

Chart 1.3

Three months of price activity conditioned by daily timeframes

[ TIME CREATES PRICE RELATIONSHIPS ]

Represented horizontally, it is time that delineates a succession of instants we can use to make relative comparisons of the four key range variables—open, high, low, and close. Of course we never really trade time, we trade price. But without time we should have no qualifier with which to construct price bars. *The variables of technical analysis are dependent on time.*

For example, if from any chart we remove the horizontal axis representing time, we are left with a continuum of price transactions in but one dimension. Chart 1.3, above, is a daily March 94 S&P futures chart showing the period November 93 through mid-January 94. Chart 1.3A, right, is the same chart with the time axis removed. The only difference between the two charts is that one has been broken up into time units—in this case, daily—so we can analyze relative price ranges.

**All profitable trading is based on the study of price relationships that have predictive probability value.** Trend models, strategies, and tactics derive from our thoroughgoing understanding of these price relationships.

[ A MODEL OF HOW BASIC PRICE RELATIONSHIPS EVOLVE ]

Let's begin with an initial period of trading (it could be any timeframe) for some unknown entity as it begins to trade for the first time. (See A on Chart 1.4, overleaf.) The price opens at some level, rallies a bit above the open, and sells off to close near the low of the period. We'll call this simple period of any duration our *primal unit* for measuring price movement.

As you look at this primal unit, note how time defines *open, high, low, close*. Of all the transaction prices that occurred during this timeframe, we have identified these four as separate variables. Each is a function of the time

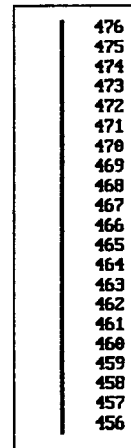


Chart 1.3A

The same chart, but with the time axis removed

§ "All profitable trading is based on the study of price relationships that have predictive probability value."