

[NON-TREND LIQUIDATIONS]

§ *The Fourth Law of Trend Dynamics: "Trading ranges usually terminate coincidentally with tests of their extremes."*

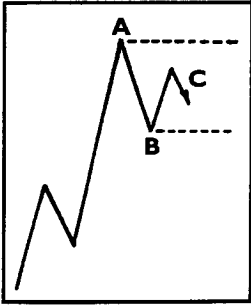
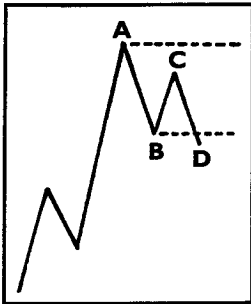


Fig. 4.2 (above)
Trading-range potential defined.

Fig. 4.3 (below)
Trading-range expansion and RePo potential.



In order to execute liquidation techniques based on the simple certainty that a given market will either trend or will not trend, we must have, of course, a clear understanding of how a trending market typically acts and how a non-trending market typically acts. In previous issues, I've discussed the fact that trend activity normally shows higher tops and bottoms or lower tops and bottoms. Here I'll discuss how price action may be expected to behave under typical non-trend conditions.

In the last issue, we began our study of trading ranges by introducing the concept of trading range potentials and their use as a technique for detecting the onset of trading ranges. Of the three trading range potentials discussed—the sudden lower bottom in an uptrend, the 100% retracement, and the lower top in an uptrend—the most valuable is the last: that is, the sudden appearance of a lower top in an uptrend (or of a higher bottom in a down-trend). Let's return to this important model and further expand on this concept.

[FURTHER STUDIES IN TRADING RANGES]

In Fig. 4.2, above left, the sudden appearance of a lower top, at C, after a series of normally-trending higher tops and bottoms, is sufficient cause to assume that a trading-range potential exists within an ongoing uptrend. Let me present here the Fourth Law of Trend Dynamics: *Trading ranges usually terminate coincidentally with tests of their extremes.* The reason is simply that the extremes of a trading range are typically the major level where demand seeking supply (or supply seeking demand) can be satiated.

In the case of a lower top in an uptrend, as at C in Fig. 4.2, the extremes of the trading range are at A and B. Now, as price turns down from C, and with the Fourth Law of Trend Dynamics in mind, we look for a potential termination of this trading range at the test of the lower extreme at B. Again—trading ranges terminate coincidentally with tests of their extremes. B is the lower extreme of the A-to-B trading range.

A test here merely involves a penetration, as shown at D in Fig. 4.3, below left. This penetration of the previous low, at B, creates two potentials. Either 1.) the penetration will lead to a successful whole-period-count (WPC) and trend change down; or 2.) if it cannot trade through by a WPC, and if the line turns up (as shown by Fig. 4.4, opposite), then it will be a spring of the lower extreme of a trading range; within the context of this particular configuration, it may be seen to be a RePo as well.