

A MARKETPLACE BOOK

Trading Chaos

*Maximize Profits
with Proven Technical
Techniques*

SECOND EDITION

JUSTINE GREGORY-WILLIAMS

and

BILL M. WILLIAMS



WILEY

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Dear Justine and Bill,

I have been researching and trading full time since I saw you last. As I mentioned on the phone, I used the tip that I got from you guys (about the reverse use of the RSI) to develop a short trading methodology and got second place in the World Cup 2000 futures competition. They offered to make me an advisor on their site. I think it is almost a miracle that I won the contest and my name is next to Larry Williams! I will be writing a chapter in a book called *Secrets of the World Cup Advisors*. I will definitely mention your names and give you credit.

J. S., Ohio

Those days with you were a real “turning point” for me. The material you taught and the sincerity of you, your family, and staff are amazing. My trading and life have changed for the better, a higher level. The warmth and energy I felt was unique and wonderful.

B. McD., Professional Trader, California

Dear Profitunity,

As Tony the Tiger says . . . You guys are “Grrrrrrrrrrreat!” As of yesterday, my account has doubled!! You are truly to be commended, because, as you recall, I had never traded before I met ya’ll. I barely knew what a commodity or stock was. And I’ve already doubled my account and the best part is that it’s the most fun I’ve ever had making money. Many thanks to all of you.

J. L., Arkansas

Dear Bill,

Based on my personal experience, if a person is serious about becoming a trader and is not talking with you, he is most probably in the wrong place and doing the wrong thing.

Since I came to see you, I have seriously pursued trading on a full-time basis. I have kept a daily diary and learned a great deal about myself. I have kept my notes from your sessions at hand, side by side with your books. I live out of these notes and am supremely happy with what you have taught me. Your psychological approach together with Elliott wave understanding has enabled me to “see” and “feel” the structure of the market in such a way that I have confidently avoided what could have been trades in the wrong direction over and over again! And this probably is an understatement. Before you worked with me, these same trades would have been seductively attractive and quite fatal to my trading account and self-confidence.

I am hereby granting you permission to use this letter or excerpts from it. I am very happy to do this. You deserve it and people who meet you in the future also deserve it. It is doubly a pleasure to do this because you have not asked for it in any way.

Very truly yours,
Bill Taffe

Bill has captured a career's work in a single package. This program puts brilliant researcher, teacher, and trader at your fingertips, and it is user friendly. Chaos has been tamed! If you are serious about being a successful trader, this approach may be your dream come true.

Glenn Ring, Industry Analysts, Iowa

Your training program has been excellent in many areas of my life, not just learning to trade. More and more I want what life wants. While I have been studying Eastern philosophy for years, this is the best training ground I have found to date. As a psychiatrist, I really appreciate what you say about this being "naked psychotherapy." Managed care certainly wouldn't allow this, as it is way too effective.

H. E., M.D., Nevada

I am very impressed by the scope and thoroughness of your analysis. Being able to quickly read the Elliott wave is a real bargain—remarkable experience studying with you.

M. P., professional trader, Chicago

Dear Profitunity,

Your Autogenic Stress Tapes are the best way of decreasing tension and anxiety that I have found in my lifetime. I am a physician with 11 years experience in hospitals.

Dr. S. L., India

Ellen, of the Profitunity Group, has designed an effective and convenient method for the induction of rest and relaxation.

Dr. Joe Baum, former dean, Temple Medical School, Pennsylvania

January was one of the worst months I have had since I left your tutorial. I only made \$3,445. That's about \$10,000 short of average. My ambition then was to quit my job and trade full-time. I have since decided that I like my job, but I don't *need* my job. I end-of-day trade quite well and it supplements my income nicely. I like building rockets so why the hell quit? I also enjoy sending my boss crazy driving my new Cadillac Northstar to work and sharing photos of the \$300k house I'm building on a 40-acre ranch. (If you remember, I drove down to your tutorial in a beat up pickup truck because I couldn't afford to fly). Do you still have those wind chimes that I gave you and Ellen? If you do, I can assure you this: Every time those chimes ring, it's a cash register signaling that Michael just made some more money.

M. B., Alabama

I am profoundly grateful to everyone at Profitunity Trading Group (PTG) for what I have learned from your material. In the 5 weeks after completing your course, I have almost doubled the size of my trading account. Three-quarters of my trades have been winners, the average winner is more than triple the average loss, and the greatest number of consecutive losers has been two (2)! Yesterday, I made in excess of \$1,100 dollars on two trades buying at the open and selling at the close. Today I made in excess of \$350 by doing the same thing. Furthermore, these results have come in different markets in both long and short positions. The course has more than paid for itself (and the tutorial, hotel, airfare, car rental, etc.) and I am having difficulty believing that your course has allowed me to turn my mixed (and slightly losing) results from last year's trading to the spectacular results that I have realized since completing your course. Thank You. Thank You. THANK YOU."

R. C., Pennsylvania

I took my tutorial in June. From June to the end of the year I made a total of open and closed out profits of \$65,370.48 after commissions, which is an annualized return of 112 percent. Considering that I was a losing trader before I started using your trading system, I consider this result outstanding. I know I made a lot of mistakes despite the positive results, so I believe my results this year will be even more impressive.

M. R., USA

This is a heartfelt thanks from a former student. I made over 75 percent in new gains for the year. I sleep great at night; I don't hope for anything other than letting the markets tell me what to do. Thanks for teaching me how to enjoy trading.

T. F., Michigan

Justine and Bill,

I wanted to give you an update on how I am doing so far. My first trade was on January 20 of this year. I am using a small equities account and a larger mutual fund, Rydex, that allows me to go long and short, even 200 percent of the S&P 500 or the Nasdaq 100. Using daily bars works well with the mutual fund that only allows two "fixes" a day. I've been mostly in S&P 500 and the Spiders. Well, the equities account is up 10 percent, futures up 20 percent, and MF up 12 percent. What's more I've achieved almost immediately one goal I had at the outset, which was to match my salary. I've actually doubled it!! Many thanks!

M. P., USA

I made about \$1,500 the first day I faxed my broker the instructions from Investor's Dream. Thanks Very Much. . . .

M. S., USA

Justine and Bill,

I just finished trading the full year with what you taught me. Not only was it a lot of fun, I made over 75 percent net net gains for the year. You taught me how to “enjoy” trading. I sleep great at night, I don’t hope for anything other than letting the markets tell me what to do. This is a heartfelt thanks from a former student.

Tom F., Michigan

I’ve got to hand it to you. You’ve developed Investor’s Dream software that anyone could make money trading. . . .

J. W., California

Thanks for your help. Since my recent exposure to your trading methods, I have net profits in excess of \$200,000. I’ve hung in there and it is paying off. I just wanted to extend my appreciation to you.

J. T., Texas

Justine—

I love you and your dad! Today is my first day of trading with real money. This is fun stuff! I am 3 for 3 with 3 profitable trades today.

D. A., Alabama

I have made \$16,000 in the past 6 weeks and \$7,000 of that in the last 5 trading days. I am so happy that I am finally going to live the life I struggled for during the last 9 years. Thanks to all of you!

M. T., California

Hi Profitunity Folks,

I am finishing my second month of trading and I want to express my deep gratitude for your support. I closed this month with a 35 percent win. Thank you!

Viet, Germany

Words do my gratitude an injustice, so let me simply say, Thank You for the freedom, the new life, and the possibilities you have opened up for me.

Mike McC., Arizona

Trading Chaos

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This work is dedicated to the many people with whom I have shared my life and experiences. Mostly to my father, Bill Williams, for giving me the chance and knowledge to be writing this book and teaching people how to live the life they dream of. Without him, I wouldn't be living mine. I also want to thank Ellen, my mother, for standing behind me when I was not sure where to go next and for always knowing I could do it.

Thanks also to all the traders and friends that I have shared these experiences with. They have made me who I am and without you I would still be light years behind. What traders have to share amazes me every day and keeps me on the teaching path. Being a part of changing people's lives for the better is the most incredible gift anyone could receive.

To my best friend Julie who, without her infinite wisdom and friendship for all these years, I would still be trying to figure out where to live and how to get there. The bookmarks that you have given me will last forever. I look forward to sharing our meals-on-wheels one day.

My most profound thanks and love to Marcus, my partner. Without you and your love and support, this project might not have been possible; now everything is possible. Thank you for sharing your love.

J. G.-W.

This book is dedicated to the love of my life—Ellen. Late at night when I sometimes think about what my life would be like without you, I literally shudder. None of all this good stuff that has happened to me would have been feasible or even possible without your love and support. You will always have and deserve my eternal love and thanks.

B. M. W.

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Preface

I began trading in 1959 while teaching at the University of South Florida in the School of Business. My ideas for trading came from a professor of accounting whose office was down the hall from mine. I would go by each day and find out what he was doing and basically I would copy that in my own account. Each of us was making more from the trading than from our teaching salaries. Jim (the accounting professor) knew what he was doing. I, however, “assumed” that I knew what I was doing.

In 1980 I decided to become a full-time trader after trading for 21 years without having lost a quarter. However, things quickly changed. I began losing and was unable to stop the decline in my account. I had spent more than \$6,000 on newsletters during the first month of full-time trading and none of them were profitable for me. After a couple of years spending days each week just reading the newsletters, I decided to throw them all in the trash. They were destroying my account balance. That’s when things began to fall in line. It was just me and my charts. I had decided that if my financial plane crashed, I wanted to be the pilot. I never wanted to say that I had gone broke following other people’s advice. I was going to live or die in the market because of *my* thinking rather than blaming others.

In 1987 I started sharing what I had learned with a few other individual traders. By 1989 I had been invited to do workshops on our approach to trading the markets in 16 different countries. I also started private tutorials and we named this business the Profitunity Trading Group. The name *Profitunity* signified turning opportunities into profits. PTG is still flourishing and we have personally trained more than 2,000 individuals who are now financially independent traders and investors.

Fortunately, my youngest daughter was attracted to this business and now runs the day-to-day operations of the Profitunity Trading Group with headquarters in San Diego, California. She is the coauthor of this book. Both of us are active in the markets every day and our lifestyle and security is much better than we could have dreamed a few years ago.

There is an old saying that if you teach, you learn twice. That, certainly, has been our experience. As we learned, we spent our time trading,

researching the markets, and taught others how to trade better. From this came two books: *Trading Chaos* in 1995, which was awarded first place as the most popular trading book in this area by Amazon.com. In 1998 our second book, *New Trading Dimensions* was published, with even greater acceptance. Now with the changing markets and further research, we feel the need for updating and sharing our most profitable methods. The older methods still work and are profitable but not as profitable as what we are currently using. The earlier books have been translated into several different languages including Chinese, Russian, Italian, German, Japanese, and French.

Our students come from around the world and include the vice president of the largest commodity exchange in the world, the vice president of the Central Bank in Moscow and a 17-year-old from New Hampshire who waited tables at \$7.00 per hour to save up the tuition costs for a private tutorial. We are mentioning these facts to illustrate that there is a background of success stemming from our work over the past 45+ years in the markets.

And now is the time to distribute our latest research findings along with all the things that have always worked in taking profits from the markets.

BILL M. WILLIAMS, PH.D., C.T.A.

* * *

If you had asked me 15 years ago what I thought I would be doing today, the answer would not have been writing a book or teaching and trading for a living. Today I can't imagine doing anything else.

Growing up around trading my whole life did not inspire me to become a trader. I never liked math. I was scared of it actually, so I decided to go to barber school and work my way through a "real college." I chose this path because trading was all about math, or so I thought.

I worked as a hair dresser and went to school for 7 years, changing majors often, not knowing what I wanted to do with the rest of my life. A few years later, I decided to go to nursing school. I knew I wanted to work in a field that allowed me to help others. Once I received my nursing degree, I realized that I was not able to give the help that I thought I was capable of giving. The medical field was very limited in its practices and I did not necessarily agree with many tasks I was supposed to do. Between HMOs and hospital rules, I thought that I needed a higher degree in nursing to do a better job.

After a few personal traumatic experiences, I decided to move home at age 28 and go back to school. This time I started working part-time in my father's trading office. By the end of the semester, I was trading the markets,

teaching classes with him and did not re-enroll for the next school term. Surprised?

It's now 10 years later and unlike the band U-2 I *have* found what I was looking for, the ability to create my own wealth and happiness. The biggest bonus is I am also able to share this incredible knowledge, first passed on to me by my father, with anyone who wants the same ability to achieve their life's goals. I hope as you read this book you will understand the power of "freedom" and just letting go. May all that you wish for be the least that you receive. The markets will give it to you if you really want it.

JUSTINE GREGORY-WILLIAMS

Acknowledgments

There are so many people who have helped us through the years. Without them we would still be charting by hand and wondering what e-mail is. A few of these people are:

Doug Forman for supporting our clients and us by keeping our software and computers running. Doug is the caretaker and programmer for our Investor's Dream software and created most of the charts in this book. Because he is also a long-time successful trader, his understanding and ideas are invaluable.

Melody Baker at CQG for her support through the years from supplying our data at meetings to giving the best customer support around.

Georgina Perez our "other mother" who always had faith in us. Without your love, prayers, and faith, our family would not be who we are today. We all thank and love you! You have no idea how much you have influenced all our lives.

Chris Myers, Jaye Abbate, and all the staff at Trader's Library for their support and encouragement. Without them this book would not have been born.

Pamela Van Giessen for her faith and support in our approach to the markets. She believed in our ideas and guided our efforts through all three books. Without her you would not be reading this.

Finally and most importantly to Ellen, our wife and mother. Although her contributions are not obvious in the text, she is a part of every sentence in this book. Ellen, you are a wonderful person and we both love you so much.

Introduction

Unless we change our direction, we are most likely to end up where we are headed.

—Chinese Proverb

If the purpose of our trading is to acquire financial wealth, perhaps it is appropriate to ponder exactly what money is. The first step in acquiring wealth is to understand what it really is, in and of itself. What causes wealth? We can begin with money and then move deeper.

First of all, money is not real. It is a form of exchange—legal tender. Supposedly it represents value. It is the physical representation of energy or value that rises and falls within ourselves. It does not change value because of what happens to material objects “out there” but rather changes because of what happens “in here,” inside our brains. We are the ones who place different values on objects. I have a cane that is one of my most valued possessions and is probably worth less than two dollars on the open market. But to me it has enormous value because it belonged to a blind uncle who was the primary male figure in my young life. In a garage sale it certainly would not bring more than a couple of bucks but I would not part with it for \$10,000. Its value to me is in my relationship to it rather than what it would bring on the open market.

So money in and of itself has little or no inherent value other than what we place on it. Material things have no money value in themselves—we give that to them. That is why a house or a block of shares valued at \$1,000,000 today can fall to a half-million dollars tomorrow when fear of the future is introduced into the hearts of those involved.

When you really examine it, physical money does not even represent money in full. It cannot do that. By some estimates, as little as 4 percent of the money in banks exists as paper cash. This is a space saver because a stack of one million one-dollar bills would weigh a ton and if stacked would be 361 feet high. Remember when Saddam looted the central bank in

Baghdad of approximately five billion dollars and it took three tractor-trailer trucks to haul off the loot? And those were hundred-dollar bills. Money no longer represents gold reserves either: We ran out of the ability to keep a gold standard in the 1970s.

Money—what really is this thing that we keep spending our lives trying to get more of it? Again, it is one massive illusion. It is just numbers on a piece of paper or on computer storage devices and assigned to people and entities such as companies and investments and other records. Viewing from another perspective, for every \$100 or its equivalent in other currencies, only about \$4 exists as printed-paper notes or coins. The rest of the \$96 exists as numbers on paper and computers in banks and businesses. What keeps all of this illusion afloat? The fact that we have agreed to believe in it. Just before the Great Depression people stopped believing in it when they could not get their money from the banks. This run on the banks did not cause the depression, but it sure accelerated it by creating fear in the minds of the public.

If money is not real, then what is? Money is only the shadow of something else. Concentrating on this shadow (the physical dollar bills) is very unwise and not healthy for your bank or trading/investment accounts. A much more profitable strategy is to look at the value inside yourself and others. Watch the flow or exchange of this value between people. It is only our internal values that create money. If we can somehow learn to observe the changes in internal values in others and ourselves, we can hone in on opportunities that others miss.

Let us hasten to add that while money does represent a part of a person's internal value, it does not represent a person's entire internal value. Money represents only one aspect of a person's internal value. Otherwise the richest person would have the most elevated values and we know that just is not true. A rich person is not necessarily better than a poor person. However, it is true that in matters that pertain to money, the wealthy people have a higher internal value or they choose to exercise a higher proportion of this internal value. This ability to exercise higher evaluation is available to everyone and, just like air, is free to all. You are free to choose to develop it or not and to exercise it or not. You can choose and no one or nothing can stop you once you really make that choice.

Everything you need to be successful in the markets is already inside you. You may have forgotten it but it is still there. It is important to remember that money is not real; it is the shadow of something else. You are already a successful trader. Otherwise you could not dress properly, express yourself effectively, or even understand what is going on at this moment. You are already wealthy, but you have been taught not to express it in your daily living. Once you understand this in the deepest parts of your

being, all sorts of opportunities for converting this consciousness into cash will present themselves. Fortunate coincidences present themselves every day. Why are you reading this book at this very moment?

By the way, it is not only paper money that is not real. A lot of other things that we cherish so dearly are not real either. You are about to embark on a beautiful, empowering, and liberating journey that will unveil your trading and investing world in a way that will open your eyes and free your wings. We will look under the hood of your trading and investing life. You will learn how to customize the market to your liking. Once you do, avoiding winning will become more and more difficult. This will give you freedom to experience other aspects of your life that you may not have even dreamed of before. The same goes for happiness; you will find that here as well. So welcome to an exciting and profitable journey as you incorporate these learnings into your life. The train is here, ready to go; we invite you to climb aboard.

What could this book be worth to you? Maybe \$10,000 per week, \$40,000 per month, or perhaps \$500,000 per year? Using the exact techniques described in this book has made the members of our family multi-millionaires. There is no reason you cannot do the same.

The truth begins with know-how. Knowledge is potential power. What you do with what you learn here determines how successful you will be. The right knowledge and understanding is priceless. This book is designed so that you can become financially powerful by applying these techniques.

The first portion of this book is devoted to understanding how what is happening inside of us determines the rewards we acquire in trading and investing. If you truly understand what makes a car go, you will have fewer problems in going cross-country. And if a disaster starts to form, you will recognize it and be able to fix it before it becomes truly detrimental to your health and welfare. Then we examine what the markets really are and how they operate. We also spend time getting our various trading and investing heads on straight. We look at how you use your mind and the several different trading personalities that you possess and how your choice of which to use affects your profit picture.

WELCOME TO THE FIRST DAY OF YOUR NEW TRADING LIFE!

You can break the cycle of failure by recognizing the things that cause failure. This book not only shows you *why* most traders lose money, but it also introduces you to the latest findings in physics and psychology as they

apply to the various markets. As we all know, the markets today are very different from what they were even a few years ago. In the bull market of the 1990s, trading and investing were relatively easy. However, we are now looking at very different circumstances in the markets and in the world in general. Trading in the 21st century with 20th century tactics almost guarantees eventual failure.

A person can no longer feel safe in buying a stock and holding it for years or until retirement. Millions of Americans have seen their retirement funds evaporate because stock in one or more of the companies they had invested in lost most of its value. People now want to have a more hands-on approach to managing their own investments. Long-term investments have become much less dependable and secure. Interest rates being low, many investors are feeling they need to take a more proactive part in their future and retirement. Large numbers of people (many of them baby boomers) have lost their jobs and have only a severance package to fund their future. Others have pension funds, IRAs, or 401(k)s and want more discretion over these funds. Baby boomers are now beginning their retirement and are searching for ways to protect and even increase their retirement investments. They need the proper education and understanding of how the markets really work. People now want to learn how to manage their investments on a much shorter time horizon and to build a better safety net for their losses. Our targeted audiences are both these “newbies” as well as the more experienced and professional traders. Our goals in this new book are:

- To make this material applicable in all of today’s markets (stocks, bonds, options, futures, indexes, etc.).
- To teach new and experienced traders how to anticipate, recognize, and react to impending bull and bear market conditions using our techniques.
- To empower traders to be able respond to and profit from shorter term trading as well as longer term investing when appropriate. We call these techniques *trade/vesting*, which signifies using trading techniques for good entries and exits and, when the opportunity presents itself, for hanging in there as an investment.
- To explore deeper into the psyche of the trade/vestor and how to handle both winning and losing without upsetting the grace of living.
- To condense and simplify techniques in our previous books, which proved that trend traders can often more than double their profits by also including countertrend trades.
- To explore why our techniques have proved to be even more profitable in the current markets than they were when the first edition of this book was printed (Wiley, 1994).

All in all, we feel that this book will be much more applicable and easier to understand, and will deliver considerably more profitable techniques in this new 21st-century trading environment. Our own personal trading has proved this. For example, 2002, which most traders do not consider to have been a good year (the market was down big time), was the most profitable year for us in the past 45+ years of active trading. Basically, 2002 was a down market and, as an experiment, we never sold a single stock or shorted a single commodity during the entire year. It was still our most profitable year. We are very excited about these new modifications. The results of sharing these new techniques in recent workshops have been more enthusiastically received than ever before.

Now, expel the stale air from your lungs and gasp a breath or two of fresh air as you prepare for the material we are sharing here. It is different from any other book on trading and investing in that it is based on nonlinear dynamics and the science of chaos. In the *I Ching*, Hexagram 3 is titled “Chaos—Where Great Dreams Begin.” In the reading it states:

*Before a great vision can become a reality there may be difficulty.
Before a person begins a great endeavor, they may encounter chaos.
As a new plant breaks the ground with great difficulty, foreshadowing the huge tree, so must we sometime push against difficulty in bringing forth our dreams.*

This *I Ching* hexagram also illustrates the so-called butterfly effect, which is a concept of chaos theory that states a very small change in initial conditions makes a great difference in what happens next and all the way down the line. Putting it into our trade/vesting approach means that we only need to change a few basic ideas to make our total results grow exponentially. Our important first change is:

Do Not Listen to the Experts!

This advice may appear a bit far-fetched at first, but it will make more and more sense as you progress through this material. Remember that trading does not work for the vast majority of those in the markets. There must be something better, and there is. Remember that financial writers know as little and probably less than you do about how the market functions. They are paid for the number of their words and not the truth or accuracy of their analysis. If they really understood the markets, they could make many times more money trading than they do writing about trading.

What I have learned and still marvel at in more than 45 years of active trading is that basically none (or giving the benefit of the doubt, very few) of the popular pundits know what they are doing. And that includes

brokers. Do you believe there is any broker in the world who would be a broker if he or she could trade well? Being a broker is a bad job. Everyone blames the broker: their clients for not making them money and their bosses for not selling more. It is really quite simple. All brokerage houses are in the business of selling you stocks, bonds, or futures. Their very livelihood depends on you buying. And notice how many of the prominent brokerage houses have been or are in court attempting to defend their profit-sapping recommendations.

We (Profitunity Trading Group) believe we have produced the highest percentage of successful graduates who are now independent trade/vestors in the world, and they are using the exact techniques that we are sharing with you in this book.

MORE ABOUT OUR TRADE/VESTING APPROACH

Trading is, without doubt, the very best lifestyle that anyone could imagine. You are totally your own boss, but that carries some responsibility because you cannot blame your failures on anyone but yourself. However, when you win, you don't have to say "thank you" to anyone. In other words, there is no necessity to be politically correct and what a difference that can make in your enjoyment of living. My wife, Ellen, once wrote a magazine article in which she described trading as "sliding down the razor blade of life." It is exciting, invigorating, and highly profitable. And it can be a simple laid-back way of enjoying your life and the rewards of your effort.

However, the average traders tend to be a nervous, worried, exhausted, and confused people who sometimes wonders why they ever chose this path at all. The average trader feels that trading the markets is a highly stressful occupation. Here are some actual questions we have received from active traders:

- How can I both enjoy trading and make profits trading the markets?
- Why am I so addicted to doing this when there are so many disappointments (losses)?
- How can I keep serenity inside myself and my loved ones while living in this turbulent world of the markets?
- How can I stop worrying so much in such a threatening atmosphere?
- Why do so many traders and investors lose money so consistently?
- How can I distinguish among all the hucksters who are hawking their wares as being *the* answer, when none of them seems to last even a couple of years?