

Analyst Insight

Aligning Time and Price

By Jason Sidney

The term “squaring” means to balance time with price, and is a way of creating future time frames from price information. This is a unique concept and is only a small part of the huge contribution W.D. Gann made to the field of technical analysis. Gann was an analyst who literally thought outside of the square. Most of his work was based around what is commonly known as geometry, but, he was the first analyst that took the theory behind geometry and showed the world how to apply it to a chart constructed from time and price.

In order to square time with price it's important that you have a good understanding of Gann Angles and how they divide time and price for you. Most software programs on the market today include Gann Angles as part of their indicators list, but very few people who have these tools know how to use them correctly.

So what is it that Gann Angles really do?

Analysts who are ignorant of their true use will often tell you they're merely support and resistance lines that will hold a market's trend. The really ignorant ones will tell you that if the market breaks through one angle, the market “must” go to the next. Statements like this are vague and have led to a misunderstanding of Gann Angles and how they're applied. Those who have used Gann Angles in the past and found them of little value have done so because they didn't know how to correctly apply them.

While Gann Angles do offer support and resistance, this is not their only use and is only a fraction of what they really tell you. Once you know, you will know why and where to apply them. More importantly, you will understand what Gann Angles tell you. When you apply Gann Angles to a chart, you should be applying them for a specific reason.

A common practice for analysts when determining the strength of the trend is to study price retracement levels. Gann was very keen on dividing price into eighths and thirds. This practice can be particularly useful when studying retracement levels.

A well known retracement level using Gann technique is 50% or $\frac{1}{2}$ of the range. The next significant retracement levels 37.5% or $\frac{3}{8}$ th and 62.5% or $\frac{5}{8}$ th which are the Gann equivalents of Fibonacci, or Elliott wave retracement levels. While it's great to be aware of retracement levels when analyzing markets, it is important to point out how well Gann Angles combine with retracement levels. Combining Gann Angles with retracement levels will add a new dimension to your analysis. This new dimension is called “time”.

The following table shows eighths and thirds price percentages and their corresponding Gann Angles:

$1/8 = 12.5\%$ 1x8

$1/4 = 25\%$ 1x4

$1/3 = 33.33\%$ 1x3

Dow Theory retracement

$3/8 = 37.5\%$ 1x2

Fibonacci/Elliott retracement

$1/2 = 50\%$ 1x1

Gann retracement

$5/8 = 62.5\%$ 2x1

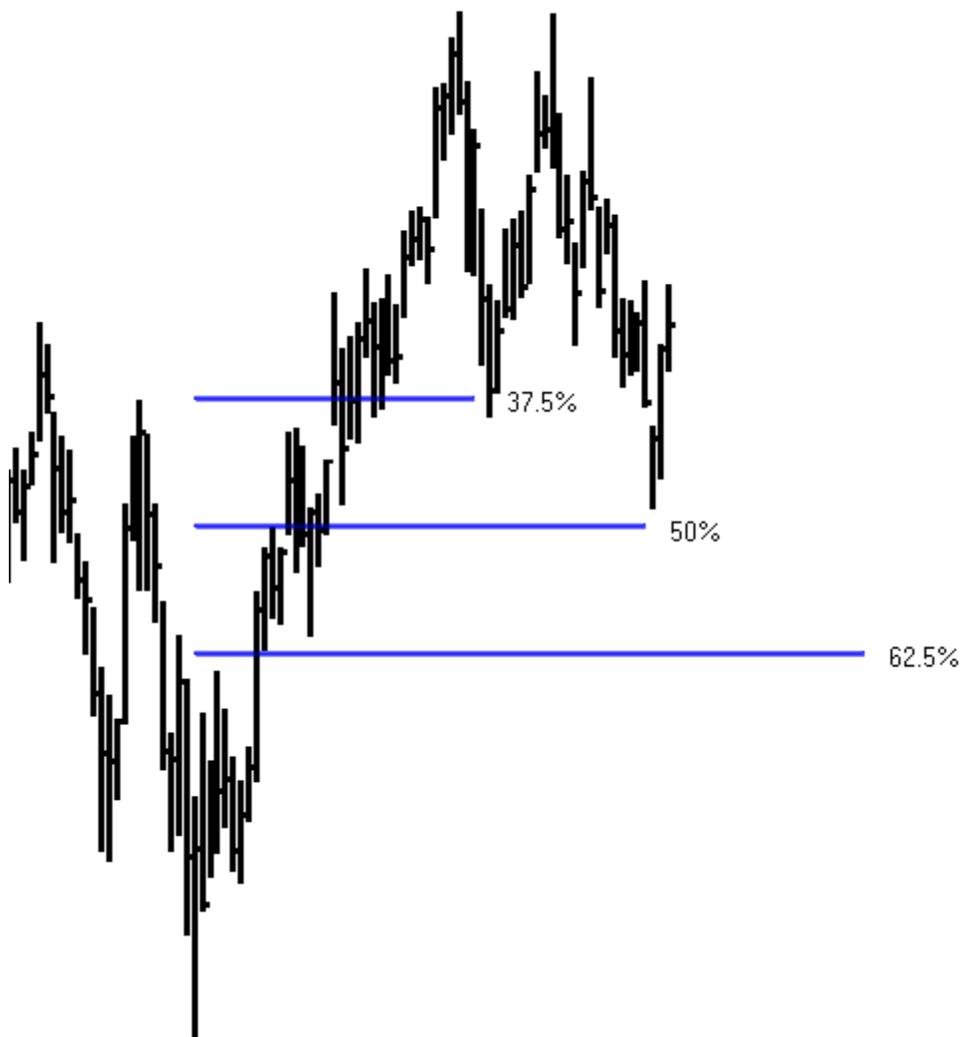
Fibonacci/Elliott retracement

$2/3 = 66.6\%$ 3x1

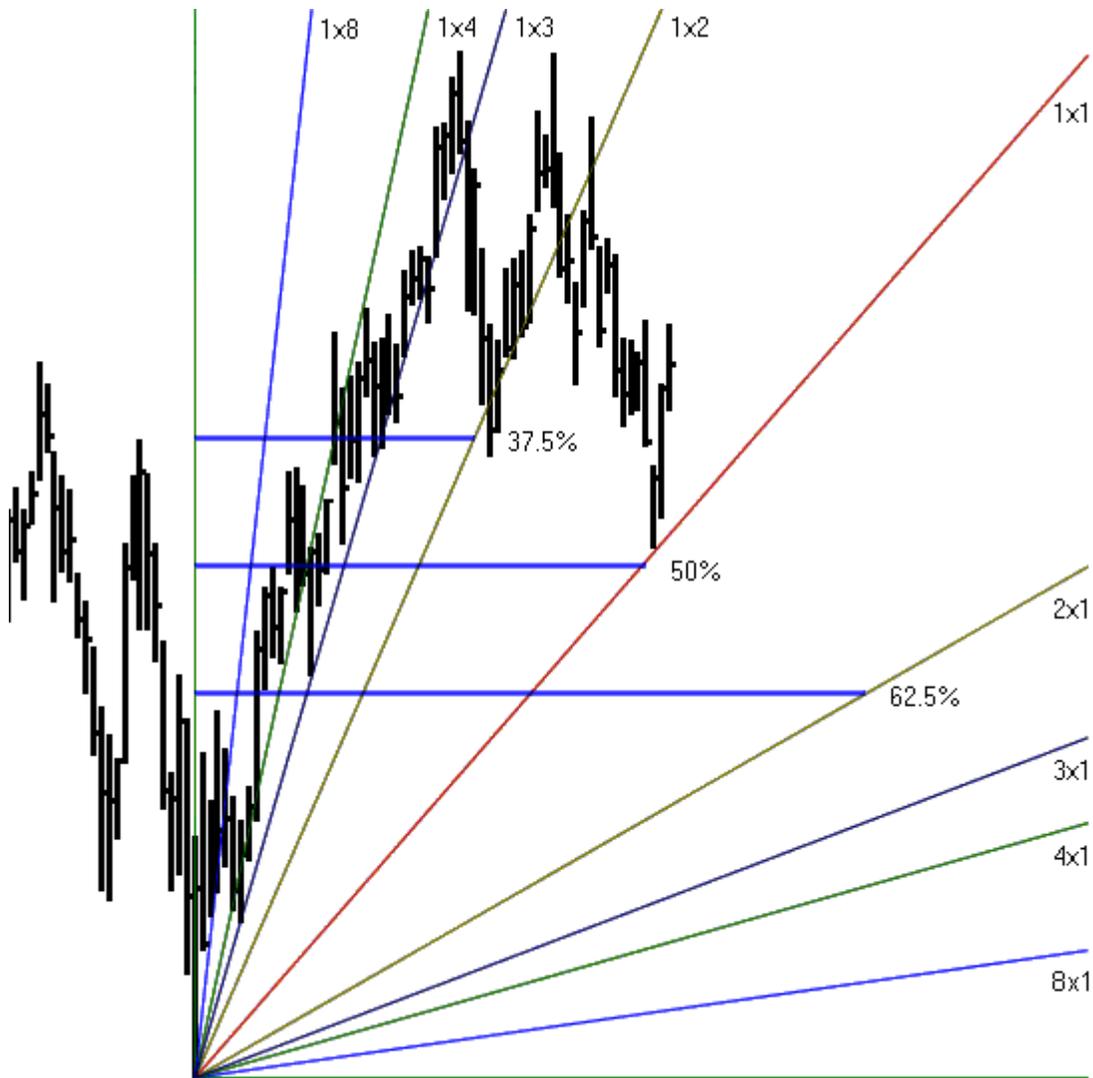
Dow Theory retracement

$3/4 = 75\%$ 4x1

$7/8 = 87.5\%$ 8x1



The chart below demonstrates a range in a market and the retracement levels a typical Gann analyst would be watching, using eighths and third price percentages. You can see in this example how well the market bounced at 37.5% and the 50% retracement level. Now look at the extra information the Gann Fan can add to these retracement levels. The Gann Fan is identifying the time frame to expect the market to retrace to these levels, adding an extra dimension of time. This is an example of time and price alignment. When time and price align in this manner the retracement levels have an even stronger chance of identifying a significant turning point if the market reaches the retracement level at the time frame identified by the Gann Angle.



In this example, the market has retraced 50% in price of the range from low to high. The 1x1 Gann Angle rises at a rate of one point for every time period. As a result, when the market reached 50% in price of that range it had also counted forward 50% in time of that range. Gann Angles are in many ways a “calculator”, which proportionally divide time and price for you, in a very visual way.

This has been just a simple example of how Gann Angles can be combined with eighths and third divisions, and in many ways was an introduction to the construction of “Squares”. Gann did a lot of work on Squares, and Squaring time and price, and he did all this with the use of Gann Angles. In future lessons, we will further explore Gann Angles and their many uses.

Best Regards,

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