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by Kent Kofoed

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How Stanley Kroll Turned $18,000 into $2,985,138 in Three Years Trading Commodities

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Who's Stanley Kroll?

Mr. Kroll started trading commodities in 1959 working for Merrill Lynch. He cut his teeth in the market for twelve years.

Then on July 11, 1971 he took $18,000 and did a remarkable thing. He turned it into $2,985,138 by September 10, 1974.

Then he slipped off to Europe. In fact whenever Stanley would hit a big payday trading commodities he would take a month or two off with his family and travel Europe or sail to some exotic location he loved.

It's All About Lifestyle

But most commodity [and Forex] traders never turn a little cash into big money. Not because it's totally doable but because of hard-headedness. Here's an example Kroll gives:

"I must have bought and given away 40 or 50 copies of this book [Reminiscences of a Stock Operator by Edwin LeFevre], starting in 1961. Who got the first copy? I remember that clearly. I gave the first copy to Paul, one of my earliest and most memorable commodity clients.

It was Paul's first commodity trade, and he bought 10,000 bushels (two contracts) of May soybeans at 2.25 in November 1960. By the time May beans hit 3.35 in April of the following year, he had pyramided his original $5,000 and two contracts into some $80,000 and 45 contracts. What a bonanza, especially for a first-time commodity trader! But as the market kept advancing, Paul got progressively more bullish. His original price objective was 2.85, then 3.20, and by the time it got to 3.35 he was talking 4.00 beans.

His equity topped out at $80,000. Just a few days (and a $30,000 decrease in equity) later, I tried to persuade Paul to close out. 'You've got $50,000 left - more than you ever imagined it would be. Close out now, and take a trip around the world,' I told him. But Paul was smarting from the last market drop; he would make that $30,000 back and then close out.

The story has a familiar ending - it happens all the time. Paul's remaining $50,000 rapidly disappeared, leaving him with little more than cab fare back to the Bronx (some 'ride') and the copy of Reminiscences [of a Stock Operator] I had given him (he should have read it). As a matter of fact, when he tallied up his misadventure, he found that he had suffered a net loss of $7,000, or $2,000 more than his original investment."

Under-trade in Frequency and Size

Here's a much more intelligent way to approach the challenge of becoming as wealthy as a speculator…

At TradeMentors.com I teach that a family making a net $100K after tax income can only safely risk $900 each year in derivatives (but that you only need between $300 and $2,000 to trade anyway).

If the head of a family wanted to trade commodities starting with the $5,000 in Kroll's quote above they would have to wait about 5 ½ years to save it up. But they would be financially safe to roll the dice in the commodity markets because the derivative exposure on their total net worth would not be unduly high.

This gives the family time to learn about futures trading. And, this is important.

The biggest lesson is learning that successful speculation requires you to under-trade, both in terms of the size of your position and the frequency of trades. Let me explain...

There's No Luck to Profitable Trading

I have seen people spend more time and energy "researching" for the purchase of an i-Pod than for a purchase of a stock or an option, futures or Forex contract. The history of investing is littered with the financial wreckage of many well-intended, would-be speculators.

They subscribe to numerous newsletters that they treat as "tip sheets" buying into recommendations with sizzling stories with about as much forethought as pulling a beer out of the fridge.

The majority of novice stock and stock option investors; as well as futures, Forex, and options traders, suffer brief and expensive lessons on the pitfalls of inept and undisciplined speculation. They wipe out and reluctantly join the social class of former speculators - sadder and poorer but rarely any wiser.

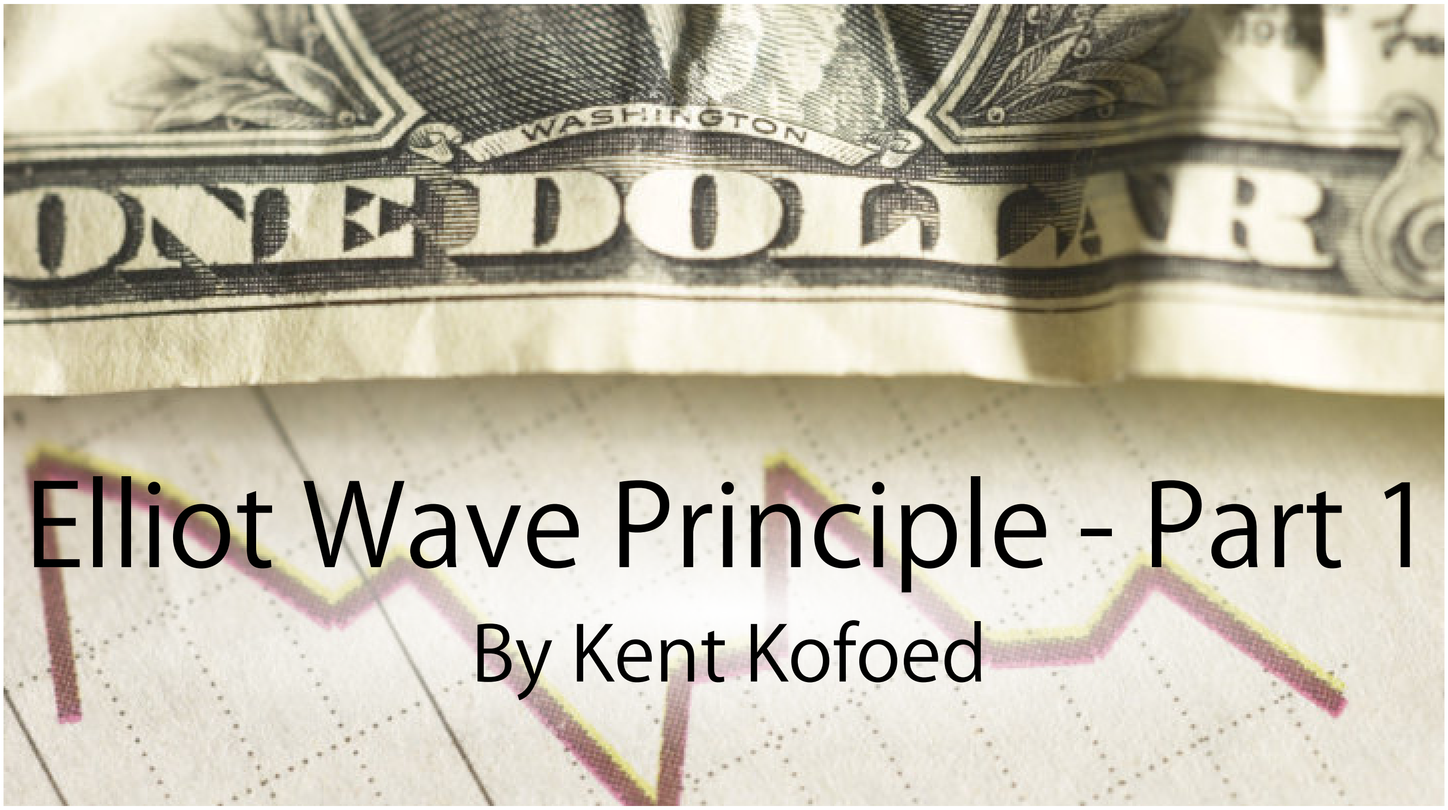
But YOU Can SUCCEED!

Lan H. Turner and I are firm believers in thorough and organized preparation for every field of serious endeavor, be it surgery, aviation, or financial investing. We know that the person with a demanding full-time career or profession certainly can't devote full-time effort to studying and preparing for investing in stock, options, futures, or Forex.

Nevertheless, you can find ways to prepare for speculative market operations to improve your chances of success.

One of the most effective ways to prepare you for serious trading and investing - and we hold this to be a universal way to study to prepare for any new undertaking - is through a careful study through workshops, books and courses dealing with the techniques and methodology of stock investing, options, futures, or forex trading.

Go to www.TradeMentors.com/fibonacci.htm to get a free course to help you get started on the right foot.



Elliot Wave Principle - Part 1

By Kent Kofoed

History of the Elliot Wave Principle:

The Elliot Wave Principle was developed by Ralph Nelson Elliot (R.N. Elliot) in the 1930s and his first work on the subject was published in the 1938 book The Wave Principle. In 1939 R.N. Elliot summarized his theory in a series of articles for the Financial World magazine, after which, in 1946, he finished his final major work on the theory with the book Nature's Laws: The Secret of the Universe. The Elliot Wave Principle was originally used by only a few technical analysts, up until the 1980s, which is when Robert Prechter, a market technician who was working at Merrill Lynch, came across the theory and subsequently increased its exposure in the financial markets.

The Elliot Wave Principle and the Dow Theory:

The Dow Theory, which is somewhat similar to the Elliot Wave Principle, was developed by Charles H. Dow, prior to the development of the Elliot Wave Principle. In its most basic form, the Dow Theory states that markets tend to move in threes (i.e., three major market movements, three trend phases, etc.), all news is immediately discounted into the current price of the market, major averages confirm each other, trends are confirmed by volume, and trends will exist until the end of the trend is determined by definitive signals. The Elliot Wave Principle, on the other hand, states that markets move in "waves" and that these waves are caused by the changing of investor psychology from optimism to pessimism, or vice versa. The phases of the trend are called the "impulse" phase, which is when the movement is in the direction of the trend, and the "corrective" phase, which is the retracement of the trend. The Elliot Wave Principle also analyzes the differing levels of volume that typically occur during each of the waves. The Elliot Wave Principle, when compared to the Dow Theory, is supposed to have more accurate signals, however, which typically leads to signals that are closer to market tops and bottoms.

Elliot Wave Principle Basics:

The Elliot Wave Principle has three main aspects, which includes patterns (the wave formations), ratio analysis (the retracement levels and price projections), and time (which is used to confirm wave patterns and ratios), which are listed in order of importance.

Patterns, the most important part of the theory, are the wave patterns that form when the market moves up and down over time. These patterns tend to continually repeat themselves, with the overall pattern typically being made up of eight waves in total. In figure 1-1, you can see a diagram of the Elliot wave pattern. Wave 1 to wave 5, the green portion of the wave, is the "advancing" portion of the pattern, and wave A to wave C, the red portion of the wave, is the "declining" portion of the pattern. The "impulse" waves include wave 1, wave 3 and wave 5, while the "corrective" waves include wave 2 and wave 4 (waves A, B and C are also considered to be "corrective" waves as well). Lastly, it is important to point out that the wave pattern shown in figure 1-1 is what the pattern will look like when the market cycle is in a bull market. If the market cycle is in a bear market, the pattern will be reversed (i.e., there will be 3 waves in the "up" portion of the pattern and 5 waves in the "down" portion of the pattern).

The second most important aspect of the theory, ratio analysis, is used to measure both the retracements from the peaks and the expected length of the next leg of the trend. Many of the ratios used by the Elliot Wave Principle are the same ratios that are used as Fibonacci retracements (i.e., 100%, 78.6%, 61.8%, 50.0%, 38.19%, and 23.6%), and they are used for identifying the support and resistance levels of the various waves within the pattern. Support is identified by using the ratios, and the wave principle, to forecast the expected percentage retracement that should be obtained after reaching a peak (i.e., resistance), and resistance is identified by using the ratios, and the wave principle, to forecast the expected length of the rally that should occur after support is found. Depending on the characteristics of the actual wave pattern being analyzed, different ratios tend to be more reliable than others. However, deciding which ratio to use can be somewhat complex so these more in-depth concepts will be covered more in greater detail in a subsequent article.

The last aspect of the theory, which is also believed to be the least important aspect, is time. The Elliot wave pattern tends to follow a time scale, which means that the various waves of the pattern tend to start and stop around the same time, each time that they occur. These time "targets" are based on the Fibonacci time periods (i.e., 5, 13, 21, 34, 55, 89, 144, 233, etc.), which is simply the Fibonacci sequence excluding 1, 2 and 3. As I mentioned previously, these time targets are used for confirmation of both the wave patterns and ratios.

The Fractal Nature of Elliot Wave Patterns:

Another important concept of the Elliot wave pattern is that the pattern itself is fractal (i.e., it is a self-similar pattern where the various parts of the pattern tend to break down into smaller versions of the overall pattern). An example of the fractal nature of the Elliot wave pattern is provided in figure 1-2. In the diagram, the number, or character, that is being represented with the "X" is representative of the larger overall trend, which includes the typical 8-wave pattern (i.e., waves 1-5 and waves A-C) that

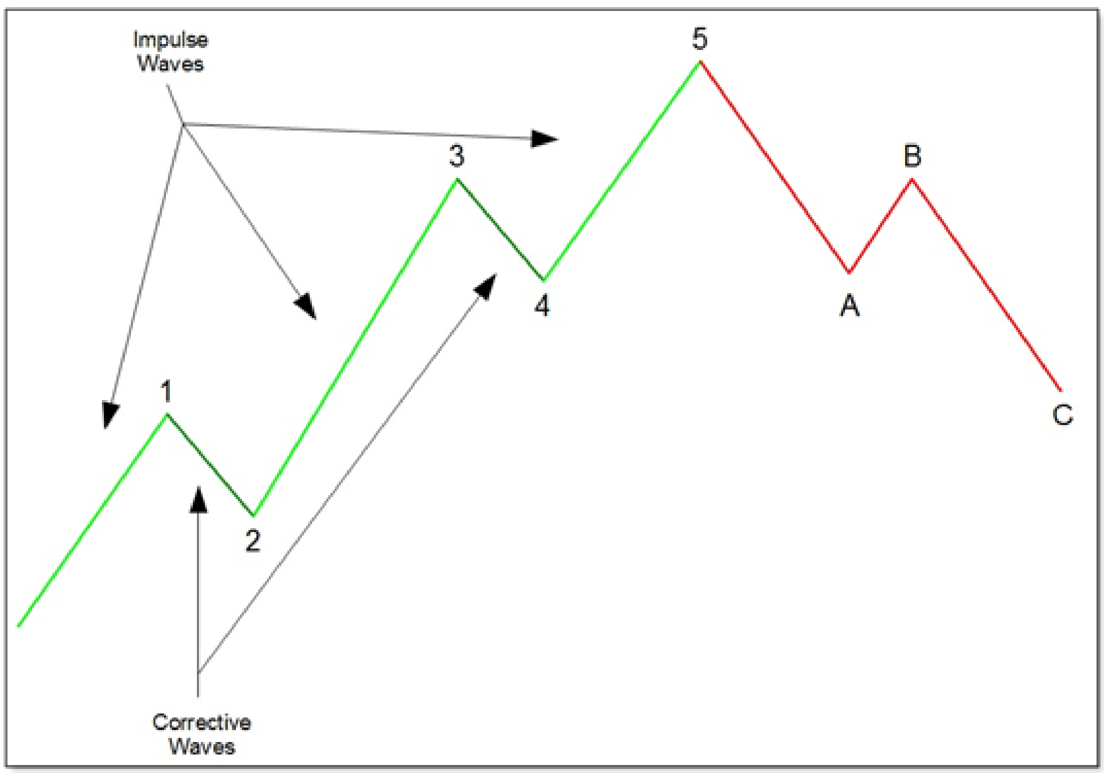


Figure 1-1: *Figure 1-1 diagrams the three "impulse"waves of the pattern (wave 1, wave 2, and wave 3) and the five "corrective" waves (wave 2, wave 4, and waves A-C). The corrective waves that appear in the "advancing"portion of the pattern (i.e., wave 2 and wave 4) are bolded so that they can easily be distinguishded from the "impulse" waves. Lastly, the "advancing" portion of the pattern is shown here as the green lines and the "declining" portion of the pattern is shown here as the red lines.*

were shown in figure 1-1. "Y" is being used, however, to represent the smaller underlying trends that occur within the larger overall trend, which also includes all of the previously mentioned waves (only doing so on a relatively smaller scale). This concept is important because, since the Elliot wave pattern is fractal, it means that the pattern will occur in many different time frames (i.e., daily time frames, 60-minute time frames, 30-minute time frames, etc.). The larger Elliot wave pattern will occur in the longer time frames, whereas the smaller Elliot wave patterns will occur in the shorter time frames (which, as I already mentioned, will typically combine into the larger wave pattern). The important thing to remember is that the smaller patterns repeat themselves, and that many of the smaller patterns will tend to combine into a larger pattern that is similar to the smaller underlying patterns.

Summary:

Since the Elliot Wave Principle is typically used alongside the Fibonacci sequence, there is a large amount of material that can be covered on this subject, and things can get rather complex if you are not careful. So, in order to minimize any potential complexity, I decided to break this article up into a series of

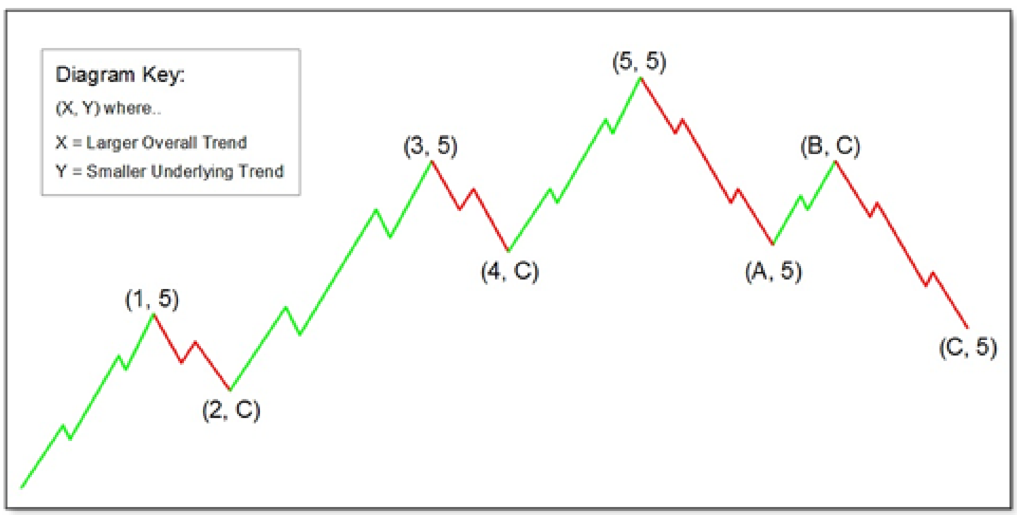


Figure 1-2: *Figure 1-2 diagrams a large wave pattern (represented with "X") and a series of patterns (represented with "Y") that includes two normal "up" patterns, an "up" pattern that reverses trend, and a "down" pattern that follows the trend reversal. In the "advancing" portion of the large pattern, the "advancing" portions of the small patterns are green and the "declining" portions are red. In the "declining" portion of the large pattern, the "advancing" portions of the small patterns are in red and the "declining" portion of the small patterns is in green (since the trend is in a downtrend, the "advancing" waves are the ones that decline).*

separate articles, and I will continue to build on the wave theory, by covering these concepts in greater depth, in my next article.

Article Sources:

Murphy, John. Technical Analysis of the Futures Markets: A Comprehensive Guide to Trading Methods and Applications. Paramus: New York Institute of Finance, 1986. Print.

Kent Kofoed is a technical analysis specialist, as well as an individual trader, who has a Bachelor's degree in Business Administration from Utah State University and a Masters of Security Analysis and Portfolio Management degree from Creighton University. Additionally, Kent is a level II candidate in the CFA program, a graduate student in the Masters of Science in Predictive Analytics program at Northwestern University and a contributing author for PitNews Magazine.

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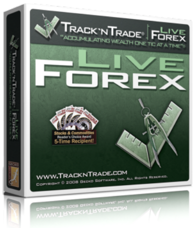

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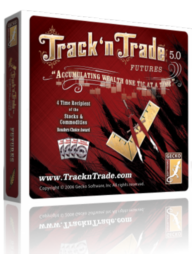

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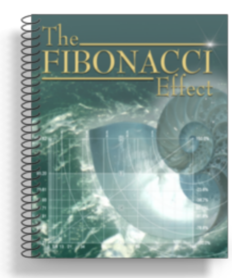

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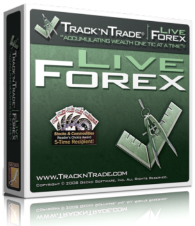

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