and extreme low of the Setup bars.

### 6. An Example of a Complete BUY Setup

Above is the MINIMUM requirement for a BUY Setup. Nine consecutive closes LESS than the close 4 bars earlier.



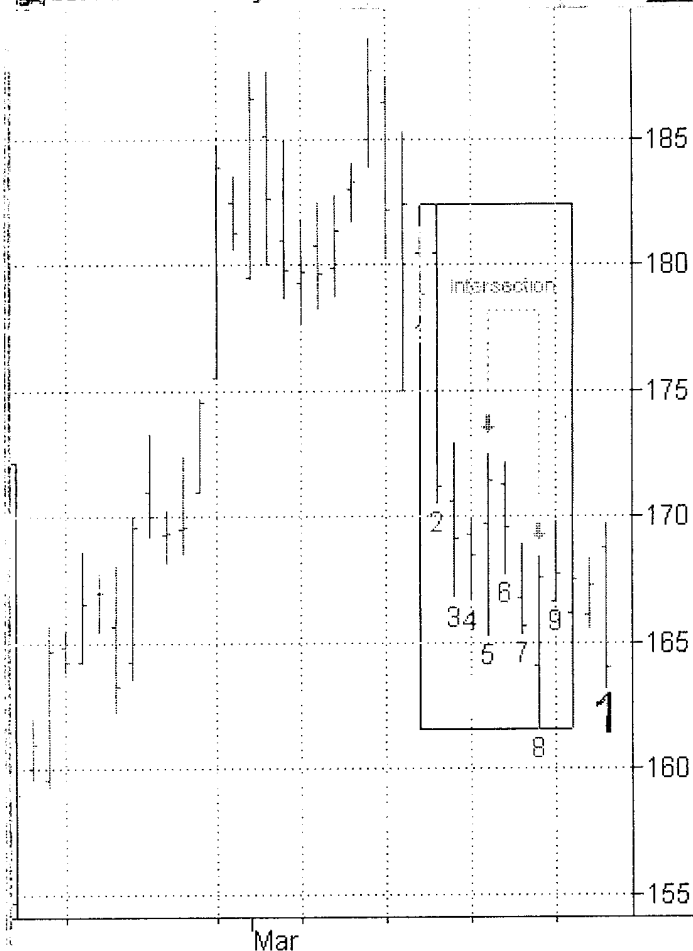
## 7.- 9. Continuation of a Setup

The minimum requirement for a valid *Setup* is 9 consecutive closes (higher or lower) than the close 4 bars earlier. However, the *Setup* phase may continue beyond the 9th bar, as long as each additional bar meets the qualifications of *Setup*.

Upon completion of *Setup*, a painted box will appear around the *Setup* bars beginning with *Setup* bar #1 and extending through and including the last bar of *Setup*. The height of this box is determined by the *extreme true high* and *extreme true low* of the *Setup* bars.

COFFEE 05/95-Daily

\_ | 5 | x

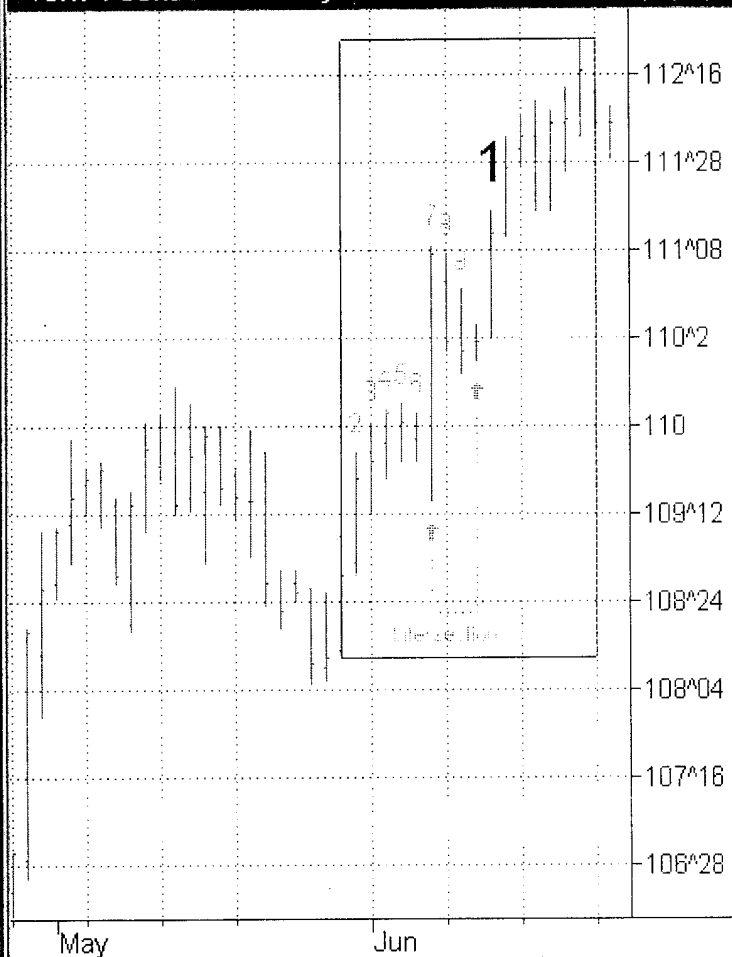


## 10. Intersection for a BUY Countdown

For a *BUY Countdown* to begin, *Intersection* must take place. This requires that the **HIGH** of trading bar 8 of *Setup* (or the first subsequent bar) be **GREATER** than or equal to the **LOW** three or more trading bars earlier, up to and including the first bar of *Setup*.

DAY T-BONDS 09/97-Daily

\_ | 5 | x



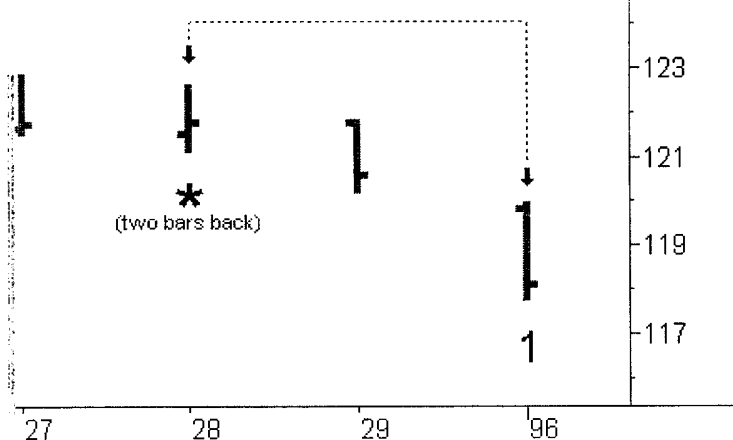
## 11. Intersection for a SELL Countdown

For a *SELL Countdown* to begin, *Intersection* must take place. This requires that the **LOW** of trading bar 8 of *Setup* (or the first subsequent bar) be **LESS** than or equal to the **HIGH** three or more trading bars earlier, up to and including the first bar of *Setup*. In the example above, Setup bar #8 does not intersect Setup bar #5 nor does it intersect any of the Setup bars #4 back to #1. Next, a comparison is made between Setup bar #9 and Setup bar #6 (followed by Setup bars #5 back to #1). If *Intersection* does not occur, the next comparison is made between the first bar after Setup bar #9 and Setup bar #7.

File View Insert Format Tools Window Help

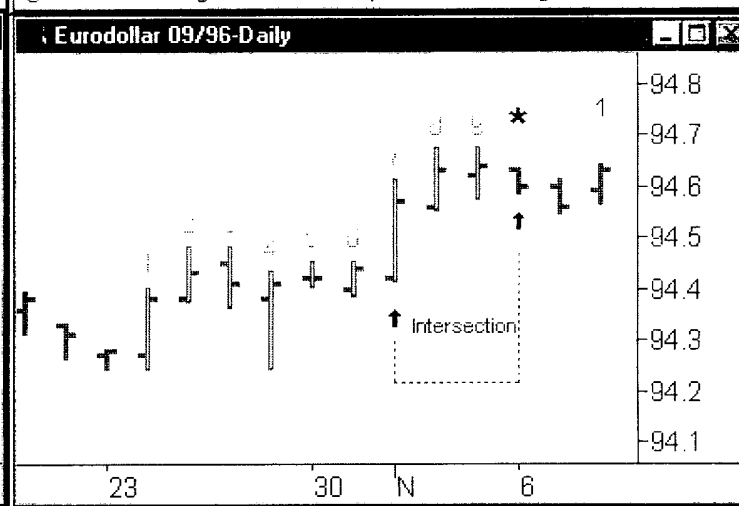
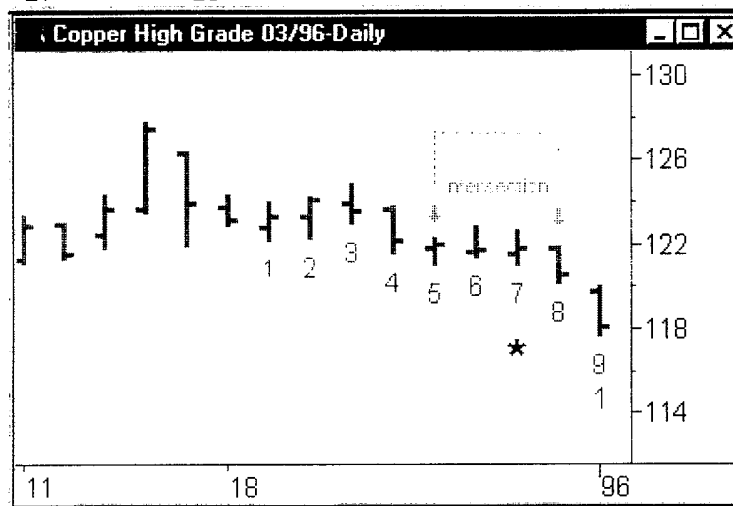
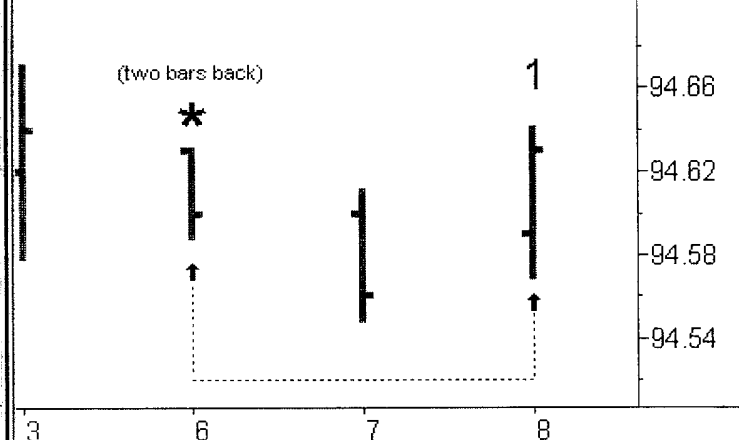
Copper High Grade 03/96-Daily

[ ] [ ] [X]



Eurodollar 09/96-Daily

[ ] [ ] [X]



### 12.-13. First Bar of a BUY Countdown

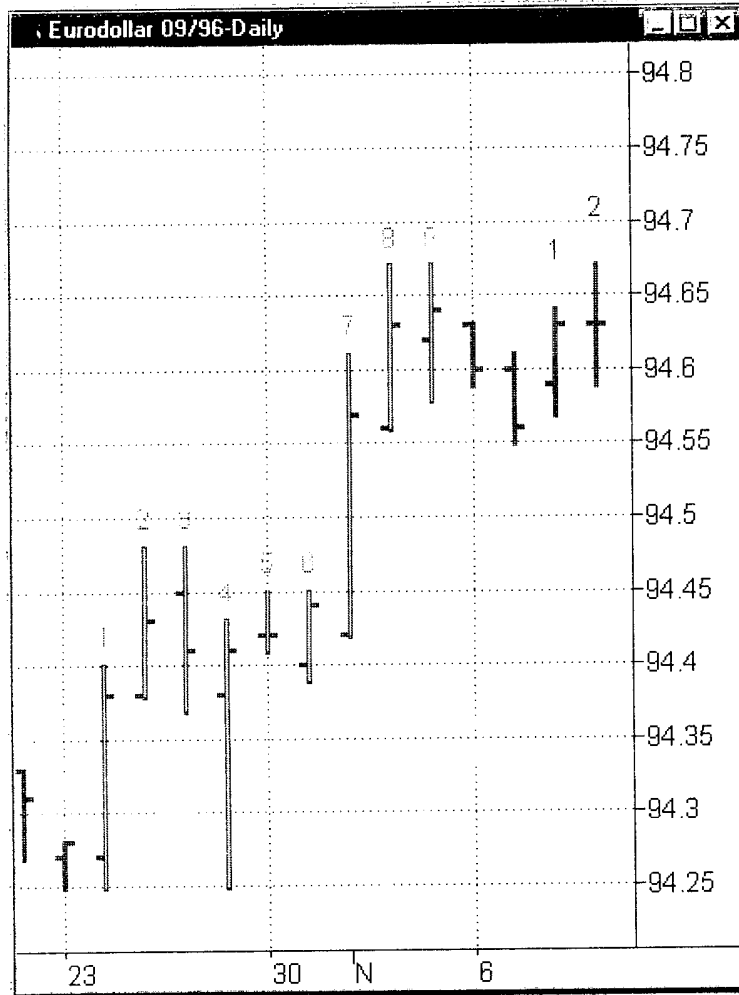
A *BUY Countdown* is a bar that closes LESS than (or EQUAL to) the LOW 2 bars earlier.

After *Setup* and *Intersection* have occurred, the *Countdown* process begins. In the example above, *Intersection* occurs with *Setup* bar #8 intersecting *Setup* bar #5 allowing *Countdown* bar #1 to begin on the last bar of *Setup* (bar #9). The close of *Setup* bar #9 is LESS than the LOW of *Setup* bar #6 allowing *Countdown* bar #1 to be plotted, sharing *Setup* bar #9.

### 14.-15. First Bar of a SELL Countdown

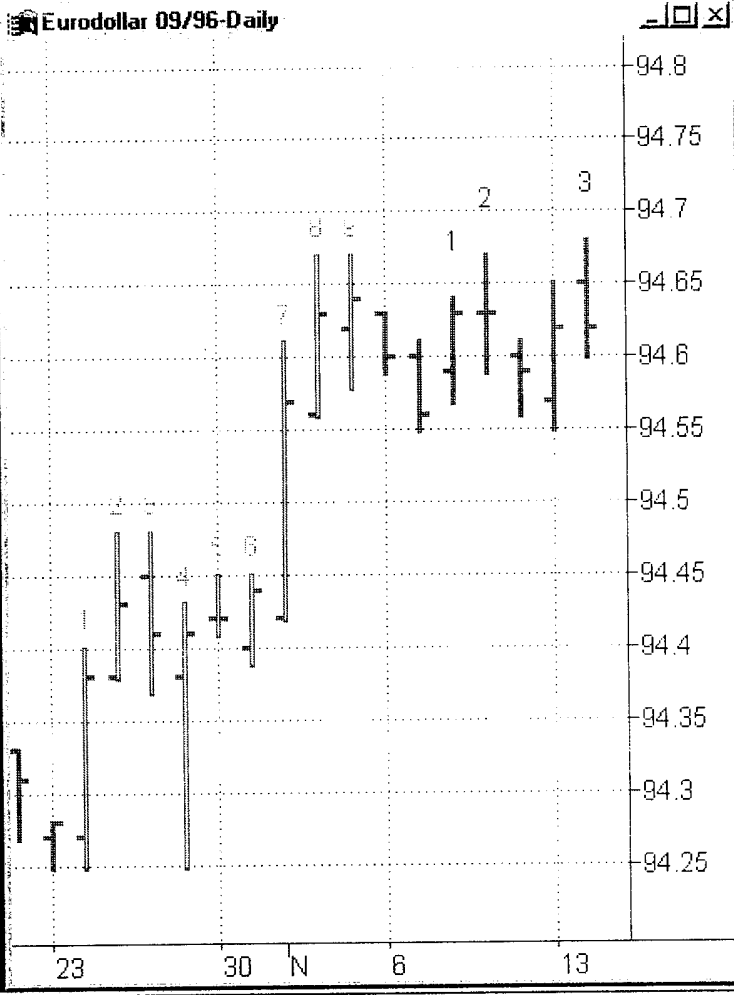
A *SELL Countdown* is a bar that closes GREATER than (or EQUAL to) the HIGH 2 bars earlier.

The above example illustrates how *Intersection* can occur beyond *Setup* bar #9. The bar after *Setup* bar #9 intersects with *Setup* bar #7 allowing *Countdown* bar #1 to begin with the first close GREATER than the HIGH two bars earlier.



## 16. Second Bar of a SELL Countdown

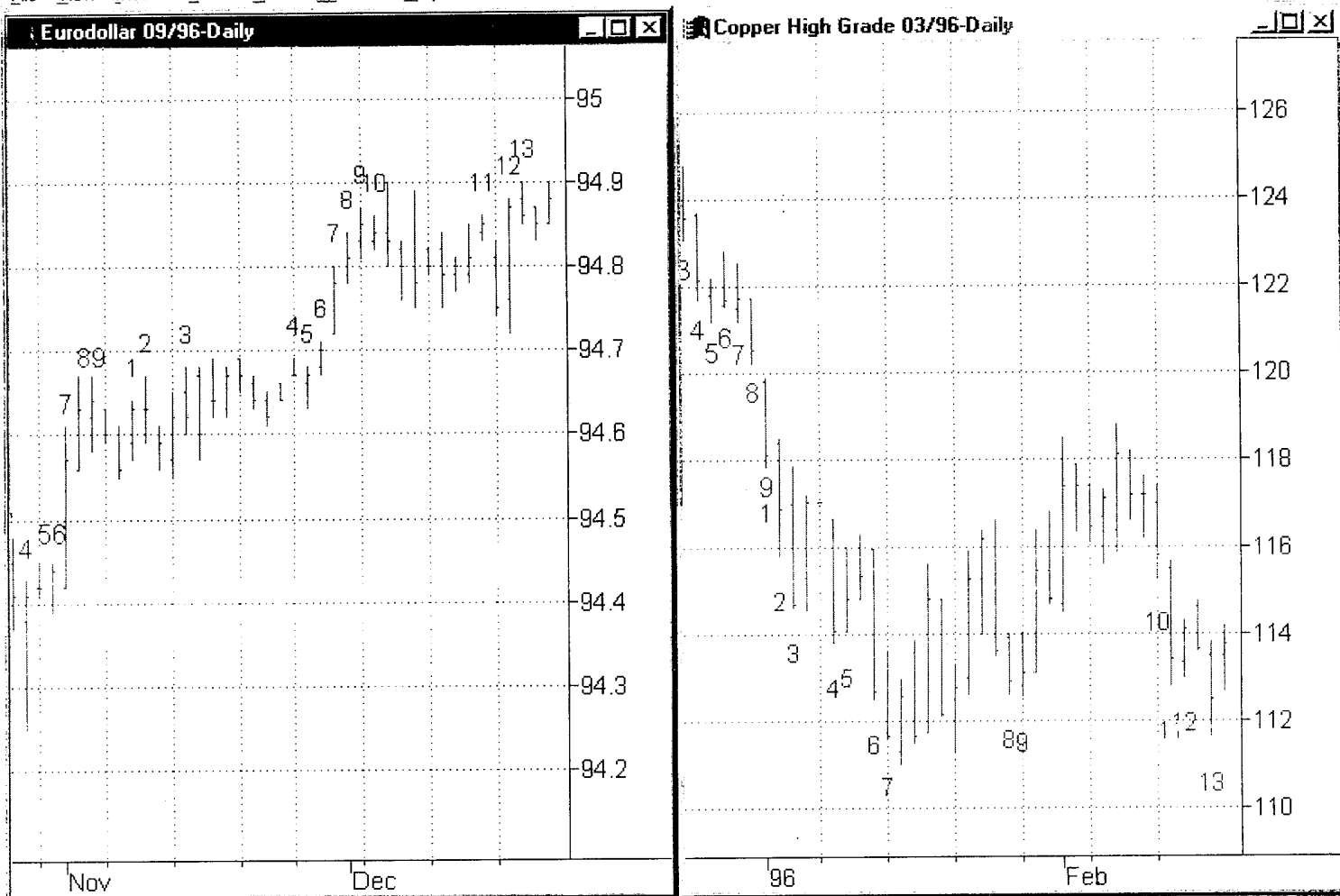
In the example above, *Countdown* bar #2 qualifies by closing GREATER than the HIGH two bars earlier.



## 17. Third Bar of a SELL Countdown

Unlike *Setup*, the series of *Countdown* bars DO NOT have to be consecutive. Notice the two bars after *Countdown* bar #2, both close LESS than the HIGH two bars earlier. The current bar (#3), qualifies for *Countdown* by closing GREATER than the HIGH two bars earlier.





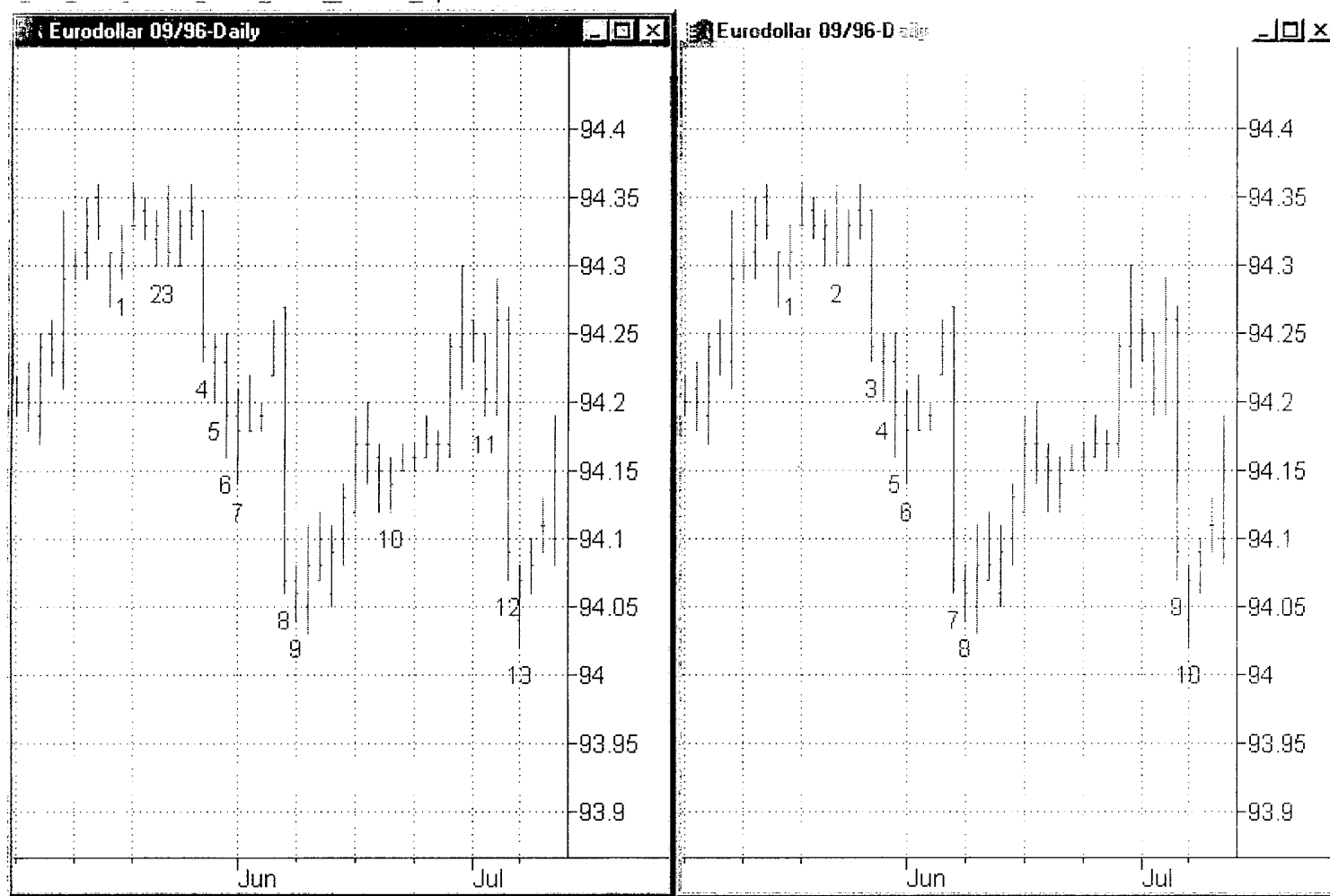
## 18. An Example of a Complete SELL Countdown

*Countdown* is the third and final phase of *TD Sequential*.

A low risk SELL zone will exist upon the completion of the 13<sup>th</sup> bar of a SELL *Countdown*. However, it is important to apply other TD indicators to initiate entries.

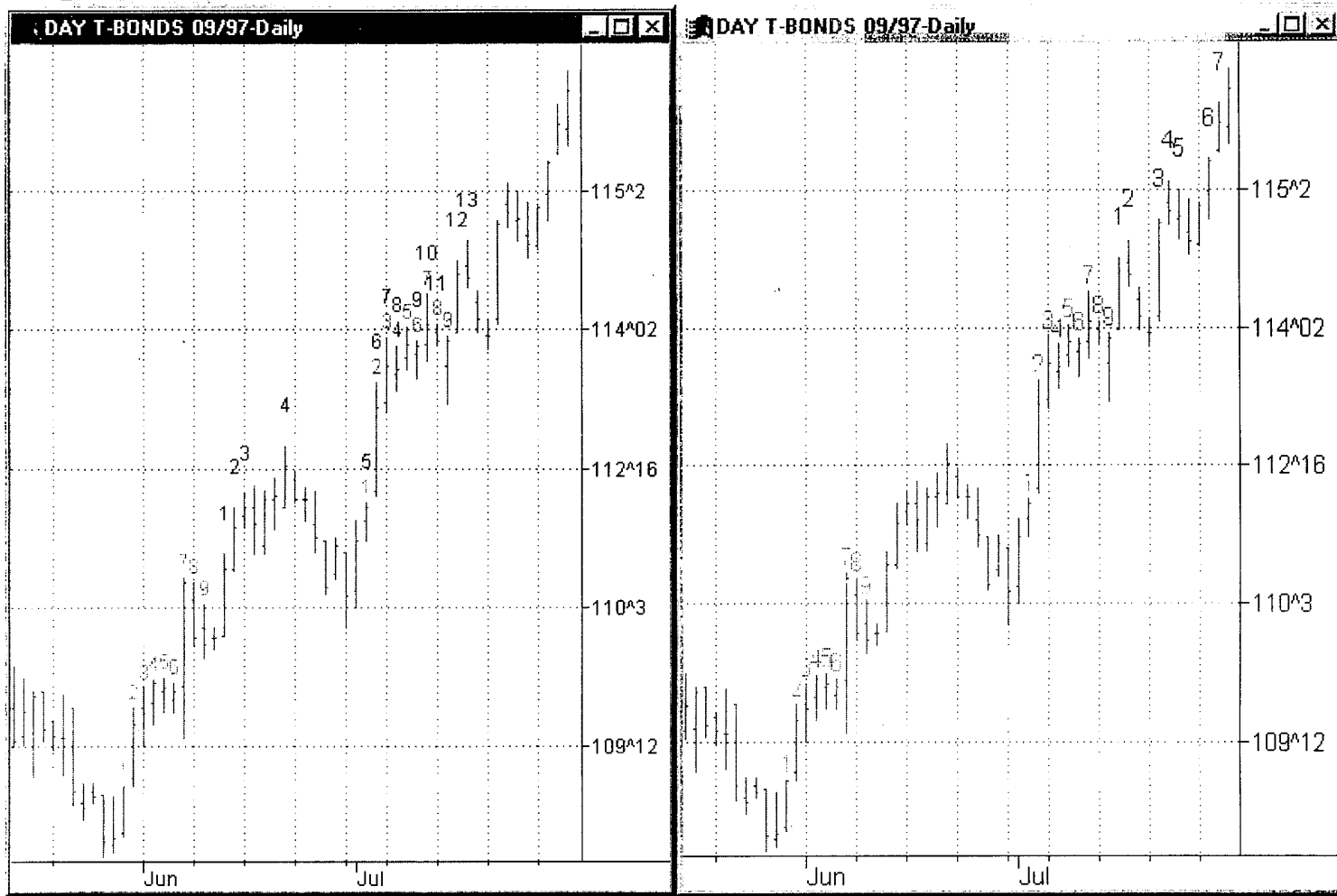
## 19. An example of a Complete BUY Countdown

A low risk BUY zone will exist upon the completion of the 13<sup>th</sup> bar of a BUY *Countdown*. Again, it is important to apply other TD indicators to initiate entries.



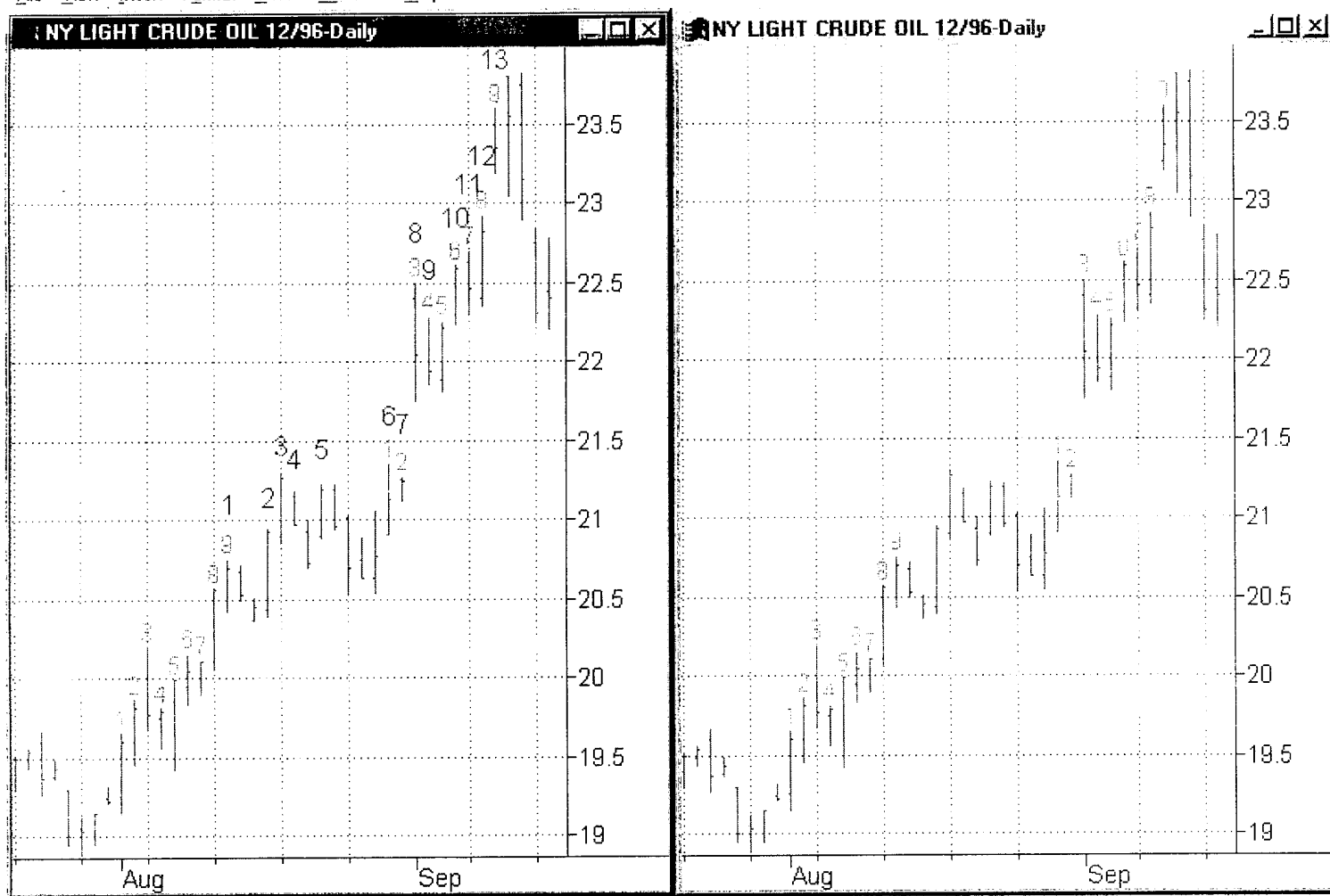
## 20.- 21. Using 'EQUAL TO' for Comparisons

If the condition of 'EQUAL TO' is not included, *Countdown* bars #2, #10 and #11 would not have been qualified, leaving the *Countdown* phase three bars behind and plotting *Countdown* bar #10 at the low instead of #13.



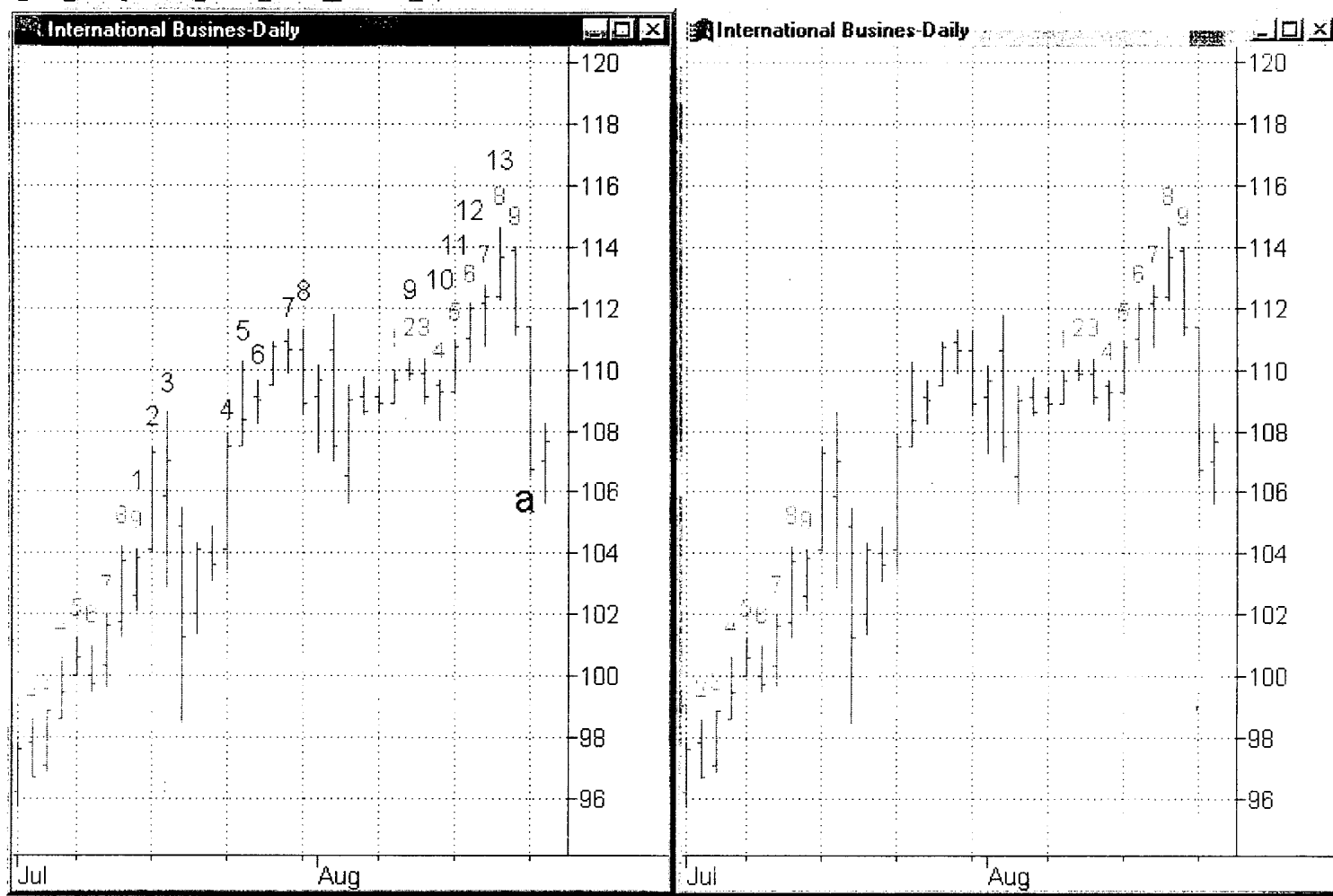
## 22.- 23. An Example of 'Recycling' - BEFORE the Completion of Countdown

Markets may record another *Setup* during the Countdown phase. This additional *Setup* may occur 1) BEFORE the completion of *Countdown*, 2) On *Countdown*, or 3) AFTER the completion of *Countdown* and prior to a 'PRICE FLIP'. This is referred to as '*Recycling*'. When a market 'Recycles' it may be indicating that the trend is likely to continue. In the chart above, the initial *Setup* is completed and *Countdown* begins. Then, just prior to *Countdown* bar #13, an additional *Setup* phase is completed. The option of cancelling *Countdown* if an additional *Setup* occurs BEFORE the completion of *Countdown* would cancel *Countdown* and remove the *Countdown* numbers from the chart



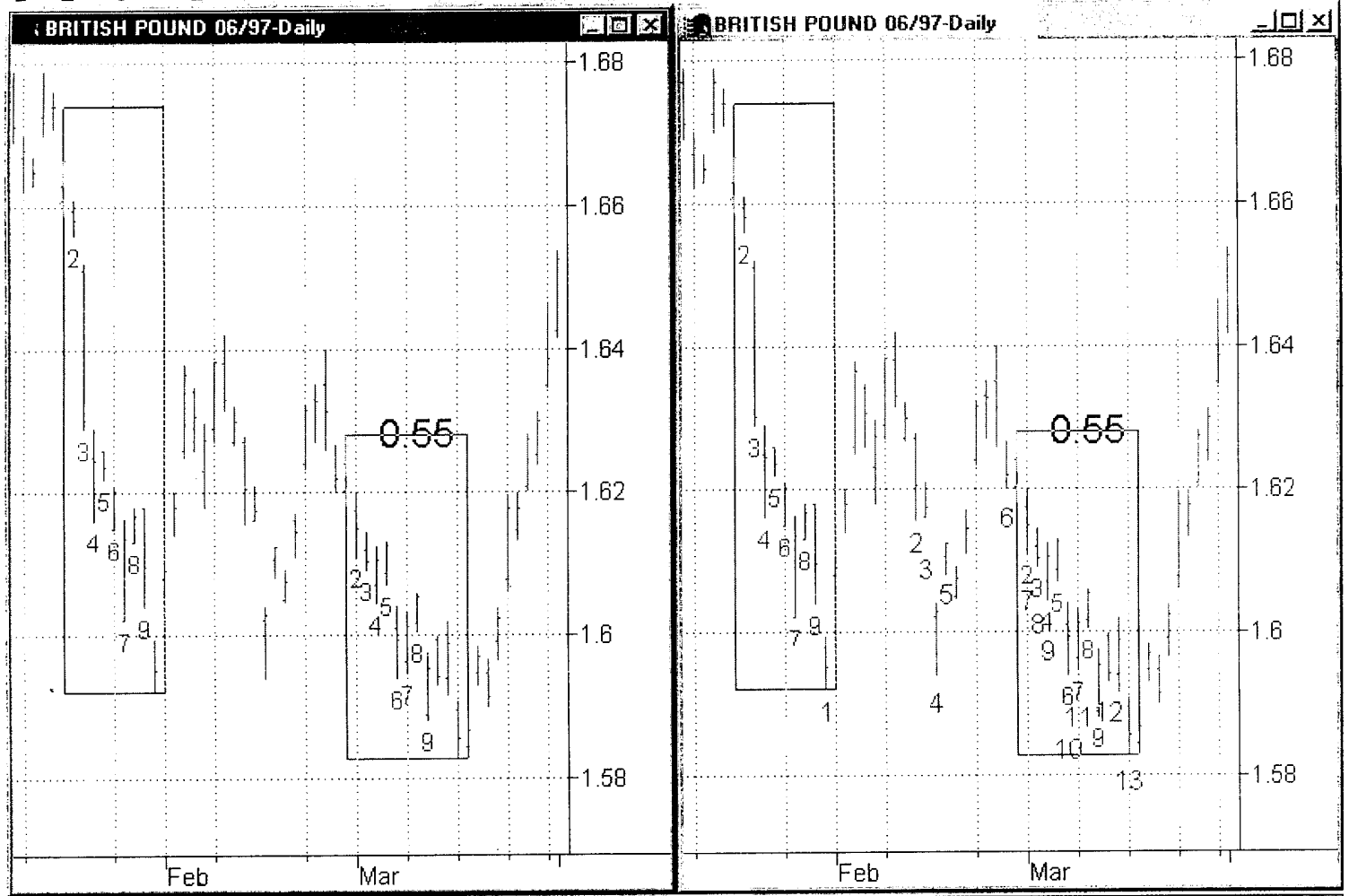
## 24.- 25. An Example of 'Recycling' - ON the Completion of Countdown

Occasionally, an additional *Setup* will complete ON *Countdown* bar #13 as shown above. By electing to cancel *Countdown* if an additional *Setup* completes ON the last bar of *Countdown*, the *Countdown* phase is cancelled and the numbers are removed from the chart.



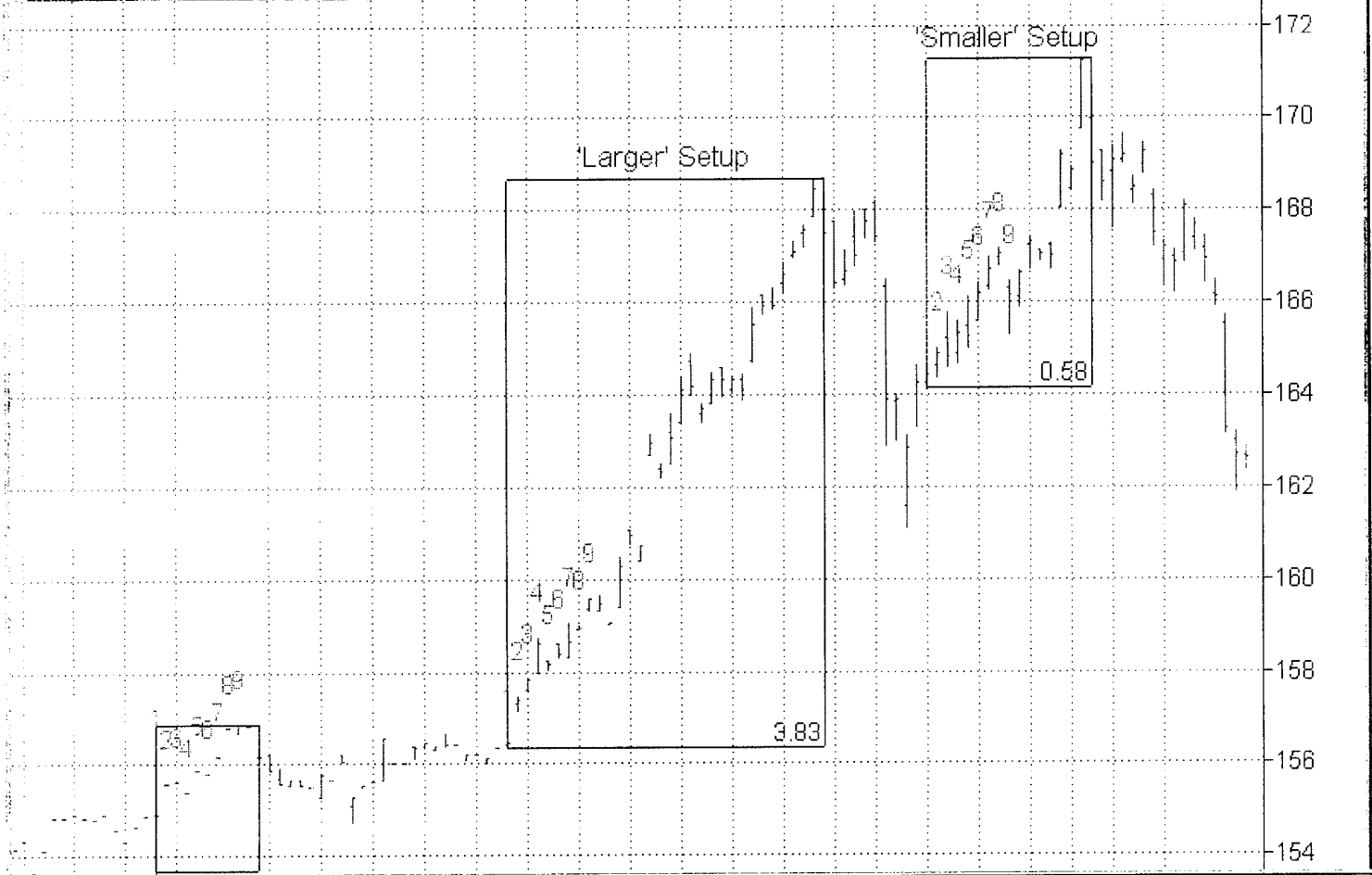
## 26.- 27. An Example of 'Recycling' - AFTER the Completion of Countdown

When *Countdown* completes, the prevailing trend is still in existence until a '*price flip*' occurs in the opposite direction.(shown in the chart above as bar 'a'). During the period of the prevailing trend, it's possible for an additional *Setup* to occur. In the example above, an additional *Setup* completes AFTER the completion of *Countdown* and PRIOR TO the occurrence of the '*price flip*' depicted by bar 'a'.



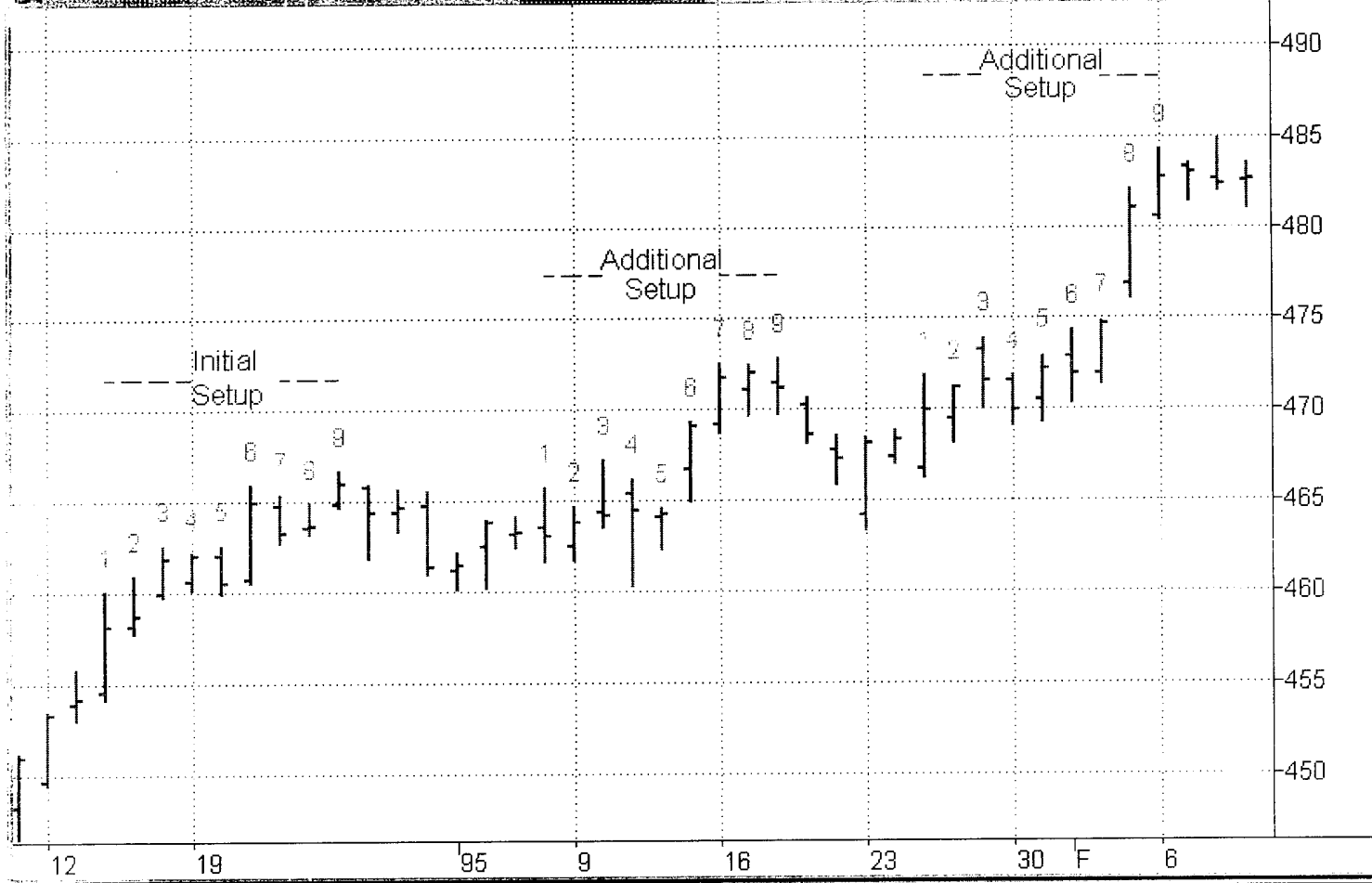
## 28.- 29. An Example of 'Recycling' - Smaller True High to True Low

If an additional *Setup* completes, it may be useful to ignore the *Setup* AND NOT cancel the *Countdown* phase if the *Setup* is 'Smaller' and more compressed than the initial *Setup*. A 'Smaller' *Setup* is defined as one whose true range is less than the true range of the initial *Setup*. In the example above, the true range of the additional *Setup* is 55% of the true range of the initial *Setup*. 'Smaller' repetitive *Setups* occur as a market struggles in the direction of the prevailing trend. Often markets will reverse at the completion of a 'Smaller' *Setup* therefore it may be prudent to ignore a 'Smaller' *Setup*, not 'recycle', and allow *Countdown* to complete.



### 30. An Example of 'Recycling' - 'Larger' True High to True Low

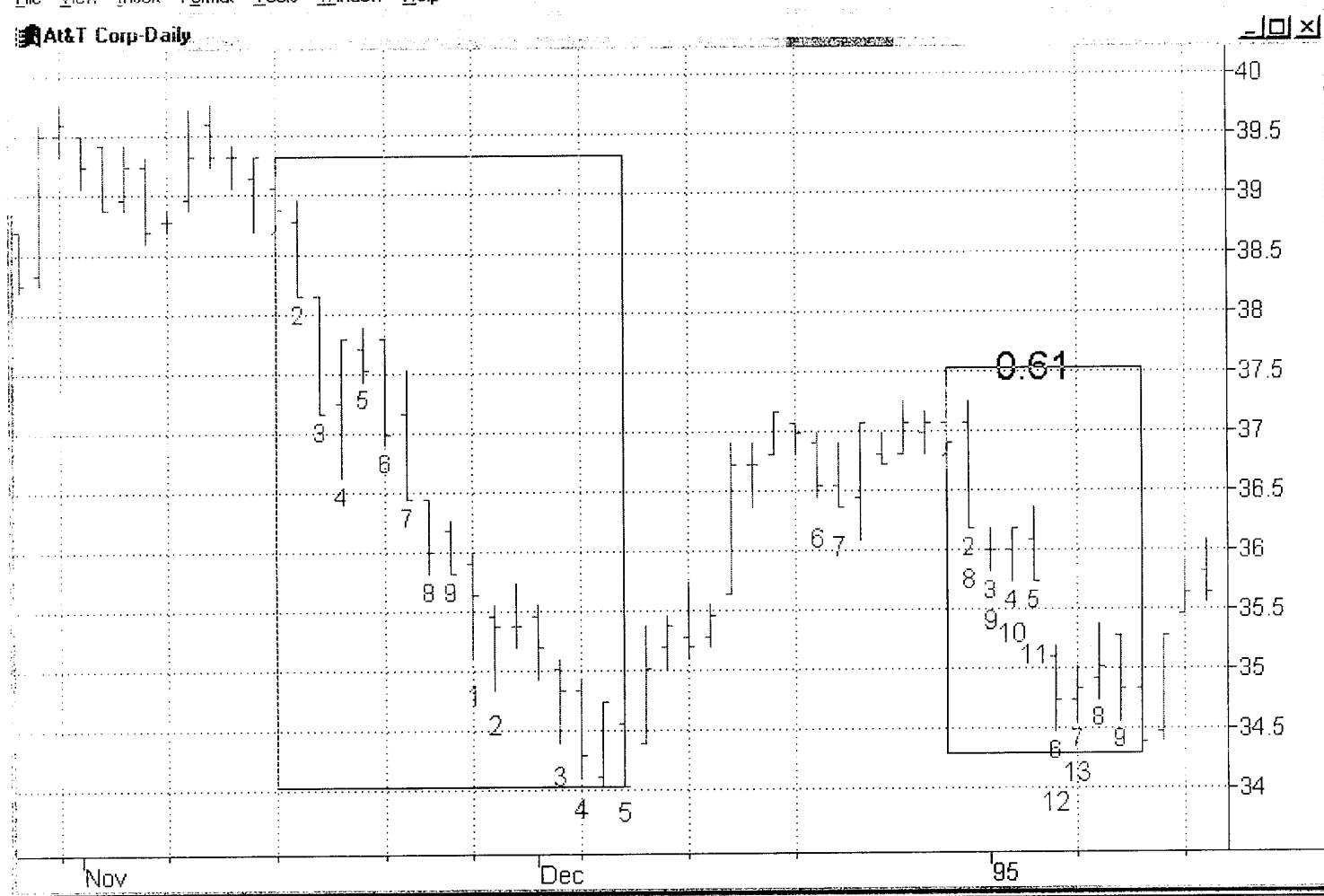
In very strong markets, it's possible to record a *Setup* that encompasses far more than the minimum of 9 bars that is required for *Setup*. In the example above, the second *Setup* lasts for 6 weeks, each bar recording a close ABOVE the close 4 bars earlier. An extended *Setup* such as this will often record a range from true high to true low that is 200%, 300% or even 500% larger than the initial *Setup*. In the example above, the *Setup* shown in the middle of the chart is 383% larger than the initial *Setup*. If a 'Larger' *Setup* occurs, it may be indicative of a 'blow off top' (or a 'panic bottom') and the market may react violently in the opposite direction. The March 1997 British Pound retraced 50% of the 6 week move in just 3 trading days. Notice that after the 50% pull back, the market resumed its trend and recorded a 'Smaller' *Setup* resulting in yet another retracement to market lows.



### 31. An Example of 'Recycling' - Consecutive Setups

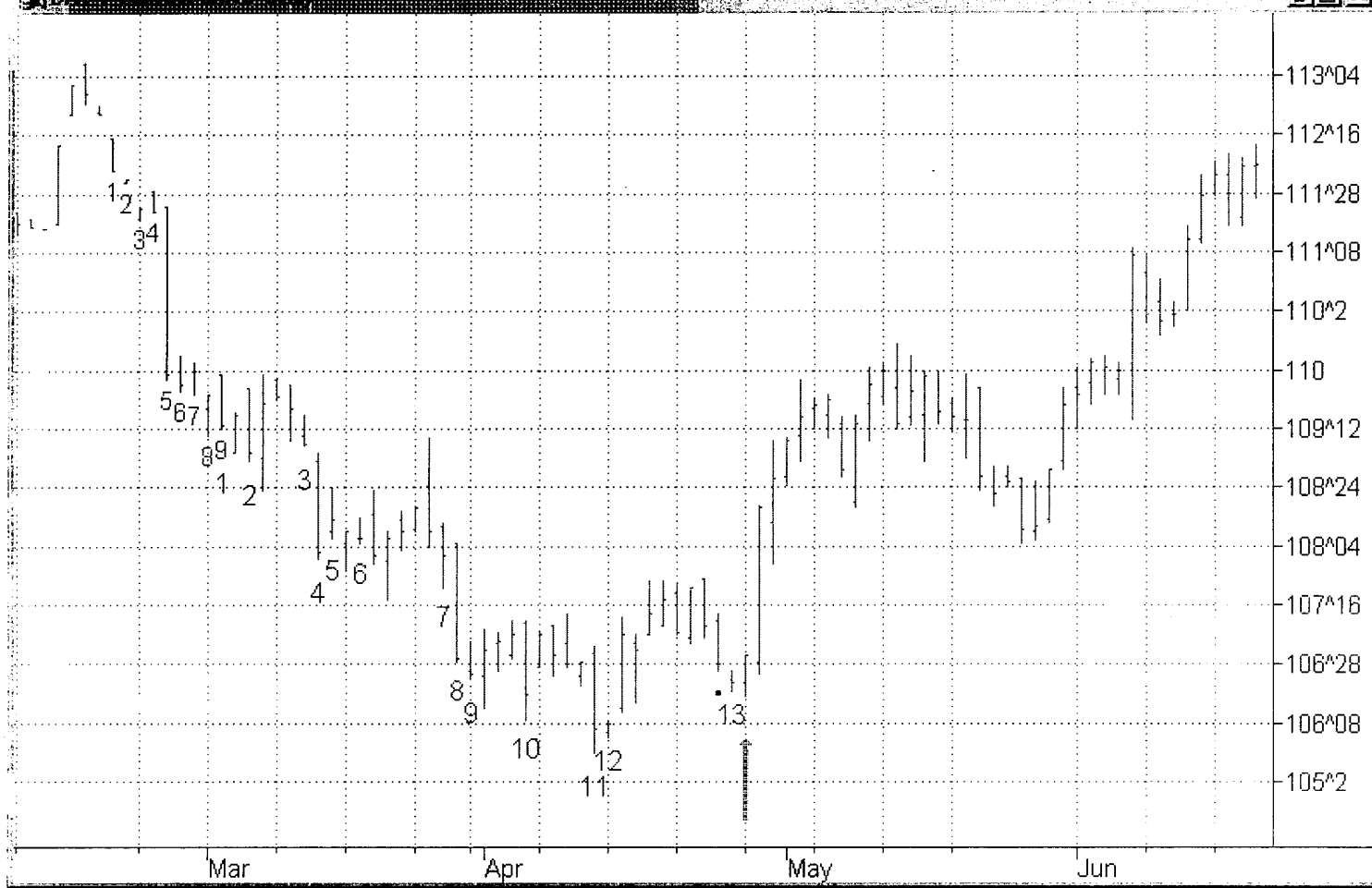
Periodically, a strong market records a series of consecutive *Setups* as shown in this example. Note: The March '95 S&P 500 contract '*Recycled*' twice after the initial *Setup*.





### 32. An Example of 'Recycling' - Setup Within

Another example of an additional *Setup* that might be ignored is a *Setup* whose true price range is contained entirely within the true price range of the *Setup* immediately before it. Similar to 'Smaller' *Setups*, *Setups* 'Within' are a sign that the prevailing trend may be in its final stages.



### 33. BUY Countdown - Bar #13 Below Bar #8

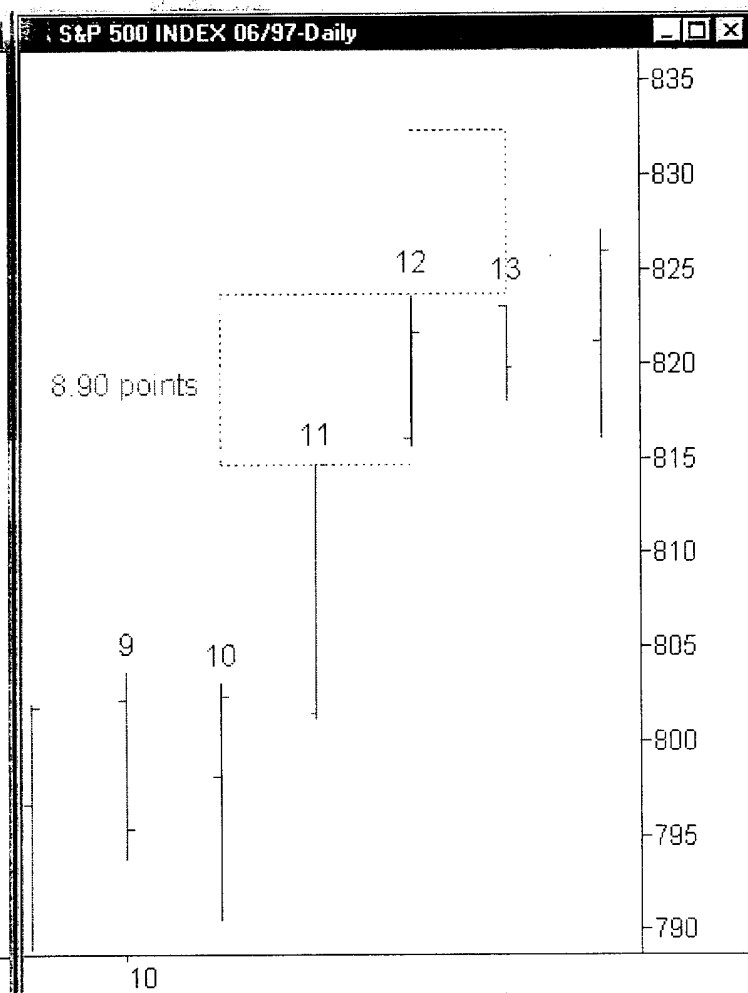
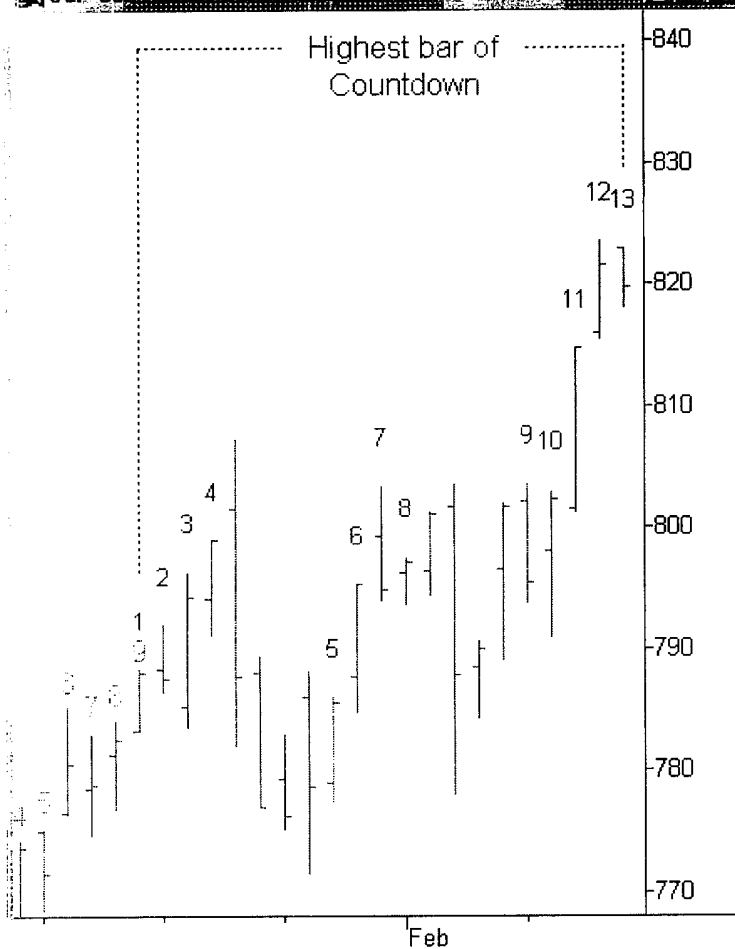
The standard option for TD Sequential BUY Countdown is to require the LOW of bar 13 of Countdown to be LESS THAN the CLOSE of Countdown bar 8. If a bar meets the requirement for Countdown 13, but the LOW of that bar is EQUAL TO or ABOVE the CLOSE of Countdown bar 8, an asterisk (\*) or a dot appears below the bar to indicate that this qualifier is not met.



### 34. SELL Countdown - Bar #13 Above Bar #8

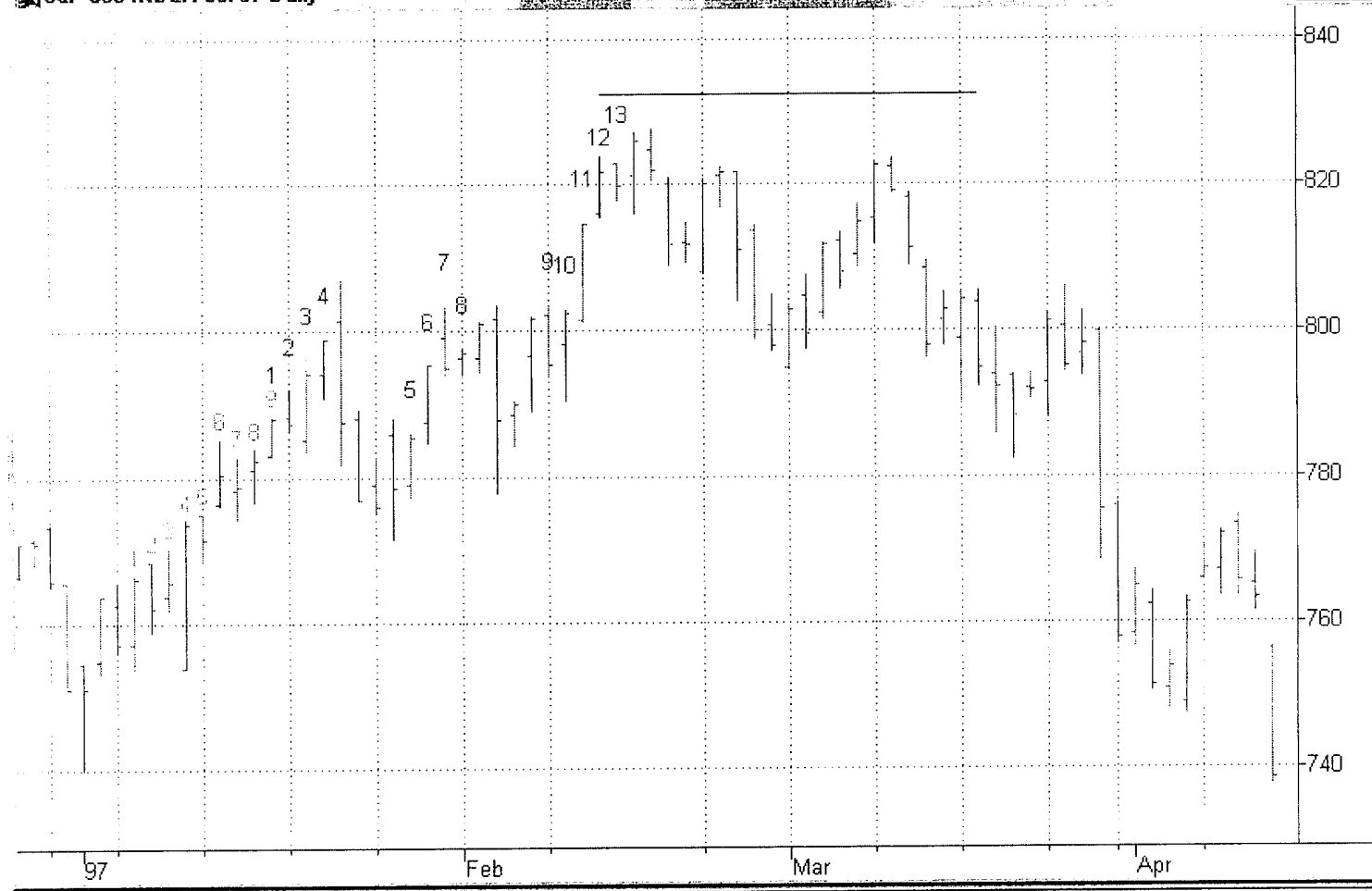
The standard option for TD Sequential SELL Countdown is to require the HIGH of bar 13 of Countdown to be GREATER THAN the CLOSE of Countdown bar 8. If a bar meets the requirement for Countdown 13, but the HIGH of that bar is EQUAL TO or BELOW the CLOSE of Countdown bar 8, an asterisk (\*) or a dot appears above the bar to indicate that this qualifier is not met.

S&amp;P 500 INDEX 06/97-Daily



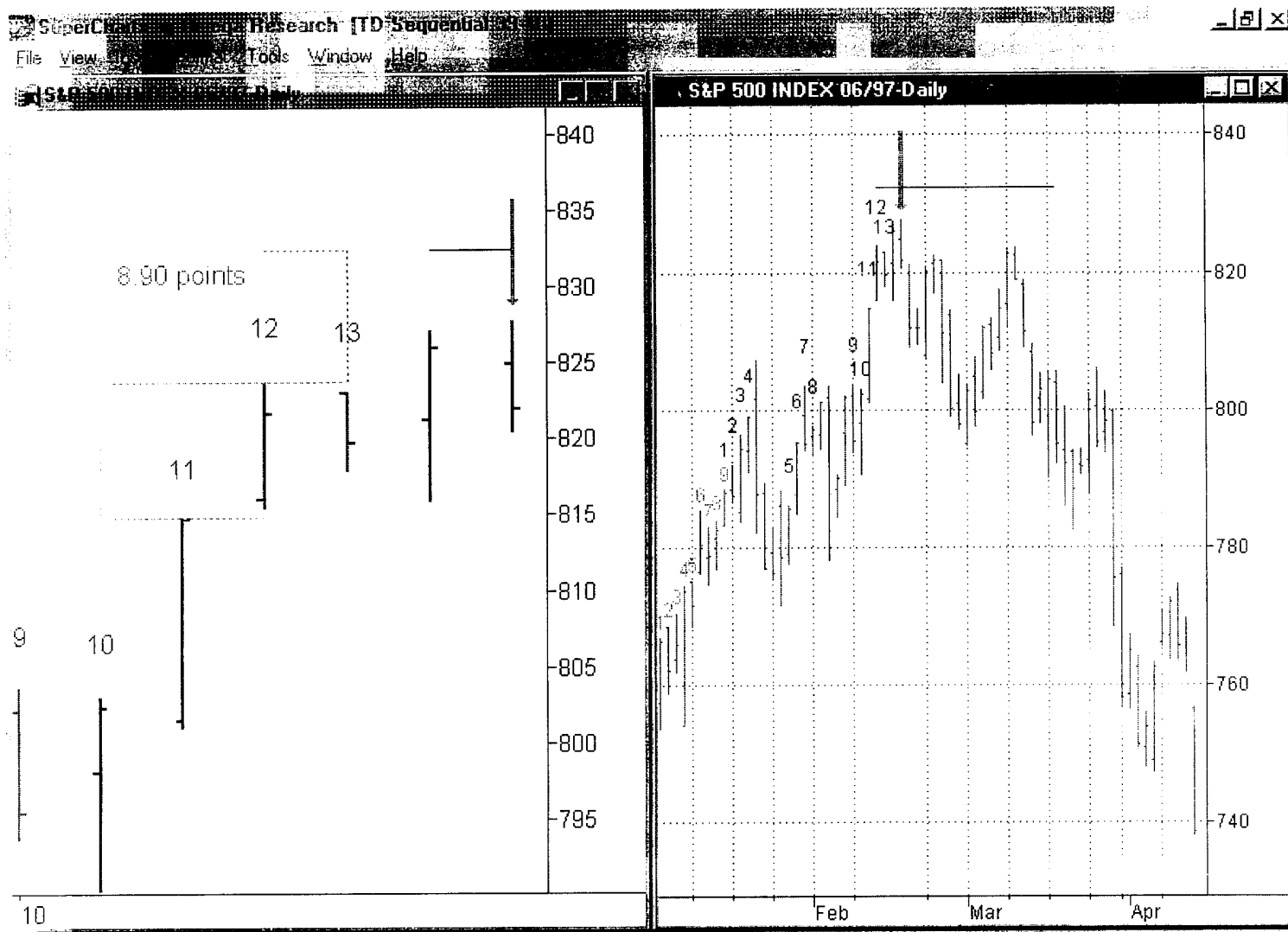
### 35.- 36. Entering A SELL Trade - Drawing the Line

When *TD Sequential* completes the *Countdown* phase, a low risk buy or sell zone is identified. There are several methods to time when to enter a trade after the completion of *Countdown*. First, let's examine where to draw the line and decide against entering a trade. For *SELL Countdown*, identify the highest bar of the *Countdown* phase. In the chart above, the inset shows that *Countdown* bar #12 is the highest bar of the *Countdown* phase. By taking the true range of *Countdown* bar #12 and adding it to the high, a line can be drawn on the chart that represents a maximum price. If the market closes above this line, the low risk SELL zone is cancelled since the market has gained renewed strength.



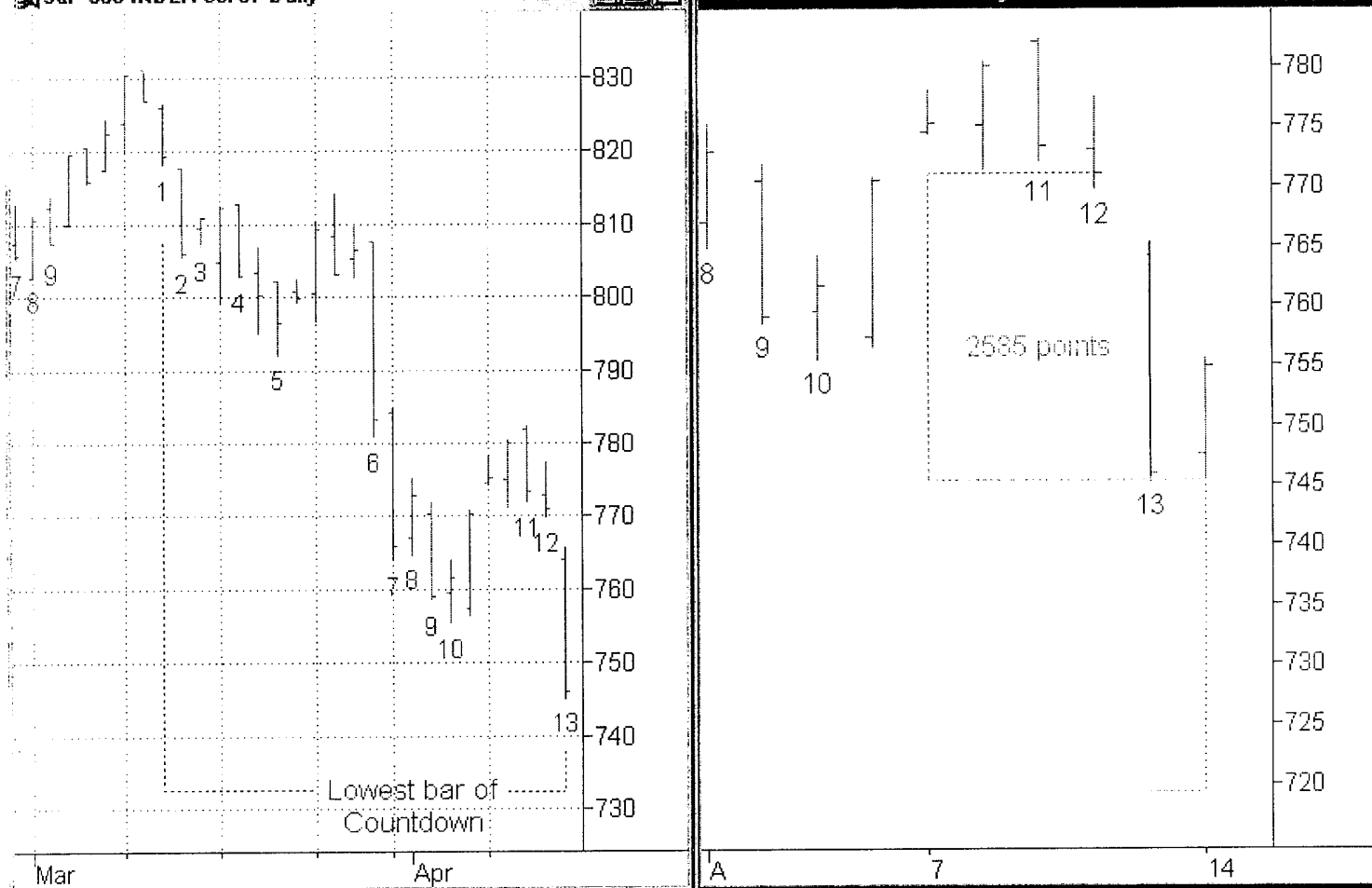
### 37.- 38. Entering A SELL Trade - Drawing the Line

After the completion of *Countdown*, price does not trade beyond the maximum price and the low risk sell zone continues.



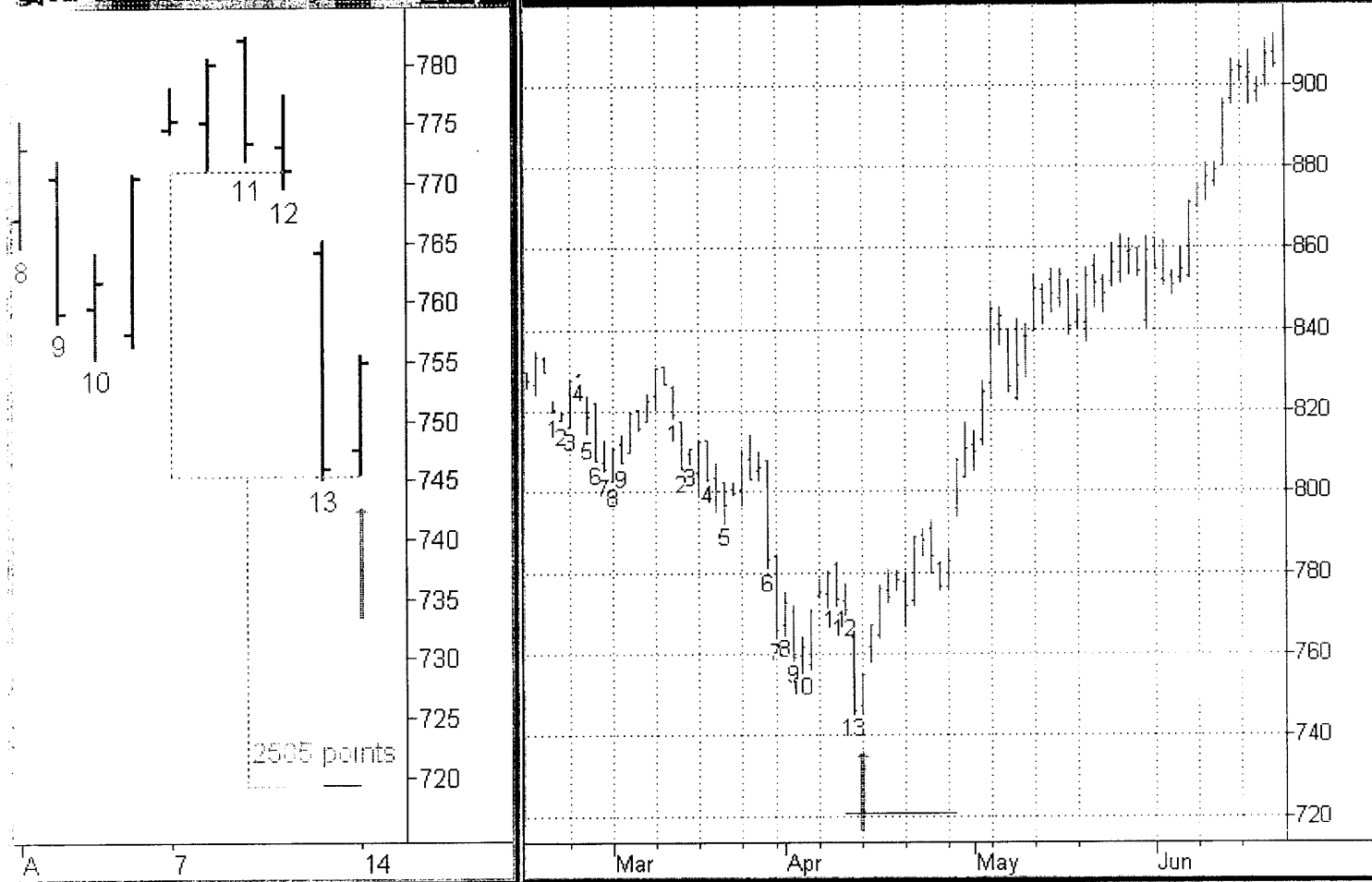
### 39.- 40. Entering A SELL Trade

A possible time to enter a SELL position after *Countdown* is complete, might be on the first bar that closes BELOW its open. In the example above, this occurred one day after the highest close.  
(shown on these charts with '↓').



#### 41. Entering A BUY Trade - Drawing the Line

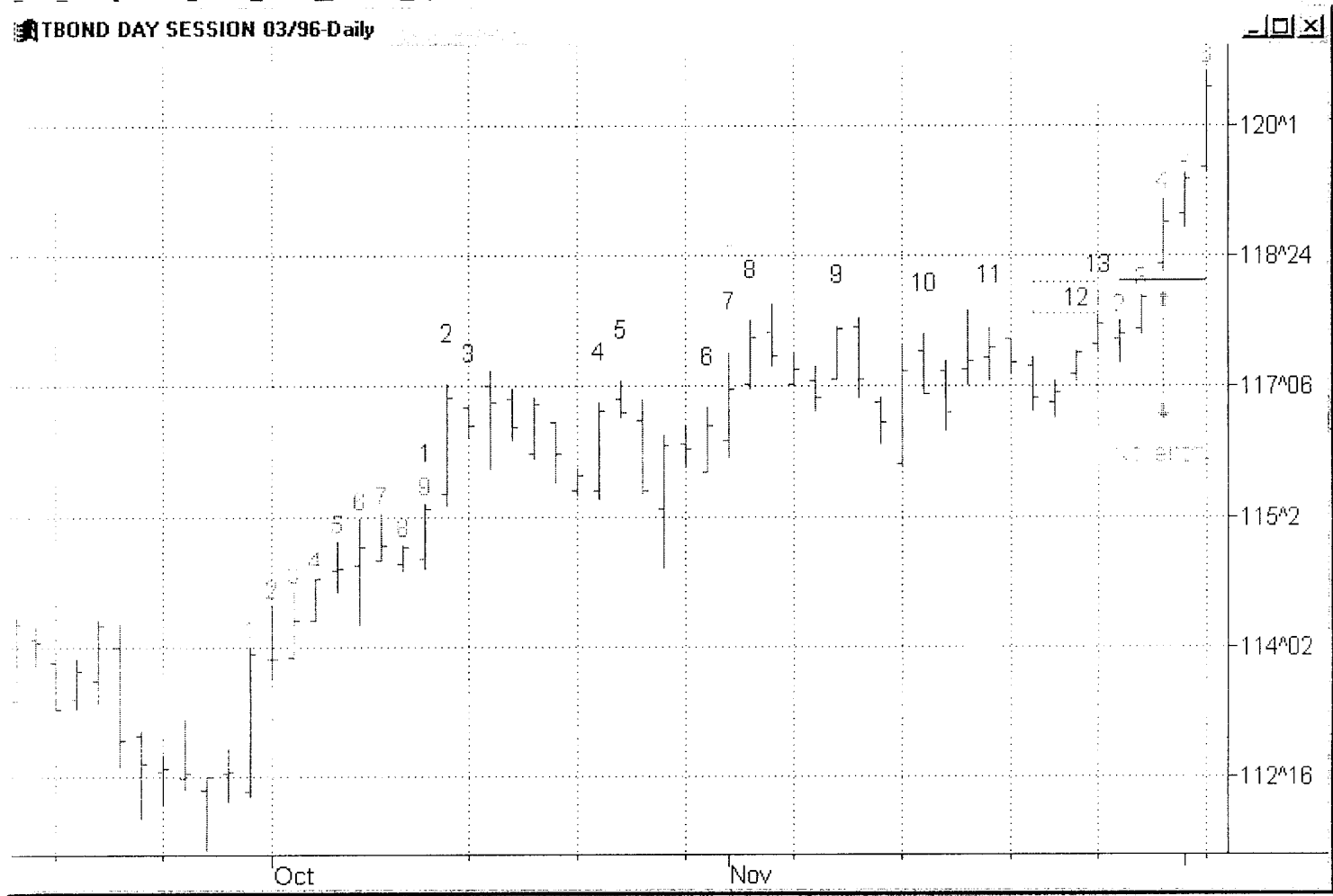
In this example, the lowest bar of *Countdown* is *Countdown* bar #13. By calculating the true range of *Countdown* bar #13 and subtracting the result from the low, a line can be drawn on the chart that represents the minimum price. If the market closes beyond this price, the low risk BUY zone is cancelled due to renewed market weakness.



## 42. Entering a Low Risk BUY Trade

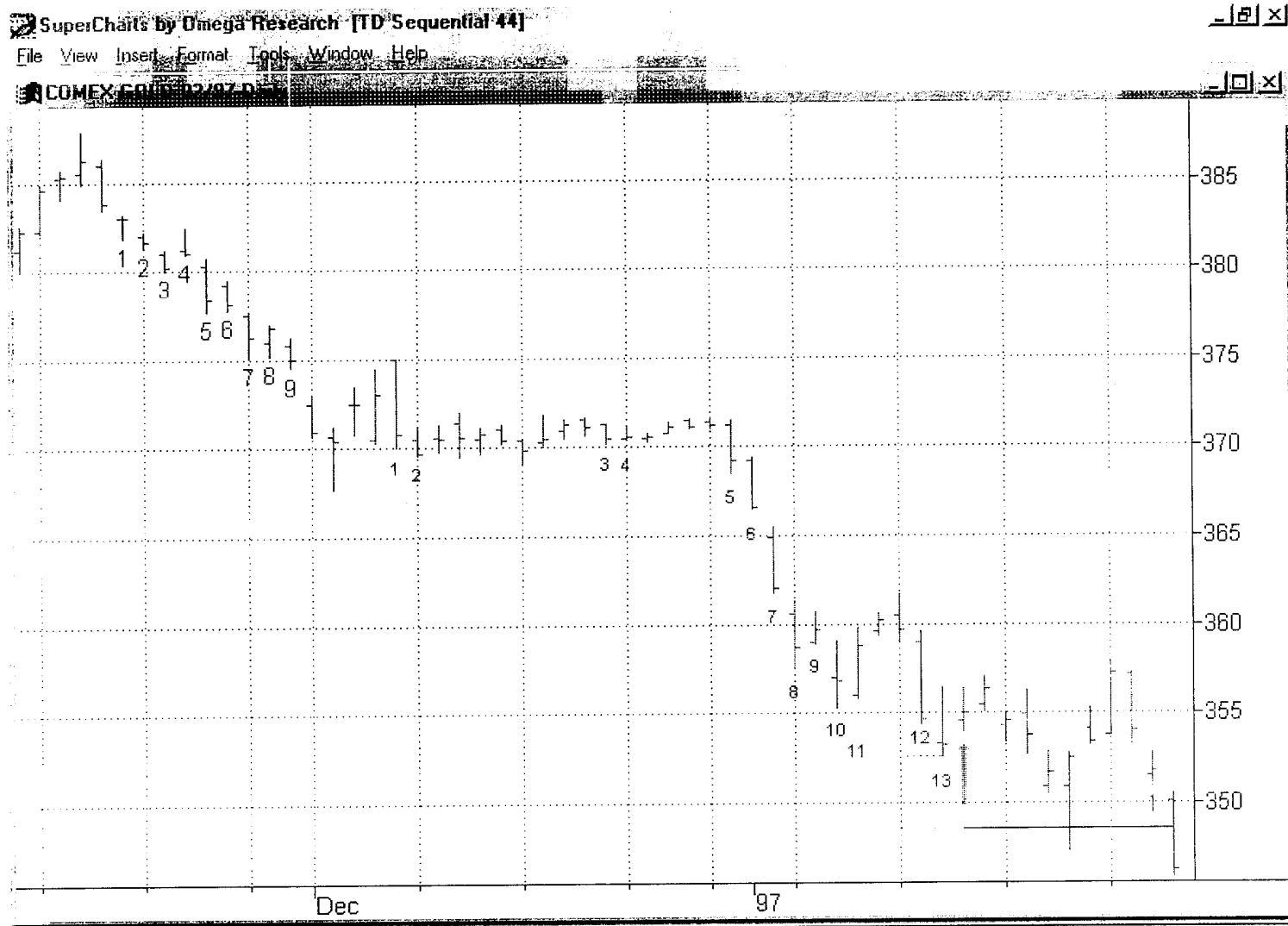
As this chart illustrates, after a BUY *Countdown* is complete, a possible time to enter a trade is on the first bar that closes ABOVE its OPEN. This occurred the day after the lowest close. (shown on this chart with '↑').





### 43. Entering a SELL Trade - No Entry

In this example, after the completion of *Countdown*, the market continues to trade higher and closes beyond the maximum price. By requiring a bar that closes BELOW the OPEN to initiate a trade, no entry would have been taken.



#### 44. Entering a Low Risk BUY Trade - Penetrating the Stop

As this chart illustrates, after a BUY *Countdown* is completed and a position is established once a CLOSE occurs ABOVE that same price bar's OPEN, the minimum price can serve as a protective stop.