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Larry Williams — Accumulation and Distribution

Larry Williams, one of the first to popularize the commodities markets back in the 1960s, wrote *How I Made a Million Dollars Trading Commodities* (one of the best selling commodity books ever). He also penned the first book to analyze the seasonality of commodities: *Sure Thing Commodity Trading*. Other commodity/market books by Larry include *The Secret of Selecting Stocks for Immediate and Substantial Gains*, *How Seasonal Factors Influence Commodity Prices*, and *The Definitive Guide to Commodity Trading (Volumes One and Two)*. Larry also wrote the immensely popular and accurate *How to Prosper in the Coming Good Years*, which came out in 1982 and made the bestseller list. This book correctly forecast the largest surge of economic growth America has ever seen when the majority of pundits predicted exactly the opposite of Larry's forecast.

In 1987 Larry astounded the commodity world by parlaying \$10,000 into over \$1 million in the twelve month "Robins World Cup Trading Championship."

Larry has served on the board of the National Futures Association representing fellow Commodity Trading Advisors. As one of the most widely quoted and followed advisors over the past twenty-five years, Larry has appeared on television (FNN, *Merv Griffin*, PBS, *Late Night*), spoken at leading commodity and economic conferences around the world, and had articles written about him appear in *Barron's*, *The Wall Street Journal*, *Forbes*, *Money* and *Fortune*. Every month Larry publishes two popular newsletters: *Commodity Timing* and *Treasure Hunter Confidential*.

• **Topic: How to Detect Professional Accumulation and Distribution in Stocks and Commodities**

Larry will begin his workshop by presenting an entirely new way of monitoring and actually using the positions of Commercials, the largest traders in the market place, to help identify markets poised for intermediate to long term moves. He will provide you with a long term historical review of Commercial buying and selling so that you can get a feel for the real power of this group. Since Commercials tend to buy and sell early, Larry will demonstrate an important "trigger" mechanism to use for actual entry and exit for both long and short positions.

Larry will then reveal his own proprietary techniques for detecting professional buying and selling from daily charts of any stock or commodity in any freely traded market. You will see actual examples from his personal records as well as a variety of current markets using examples from Omega's Trade Station. You will learn to recognize the right times to buy and sell. You will understand why markets top and bottom out, when they do so and who causes the turn. This in turn becomes an invaluable guide to determining when any market cycle, short, intermediate or long term, nears its end.

Finally, Larry will show you several trading systems and patterns that he personally uses for trading equities and fixed income items.

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LARRY WILLIAMS

ON SELECTION AND TIMING

There are two main components of commodity trading. Namely, what to buy or sell, and when. Here are some of my solutions to these ongoing problems.

TRADE SELECTION

There are several highly valuable tools which aid in selecting which markets to be long or short. Among them are: seasonal tendencies, premiums or spread relationships, comparative strength, and price patterns or formations.

More importantly though, I think, are the actions of the largest participants in the markets, the Commercials. They have the most money, are closest to the market, and have a long term track record of usually being successful.

Equally important and helpful is the role of the Public. These traders usually lose money, have no clue as to what they are doing, and react quite emotionally to price swings. They have an excellent record of being wrong at the extremes, and correct in mid-stream.

WHAT I LOOK FOR

What I like to see develop in a market is a condition where the Commercials are heavily long a while the Public wildly bearish, or the Commercials short while the Public outlandishly bullish. For sake of definition, I demand, for a buy, the Commercials be net long, and the Public sentiment showing a bullish reading of 35% or less. For a sell, I want the Commercials net short, and the public showing 65% or more bullishness.

This is a powerful condition, especially when coupled with seasonals and the like. See charts 1-3.

SECRETS OF SHORT TERM TRADING

There are three dominant cycles to all markets. They can be seen in range expansion and contraction, close to high/low relationships, and finally open/close relationships.

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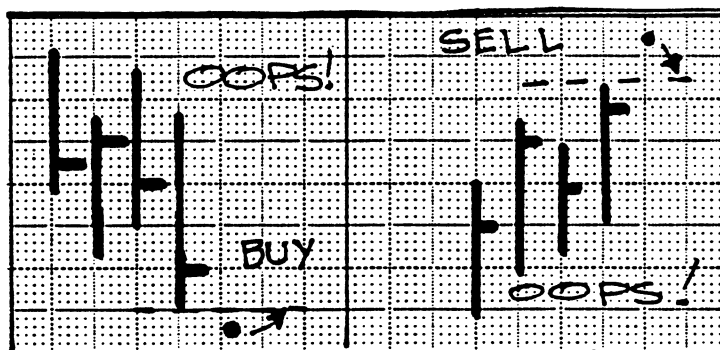
The operating rules are: ranges go from small range to large, thus we want to take signals after small range periods, and wait following large ranges.

The close shows the cycle. By this I mean that the nearer the close is to the low of the day, the sooner a market bottom is at hand. The closer the close is to the high of a day, or two, the nearer we are to a top. The adage I like to use is "the end is your friend."

Finally, large range days (weeks, months, etc.) most often close right at their extreme high or low. Thus our "target" is one of time . . . the end of the time frame we trade.

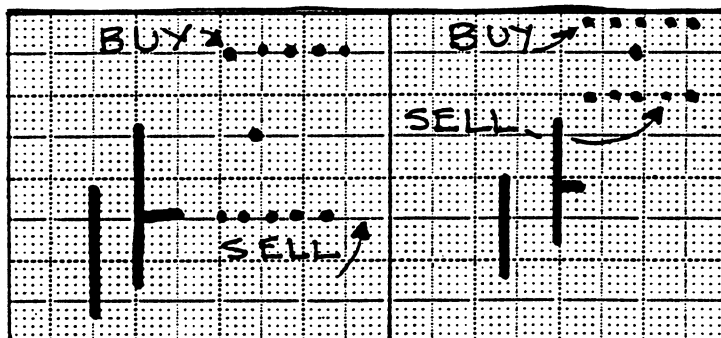
TRADING PATTERNS

OOPS! An excellent entry technique or trading tool. The requirement is that prices must open below yesterday's low. IF PRICE THEN RALLIES BACK TO YESTERDAY'S LOW, I will buy at that price on a stop.



A sell is just the opposite. Price must open above the previous high, then decline to that high, where I will sell.

GAPS! Following a large gap, say 150 points in the S&P, I will bracket the open with a buy stop above the open and sell below. Whichever way price breaks out of this open "box," I will go long/short. Gaps are explosive. They almost always represent an immediate continuation of a move or an exhaustive failure.



TRADERS OFFER

DAYS OF THE WEEK! Some markets have one or two days of the week they usually rally or decline on. Stocks usually rally on Mondays, or at least that is a good buy point. Ditto Wednesdays, and sell off on Fridays. Bonds are usually down on Mondays, up on Tuesdays. Bellies usually rally on Thursdays. The point is, you should know the day of week bias to the markets you trade. It's one more parameter to help you make the right decision.

CHANNEL BREAKS! The oldest and most successful trading tool has been to buy what is called a channel breakout. That's buying at the highest high of the last X days, or selling at the lowest low of the last X days. Long term traders have made fortunes with this technique.

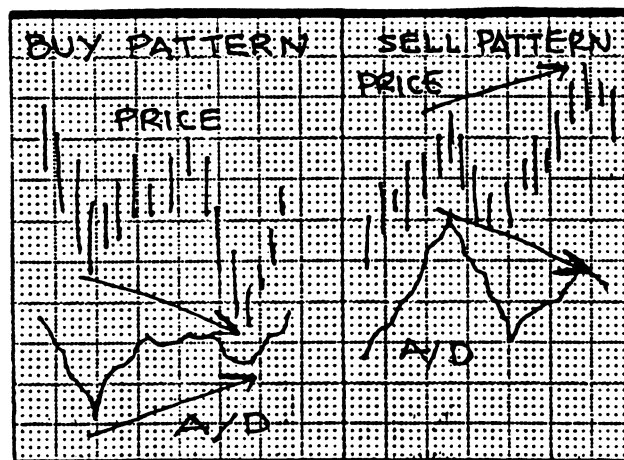
Keep in mind, Richard Dennis made about \$200,000,000 with this simple trading idea.

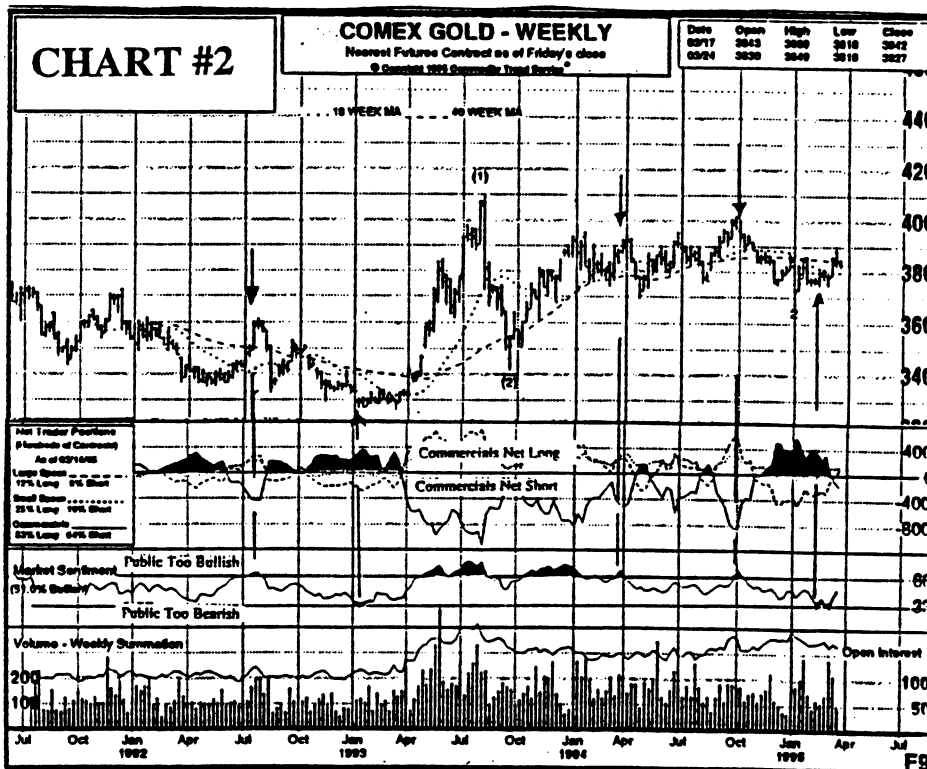
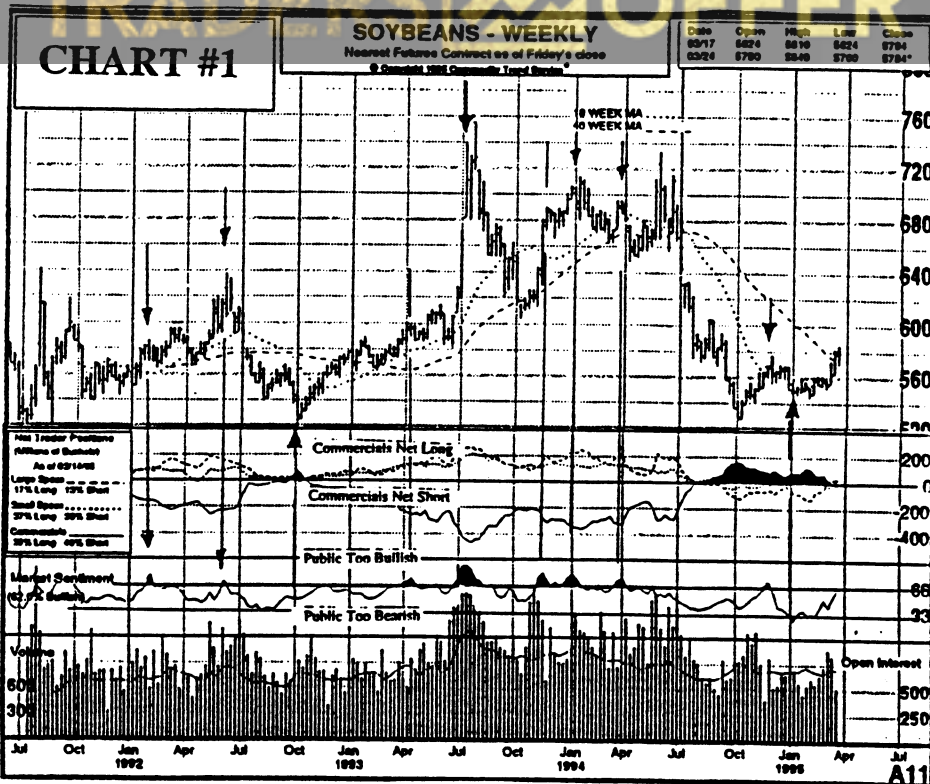
I use Channel Breaks as follows. 1. I await a market ready for a buy/sell based on my selection criteria above. 2. THEN, assuming I'm in a down trend waiting for a buy, I will see what the highest daily high has been that has not been taken out on the short term rallies. If, as an example, in the down move no rally was able to take out the highest high of the last 9 days I would then use a 9 day channel as my break out buy signal. Reverse this for a sell.

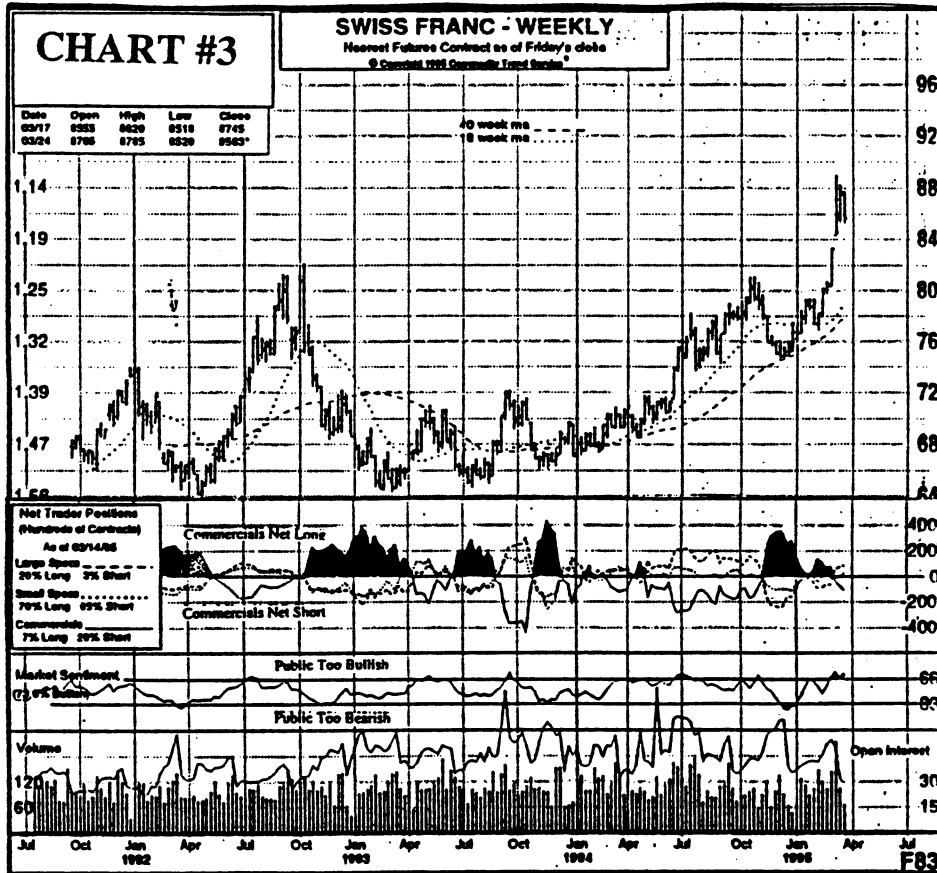
CONTRACT EXPIRATION! The S&P 500 usually decline after option expiration as well as after contract expiration. About two weeks after contract expiration they start to rally. Soy Beans usually decline from around the time of first notice day, and rally on or shortly after last trade day. Again, get to know your markets.

ACCUMULATION/DISTRIBUTION Here's how to detect what's really happening in a stock or commodity. My formula is to first ask if price closed up or down for the day. If up, I will then subtract the low from the close, and add this amount of "accumulation" into a cumulative line or index. If prices closed down for the day, I will subtract the close from the high and subtract this value out of the cumulative index.

By doing this you develop a measure of the buying and selling going on in the market. I look for divergence between price and the A/D. If price is up and not matched by A/D, a sell is coming. If price breaks to a new low and A/D does not, then a buy is coming. NOTE: this can be used as a selection tool as well as a timing tool.







TRADE STATION CODE

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SENTIMENT

Average (close-truelow,vara)/average (truehigh-truelow,Vara)*100;

Vara is the number of days, vary it based on the time frame you are trading for.

ACCUMULATION DISTRIBUTION

1. First write the following user function:

```
If High[0] - Low[0] > 0 and C[0] > O[0]
Then LWAccDist = LWAccDist[1] + (C[0] - TrueLow[0]);
```

```
If High[0] - Low[0] > 0 and C[0] < O[0]
Then LWAccDist = LWAccDist[1] - (TrueHigh[0] - C[0]);
```

```
If High[0] - Low[0] <= 0 then LWAccDist = LWAccDist[1];
```

2. The write indicator:

```
Plot1(LWAccDist, "LWAccDist");
```


%R SPOTLIGHTS BUYS AND SELLS

My %R tool, developed in the late 1960's, continues to help us call some great short-term swings. One easy way to use the index is to demand that a 10-day %R be less than 20, and then a special pattern needs to be set up. This pattern calls for a close that is lower than the previous day's low. Should that take place, buy the following day at the high of the down close day. Using this on any day but a Friday makes \$31,925 in the S&P 500.

7

```

#####
XXXXXXXXXXXXXXXXXXXX S&P INDEX          06/93 - All trades
: Test #      1 of 1                      Space bar to toggle display :
#####
: Total net profit      $31,925.00
: Gross profit          $34,475.00  Gross loss          $-2,550.00
:
: Total # of trades      35      Percent profitable      97%
: Number winning trades  34      Number losing trades   1
:
: Largest winning trade  $4,400.00  Largest losing trade   $-2,550.00
: Average winning trade  $1,013.97  Average losing trade   $-2,550.00
: Ratio avg win/avg loss  0.40      Avg trade (win & loss) $912.14
:
: Max consecutive winners  22      Max consecutive losers  1
: Avg # bars in winners   1      Avg # bars in losers   3
:
: Max closed-out drawdown $-2,550.00  Max intra-day drawdown $-2,600.00
: Profit factor           13.52  Max # of contracts held  1
: Account size required   $5,600.00  Return on account      570%
#####
    
```

The reverse, %R > 80 with a close greater than the previous high, sets up a nice sell signal at the low of the up close day. This made \$10,200 selling the S&P on just Fridays.

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#####
XXXXXXXXXXXXXXXXXXXX S&P INDEX          06/93 - Short trades
: Test #      4 of 5                      Space bar to toggle display :
#####
: Total net profit      $10,200.00
: Gross profit          $18,000.00  Gross loss          $-7,800.00
:
: Total # of trades      19      Percent profitable      84%
: Number winning trades  16      Number losing trades   3
:
: Largest winning trade  $8,075.00  Largest losing trade   $-2,700.00
: Average winning trade  $1,125.00  Average losing trade   $-2,600.00
: Ratio avg win/avg loss  0.43      Avg trade (win & loss) $536.84
:
: Max consecutive winners  6      Max consecutive losers  2
: Avg # bars in winners   1      Avg # bars in losers   3
:
: Max closed-out drawdown $-5,250.00  Max intra-day drawdown $-6,150.00
: Profit factor           2.31  Max # of contracts held  1
: Account size required   $9,150.00  Return on account      111%
#####
    
```

In the Bond market, the best buy days are Tuesday and Thursday, as shown below with Tuesdays making \$5,062, and Thursdays \$3,562

9

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#####
XXXXXXXXXXXXXXXXXXXX T.BONDS          06/93 - Long trades
: Test #      1 of 5                      Space bar to toggle display :
#####
: Total net profit      $5,062.50
: Gross profit          $5,081.25  Gross loss          $-18.75
:
: Total # of trades      10      Percent profitable      90%
: Number winning trades  9      Number losing trades   1
:
: Largest winning trade  $2,137.50  Largest losing trade   $-18.75
: Average winning trade  $564.58   Average losing trade   $-18.75
: Ratio avg win/avg loss  30.11     Avg trade (win & loss) $506.25
:
: Max consecutive winners  6      Max consecutive losers  1
: Avg # bars in winners   3      Avg # bars in losers   1
:
: Max closed-out drawdown $-18.75   Max intra-day drawdown $-968.75
: Profit factor           271.00  Max # of contracts held  1
: Account size required   $3,968.75  Return on account      127%
#####
    
```


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Larry Williams

WHEN A DOLLAR IS NOT A DOLLAR

Introducing the Williams True Trend Index

As strange as it might seem all dollars are not the same dollars when it comes to trading commodities and stocks.

What I am talking about is not the value of a dollar, after all each dollar is worth 100 cents. No, instead, what I am discussing is the impact of a dollar of price movement in a stock or commodity.

Consider these two days; Day one the market has a high of 60, a low of 52 and a close of 58. The previous days close was 57 so price was up one dollar for the day. On our charts we plot this as a positive move of one dollar, up one unit on our chart.

Consider though if the high had been 63, the low 57, and the close the same, at 58, up a dollar for the day. On the surface it looks the same on our charts, a dollar move up is a dollar move up.

However, if you inspect this a little closer we find the two moves were not equal, not at all. In the first instance if we divide the one dollar of net change for the day by the range we divide 8 into 1. The answer is .125% telling that much of the range was the buying for the day.

In our second example the range is 5 dollars, which divided into a 1 dollar net change gives us a .200 % of the range as being positive!

Remarkably, while our charts and computers show the same net change, we know one was more positive than the other. The following charts show my Williams True Trend Index. It is arrived at as illustrated above. In other words each day you divide the net change for the day by the true range. This % figure is then added to a cumulative line reflecting price movement.

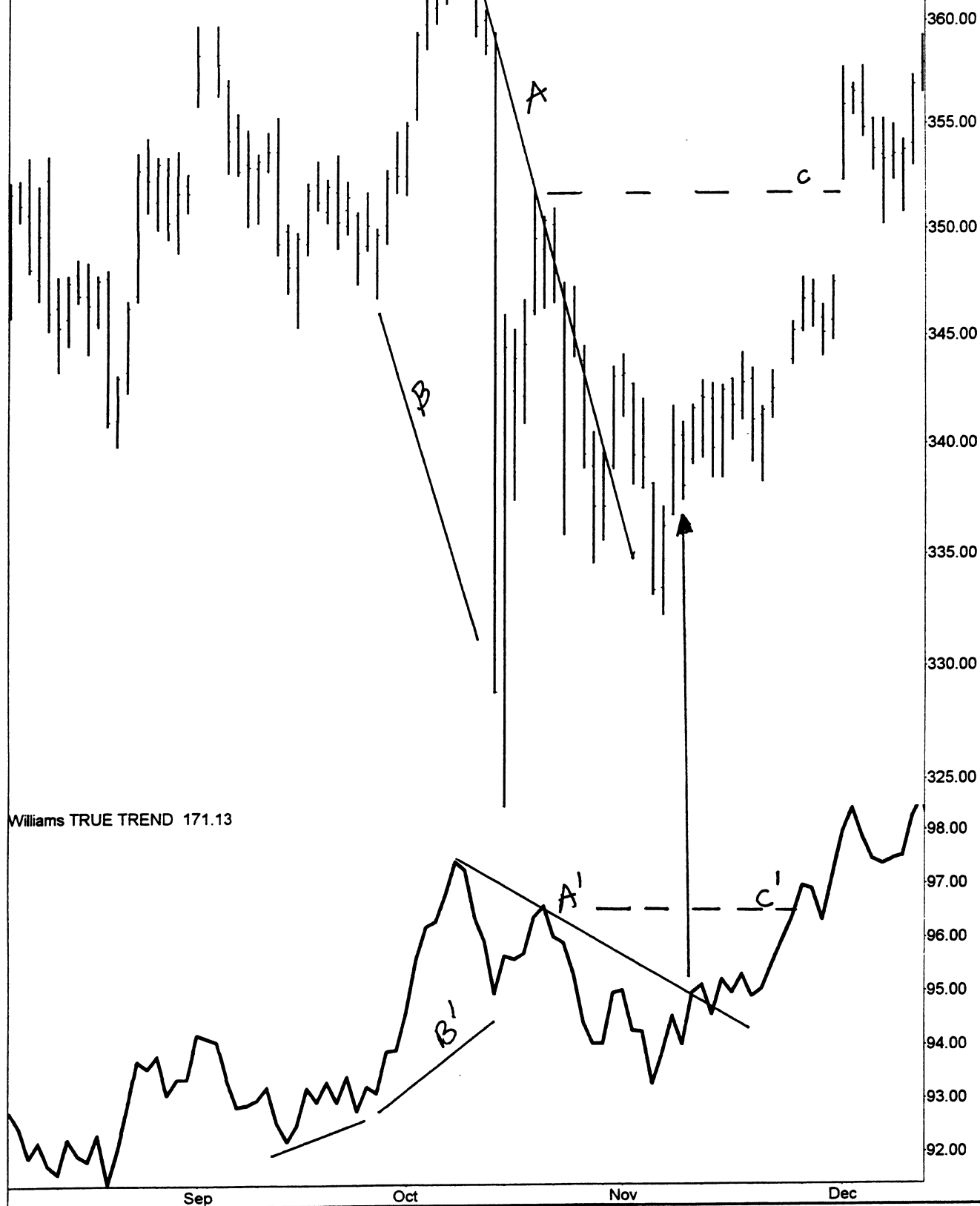
Two points need to be made about the index. The first is that, like my Accumulation/Distribution index, this index, too, will often diverge from price and most always it gives a truer picture of what price is doing. A break to new lows on a price chart, not confirmed by the True Trend Index actually sets up a buy signal, the opposite a sell.

Perhaps of even more importance is this line provides a much clearer view of what the underlying trend of the market really is. As just one example, look at the Swiss Franc chart I have marked "SF 1". While a trend line of price was not broken on the upside until almost 15 days after the low, the True Trend Index broke above its long term down trend right at the lows. Also note the bullish divergence that took place at the same time!

My experience is that the true trend of price can be better observed from this index than from price itself.

S&P 500 INDEX 55/99-Daily 09/11/95 C=578.65 +.50 O=578.30 H=580.05 L=577.80 V=93357

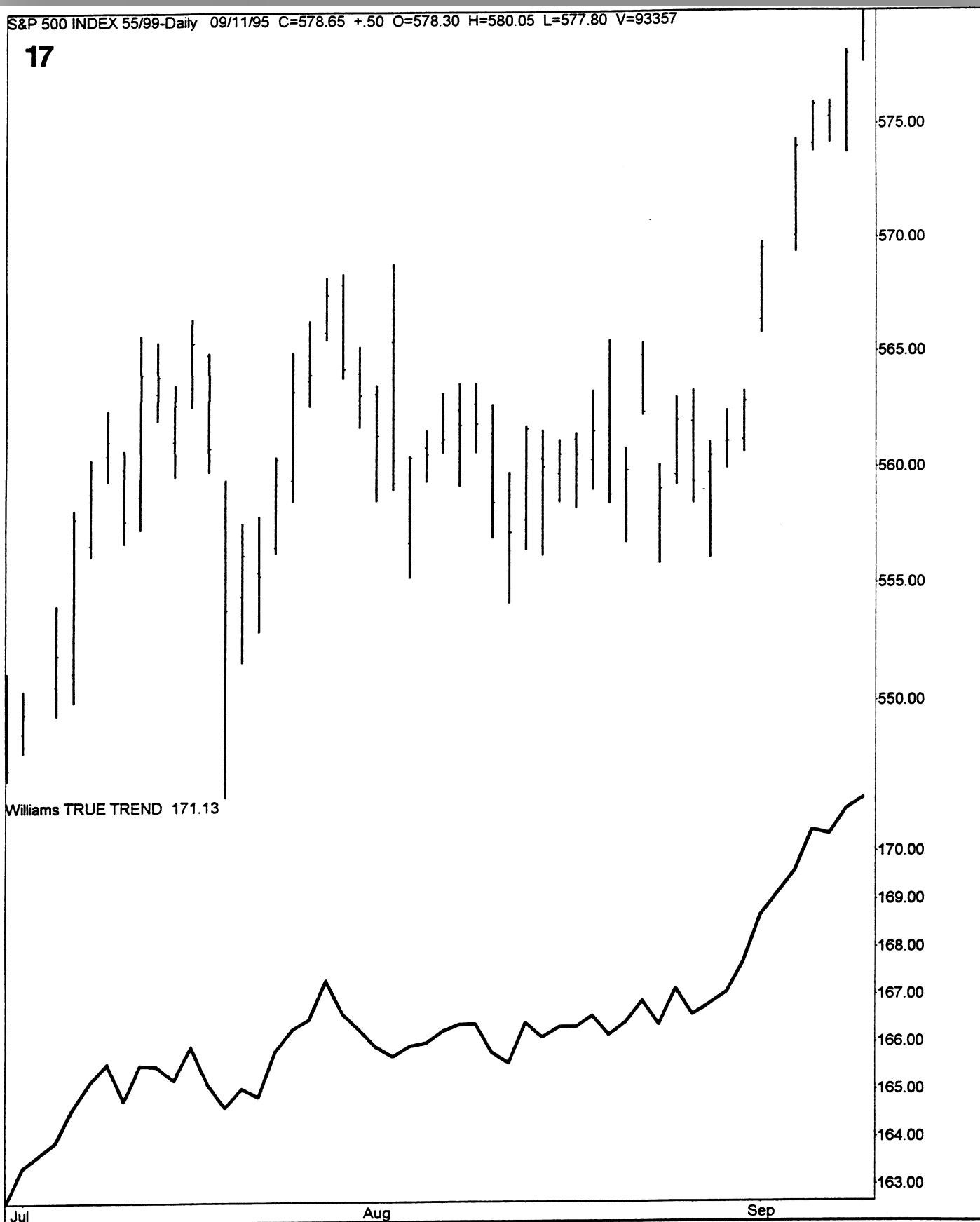
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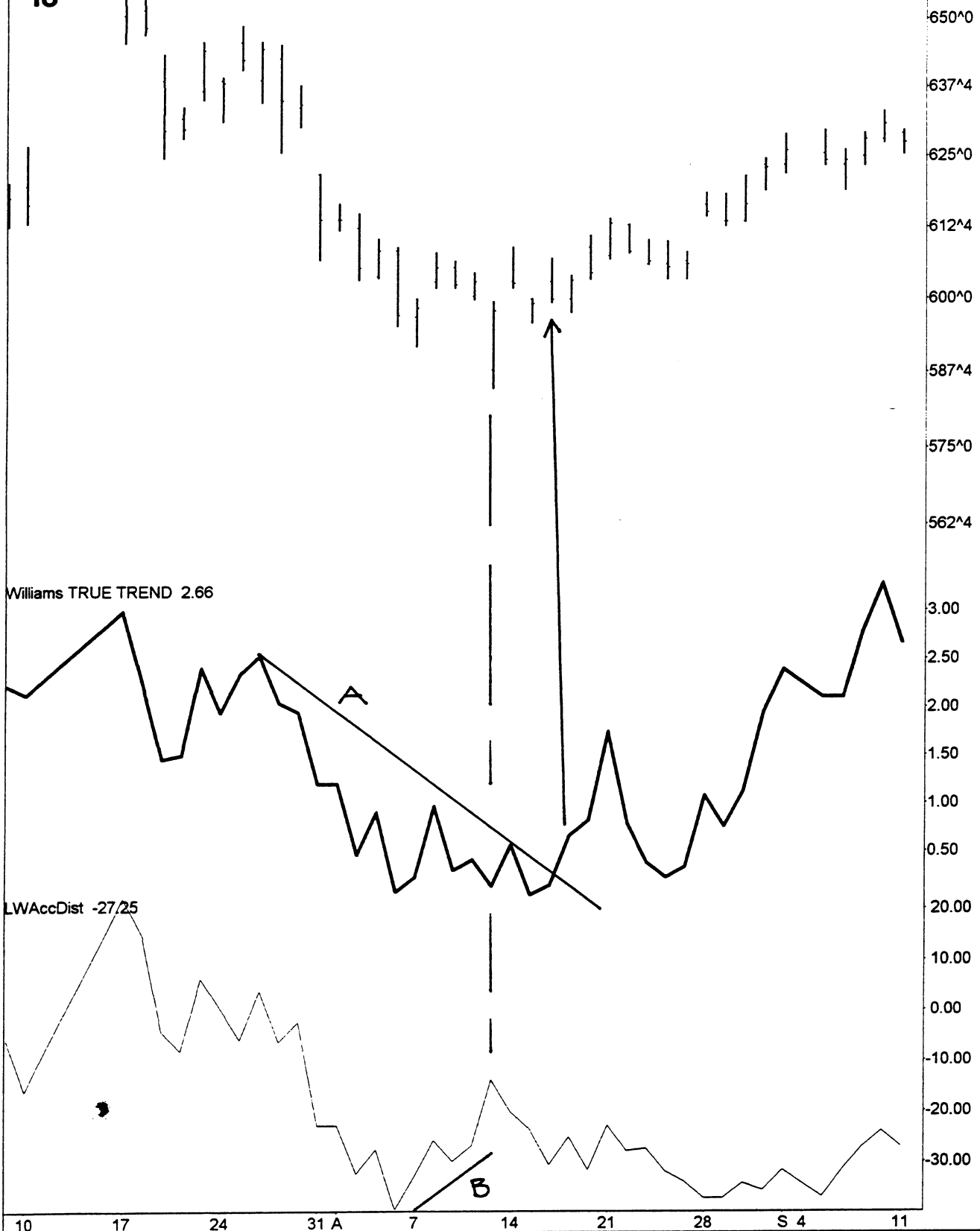
S&P 500 INDEX 55/99-Daily 09/11/95 C=578.65 +.50 O=578.30 H=580.05 L=577.80 V=93357

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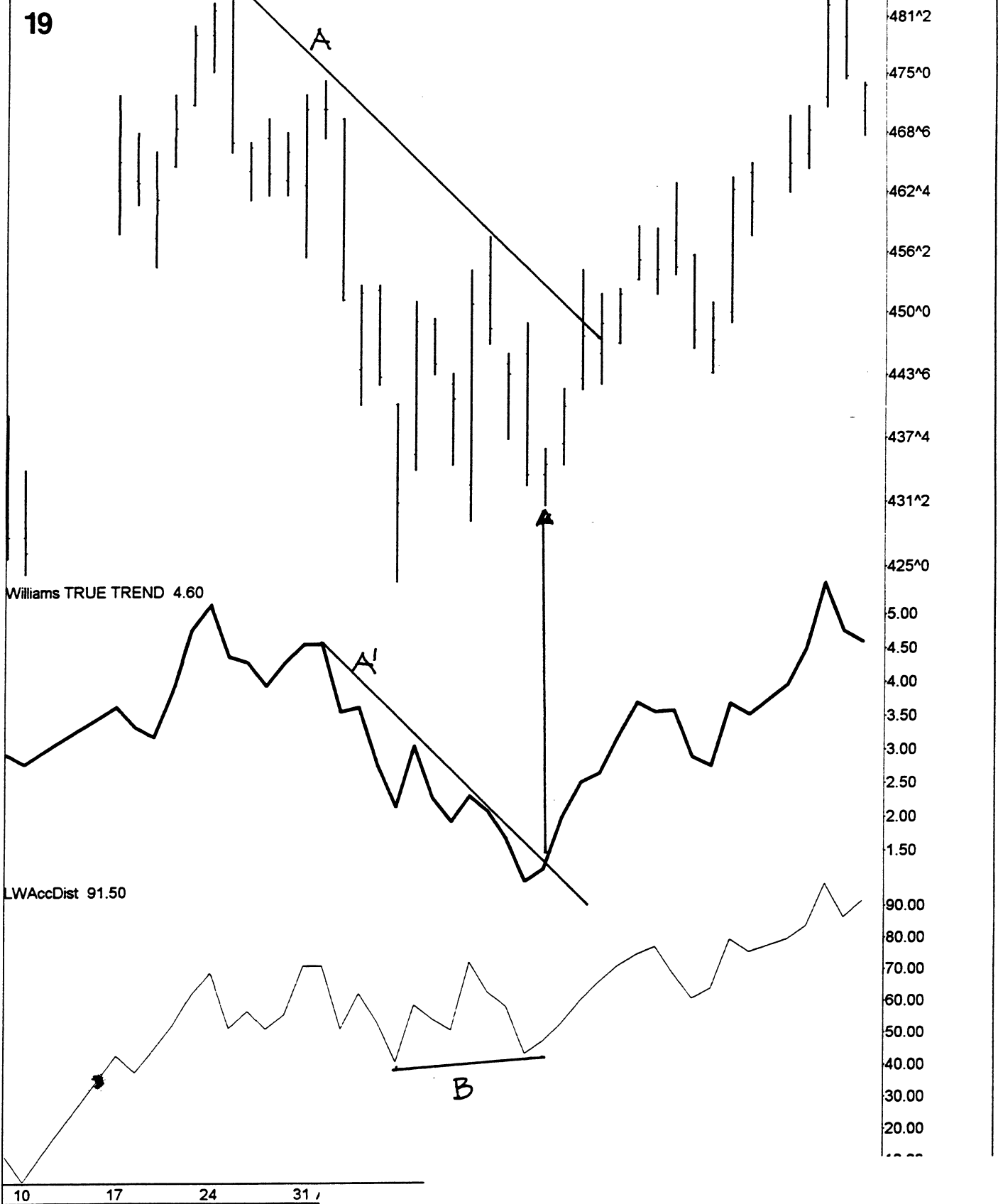
SOYBEANS 11/95-Daily 09/11/95 C=627^4 -3^2 O=629^0 H=629^4 L=625^4 V=172175

18



TRADERS OFFER

CBT WHEAT 12/95-Daily 09/11/95 C=473^6 -1^0 O=471^0 H=474^0 L=468^4 V=125865

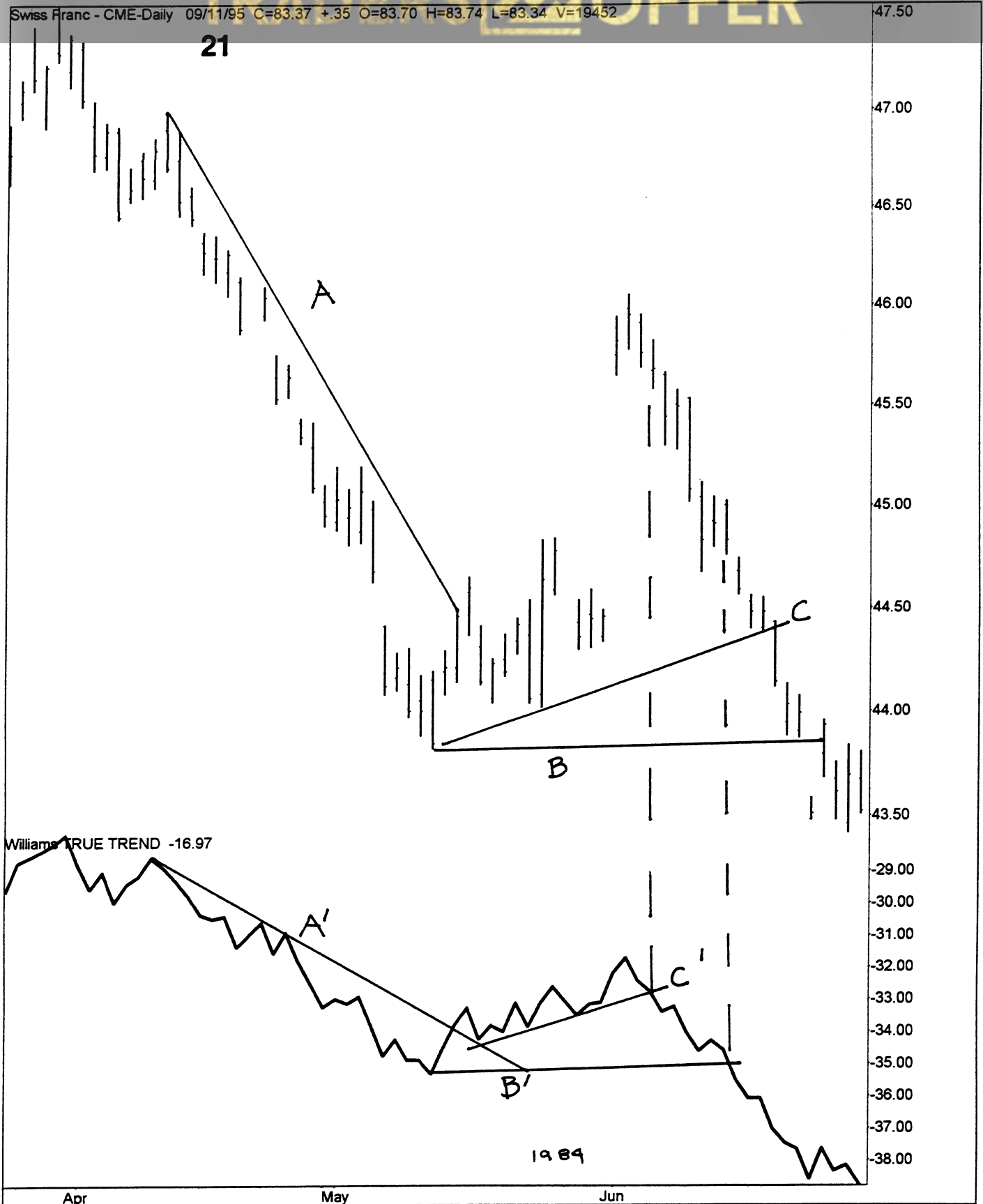


Swiss Franc - CME - Daily 09/11/95 C=83.37 +.35 O=83.70 H=83.74 L=83.34 V=19452

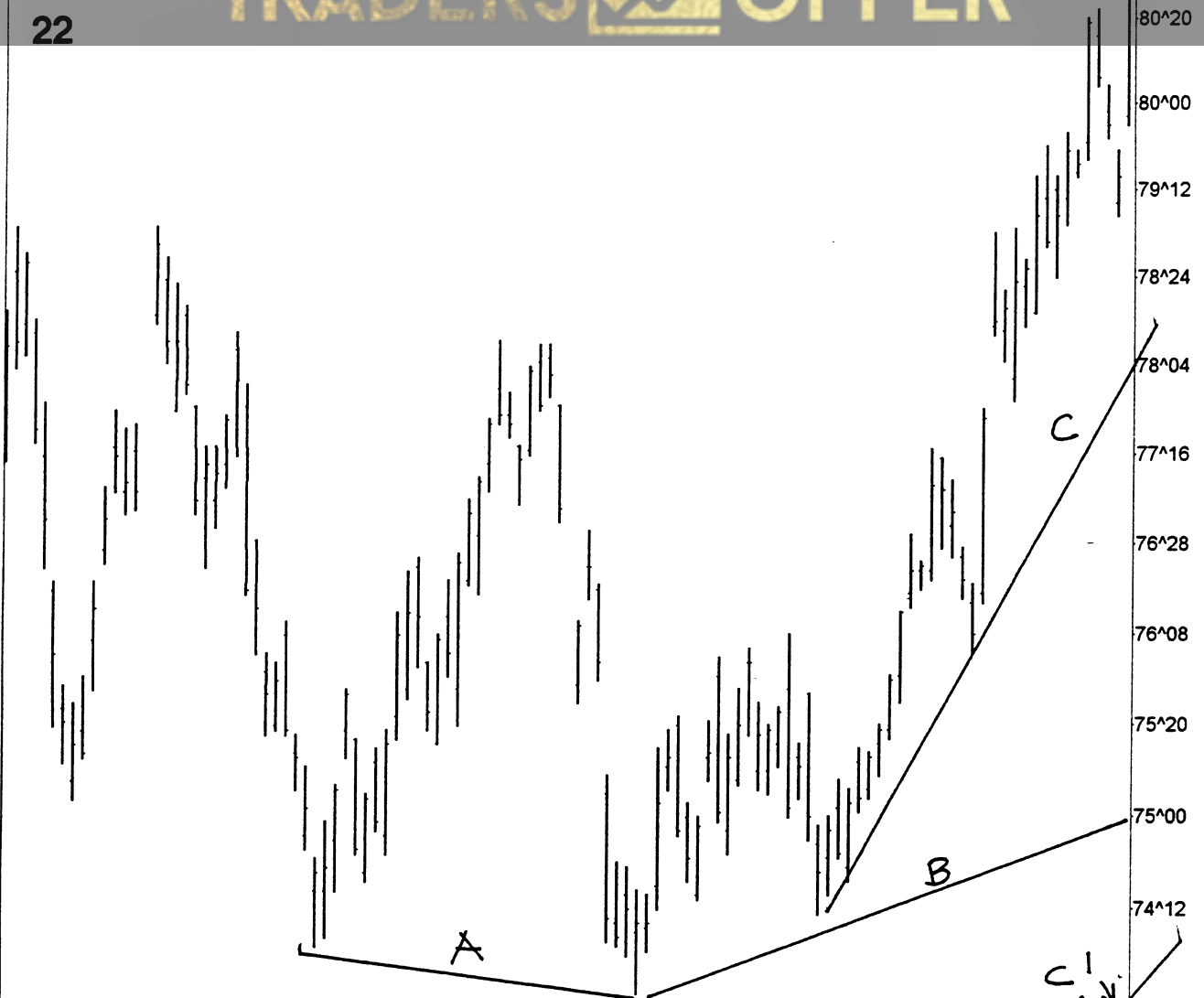


Swiss Franc - CME-Daily 09/11/95 C=83.37 +.35 O=83.70 H=83.74 L=83.34 V=19452

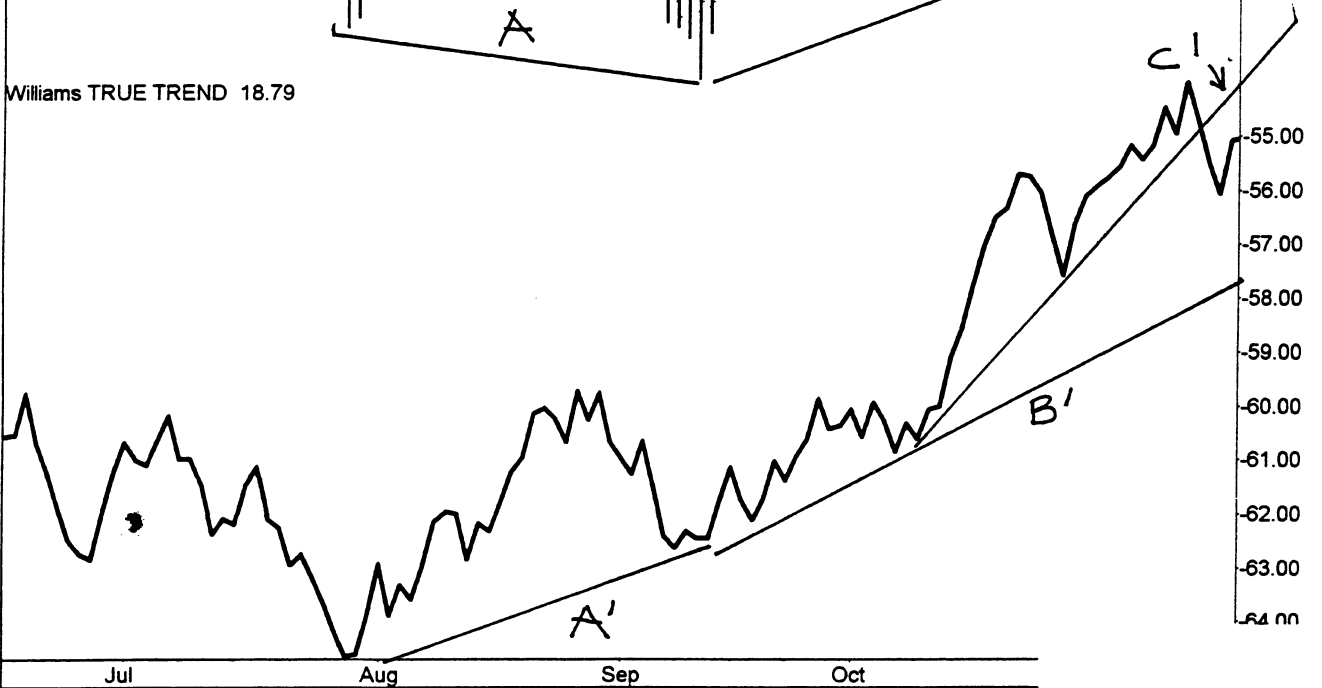
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Williams TRUE TREND 18.79



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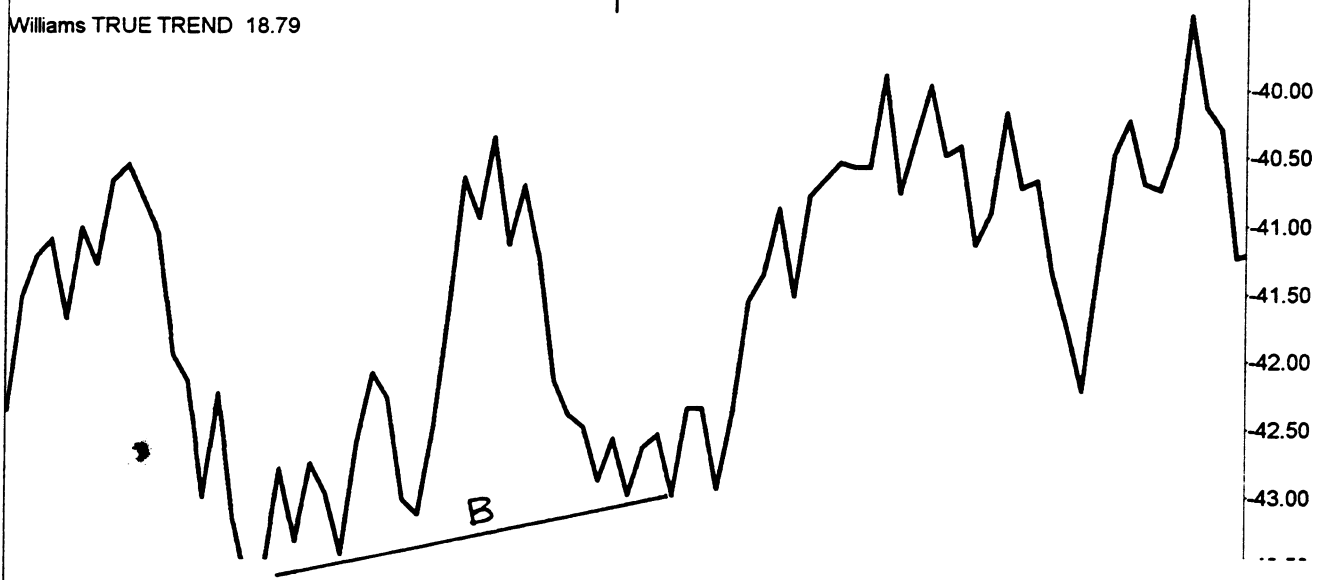
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Williams TRUE TREND 18.79



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