

THE

GARTLEY

NEW TECHNIQUES TO PROFIT FROM THE

TRADING

MARKET'S MOST POWERFUL FORMATION

METHOD

ROSS L. BECK

The Gartley Trading Method

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The Gartley Trading Method

*New Techniques to Profit from the Market's
Most Powerful Formation*

ROSS L. BECK, FCSI



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*This book is dedicated to the Creator of the Universe whose name יהוה was
the subject of W.D. Gann's final book, "The Magic Word."*

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Foreword

Ross Beck has done a splendid job describing one of the most logical and consistent patterns when trading any market whether it be stocks, bonds, commodities, or forex. Mr. Beck explains in detail how a Gartley Pattern is formed and also integrates part of the Elliott Wave principle in conjunction with the Gartley Pattern. I would think that H.M. Gartley would be proud of the effort and detail Mr. Beck conveys to his readers.

H.M. Gartley's book, *Profits in the Stock Market*, was published in 1935—in the middle of the Great Depression—and sold at the incredible price of \$1,500, roughly equivalent at the time to the price of three new Ford automobiles. To my mind, that was a small price to pay as the Gartley insights into the market are worth far more than three new cars.

In his book, Gartley described a chart pattern that we now call the $AB = CD$ pattern. The pattern illustrated how the market will rally in an uptrend and then retrace; rally again and retrace again. The second rally forms an up-sloping parallel channel, making the overall pattern look something like a lightning bolt.

The $AB=CD$ pattern is found in all markets and all time frames. The pattern is the foundation of Gartley buy and sell patterns and is also an integral part of other market patterns. Importantly, the pattern is a measured move where the CD leg should be similar in length to the AB leg, although sometimes the CD leg will extend. There are other rules regarding interpretation and structure that readers should endeavor to understand before attempting to trade the patterns.

Mr. Beck's book is noteworthy in that it provides excellent examples of the patterns and how to best use money management principles that are so important to becoming a consistently profitable trader. Personally, I think Mr. Beck has produced an important piece of trading history that will help anyone in need of a methodology that is consistently profitable over any time frame! I know nothing can make an author happier than presenting something that can change lives for the better.

Mr. Beck's book is part of a larger area of financial market study, market geometry, which began in the 1930s with the work of W.D. Gann. Gann became famous for the use of Gann angles, which are now found in many charting software packages. Another important but often overlooked market technician was George Bayer who wrote a book

called *The Egg of Columbus*, which once sold for \$25,000 in the mid-1980s. The book described the progression of Fibonacci series using diagrams of birds, fish, and mammals as a type of mystical code that has parallels to the financial markets.

One unique interest Gann and Bayer shared was an interest in cycles. It is worth noting in an article by Lisa Burrell in the *Harvard Business Review* of November 2006 that cites research by Ilia D. Dichev and Troy D. Janes into stock prices during the 28.5 day cycle between a new moon and a full moon. The article states the cycles may have application to predicting stock prices.

This is not at all surprising, given that markets are fueled by the energy of market participants. Changes in peoples' moods and behavior around moon cycles have been well documented throughout the years. And, of course, investor moods and emotions play a huge role in price behavior in the markets.

Finally, we should mention Bryce Gilmore of Australia—in many ways the father of contemporary market geometry—and author of the book *Geometry of Markets*. All of us owe Bryce a great deal of gratitude for discovering market geometry in the same manner that Gartley shared his discovery of the Gartley Pattern.

Mr. Beck's book is a worthy addition to the long line of technical analysts and their books that have helped to unlock the secrets of the financial markets.

Larry Pesavento

Preface

Many successful traders around the world agree that there are distinct patterns that repeat in the financial markets. Each trader has a favorite—head and shoulders, Elliott Wave, and so on. However, you have to ask yourself, Are some of these patterns more reliable than others?

In *The Gartley Trading Method*, I will prove to you beyond any doubt that the Gartley Pattern is the mother of all trading patterns.

As a professional derivatives trader, I have been using the Gartley method for over a decade. I will begin our discussion with an explanation of the foundation laid by H.M. Gartley in his classic book *Profits in the Stock Market*. This discussion will be followed with a description of the historical evolution of the Gartley Pattern over the decades and uncover a dimension of the setup that has been overlooked for over 70 years.

Elliott Wave traders will be relieved to find out that Elliott Wave counts don't matter anymore if you simply look for Gartley Patterns. In addition, you will learn how the original Gartley Pattern is actually a trade setup to trade Wave 3. Gann traders will be happy to read the information on W.D. Gann's mystical emblem of the circle, square, and triangle symbol in Appendix B. Is the secret of this symbol finally unlocked?

After studying many books on technical analysis, I often noticed how often the techniques they presented almost overlap each other, yet I couldn't seem to logically describe these similarities and put them to practical use for trading. I call the Gartley Pattern the missing link of technical analysis, because it is the mortar that binds most of the technical disciplines together. As you will see in Part Two, the Gartley Pattern fits within the context of most of the common classical trading patterns. In this sense, the pattern can be described as an "all-purpose" pattern. As with most patterns, it is a pattern that represents the psychology of the participants and therefore can be used on most liquid markets and most time frames.

It is my solemn responsibility as one human being to another to try to save you from yourself. If you continue to read this book, it will require you to undertake a vigorous self-examination to determine whether you should enter the trading arena. I will not make the occupation of trading look glamorous and a surefire way to get rich. It can be one of the most brutal and at times nauseating occupations of all time. Yet, if you have what it

takes, you *might* be rewarded handsomely. If you don't have what it takes, that's OK, just admit it and stop fooling yourself and others. Admission is the first step of any twelve-step program. If you admit that you are more of a gambler than a trader, then return this book and buy one that will teach you how to count cards.

This book is more objective than a lot of the rather sensational material available in the trading field. It reminds me of the muscle magazines I would read as a teenager. It didn't matter how many protein shakes I drank, supplements I took, or workouts I did. I could never come close to looking like the behemoths in the magazine advertisements. I really *wanted to believe* that there was a new scientific breakthrough that would allow me to purchase a supplement to give me the body of a Mr. Olympia competitor. But is that realistic? No. The realistic part of competitive bodybuilding has more to do with the illegal use and abuse of anabolic steroids, a subject avoided by most of the sponsors of bodybuilding competitions and magazines. So it is with trading advertisements that make unrealistic claims. Remember the poster behind Mulder's desk in *The X-Files*? It had a picture of a flying saucer with the caption, "I want to believe."

I will not teach you any technical method that I have not used myself. In my quest for the holy grail, I have rediscovered a pattern that, has served me well over the years. Some may ask, If it is that good, why don't you keep it to yourself and not share it? That is a good question and should be asked of anyone who is selling you *anything* to do with trading. Remember the movie *Back to the Future 2*? The character Biff obtained a sports book with the final scores of sporting events that were going to happen in the future. He quickly started placing bets on future events and became fabulously wealthy. In a similar vein, we may fantasize about having tomorrow's *Wall Street Journal* today. I'm sure we could all agree that we could become rich with such information.

However, the more important point that I'm trying to make is this: Is it possible to lose money trading with tomorrow's *Wall Street Journal*? Yes! Have you ever had the experience of putting a trade on perfectly, where it instantly started to make money, only to watch it over subsequent days turn into a loss? In view of the foregoing, it is a certainty that someone can have the best trade setups on the planet, the proverbial "holy grail," and still lose money. Why? As we all know, the entry is only half (or less) of the equation. Trading is not just about good entry signals, it's about good entry signals combined with even better exit strategies. Trade management is crucial and it wasn't until I combined the best trade setup (the Gartley trading method) with proper exit strategies that I was able to make the Gartley Pattern work as part of a comprehensive trading system. A quick, cursory look for Gartley Pattern setups on a chart may lead someone to quickly write off the Gartley as a viable way to make money trading. However, as we will see in Part Three, "Application," with proper money management, we can make a good system great, or turn a potential losing trade into a winner with sound money management principles.

Novice to expert traders should be able to glean something from *The Gartley Trading Method*, which has as one of its main messages “Do more of what works and less of what doesn’t.” After reading *The Gartley Trading Method*, you will start to question all that you ever knew about technical patterns, and you will learn a comprehensive trading method, from start to finish, based on natural law and timeless principles.

Acknowledgments

First, I would like to thank my mom and my loving wife Lindsay—thanks for your patience, Zeeta! Next, my children Ceara, Hadrian, Aisha, and Trajan (aka Cearup, Gin, Lala and Purple Fish)—I will always love you. In addition, I must thank the legendary technicians who were not afraid to introduce original thought: W.D. Gann, H.M. Gartley, and William Garret. Further, I must acknowledge those market geometers still with us: Michael Jenkins, Robert Miner, and Larry Pesavento, along with special thanks to Bryce Gilmore for pioneering the use of modern market geometry for the twenty-first century! Last, but not least, I must thank Mathew and the boys at Market Analyst; Nikki and Cody at Lambert Gann; and Kate, Kevin, Meg, and Michael at John Wiley & Sons.

PART I

Foundations

Because this book has been designed for traders at all levels as an exhaustive reference about the Gartley Pattern, we will first provide beginners with some basic technical analysis in Part One, “Foundations.” This section focuses on the technical methods that will be employed later on to allow us to identify high-probability Gartley Patterns. Some veteran traders will still enjoy Part One as we will be discussing some methods that they might have taken for granted, but these will be covered in the context of the Gartley Trading Method. You might find that this section fills in the gaps of your technical knowledge. Remember, a review of the basics may help you, regardless of how good you are at your occupation. Apparently Tiger Woods will often play an additional nine holes even when he wins a tournament, just to stay sharp (at least that is what he tells his wife).

Trading Myths and Reality

Before we can progress beyond the neophyte level, we must establish a foundation of trading knowledge based on reality. In Chapter 1 we answer such questions as What is a trader? What is trading success? Is trading gambling? Do I need a computer?

WHAT IS A TRADER?

The common definition of a trader is someone who buys or sells financial instruments with the intention of realizing a profit. Examples of these financial instruments are equities, options, futures, and Forex (foreign exchange). As mentioned in the preface, H.M. Gartley wrote a book in 1935 entitled *Profits in the Stock Market*. In it, Gartley stated, “The average reader should leave the stock market alone.” Gartley’s statement is correct; some of us honestly have no business trading as we may be confusing speculating with gambling. (More on this will follow.)

Let’s first discuss what trading is not. Some of us might think that trading is glamorous—trading floors, posh offices in Manhattan, high-end suits, limousines, and more. If you have traded, you know that this is not what trading typically looks like. It looks more like an individual who works out of his house, doesn’t get enough sunlight, lacks personal hygiene, and has dirty dishes and half-empty coffee mugs stacked up on his desk beside his computer. And what about the professional trader’s official uniform? Is it a brightly colored jacket from the Chicago Board of Trade? No; most traders get through the work day in a bathrobe that hasn’t been washed in a while!

What are the character traits of a professional trader? A trader is someone with determination, dedication, patience, humility, perseverance, balance, contentment,