



Market Ideas: Fact or Fiction?

*Please remember to always;
#1. Welcome all ideas in trading, and
#2 Reserve your opinion until you have independently validated the idea!*

Working Paper: SP500 Fractals, are we listening?

Working Paper

There are many, many reasons why people lose in trading. Many reasons that can be categorised under the three pillars of trading: money management, methodology and psychology.

One major reason for failure concerning methodology is traders' failure to understand how markets work. This results in development of strategies that are not sympathetic or aligned with key market behaviours. In many instances strategies are developed in direct opposition to how markets work.

One key market behaviour ignored is fractals.

Fractals refer to repetitive patterns occurring across timeframes. What you see in the daily timeframe should occur in lower (say hourly) and higher (say weekly) timeframes. Markets are fractal. Markets are multi-dimensional across the time spectrum.

Traders not only need to be aware fractals exist and but they also need to be aware they dictate a market's hierarchy. Higher timeframe patterns dominate, or influence lower timeframe patterns.

For example, if a market is experiencing congestion in the monthly timeframe (back filling and grinding sideways for multiple months) it'll be unlikely that the daily timeframe will experience uninterrupted price trends until the monthly timeframe experiences clean air.

Or in layman terms, nice daily trends will unlikely occur under the shadow of monthly molasses, and another, trade with the trend, the trend is your friend. Know what the higher timeframe trend is doing (say following a 200-day simple moving average) and ensure you're trading with it.

While the lesson here is that higher timeframe patterns influence lower timeframe patterns the moral is to ensure you're aware of and are listening to what the market's fractals are saying.

I'm chatting about this now as I think the markets, particularly the SP500, is at an interesting juncture. According to one of the fractals I monitor its telling me to be very attentive.

I have a pattern I called Market Ladder.

My Market Ladder is a simple tool that identifies support and resistance levels.

While a market is supported, higher prices are expected.

While a market is below support, lower prices are expected.

While a market is under resistance, lower price are expected.

While a market is above resistance, higher prices are expected.

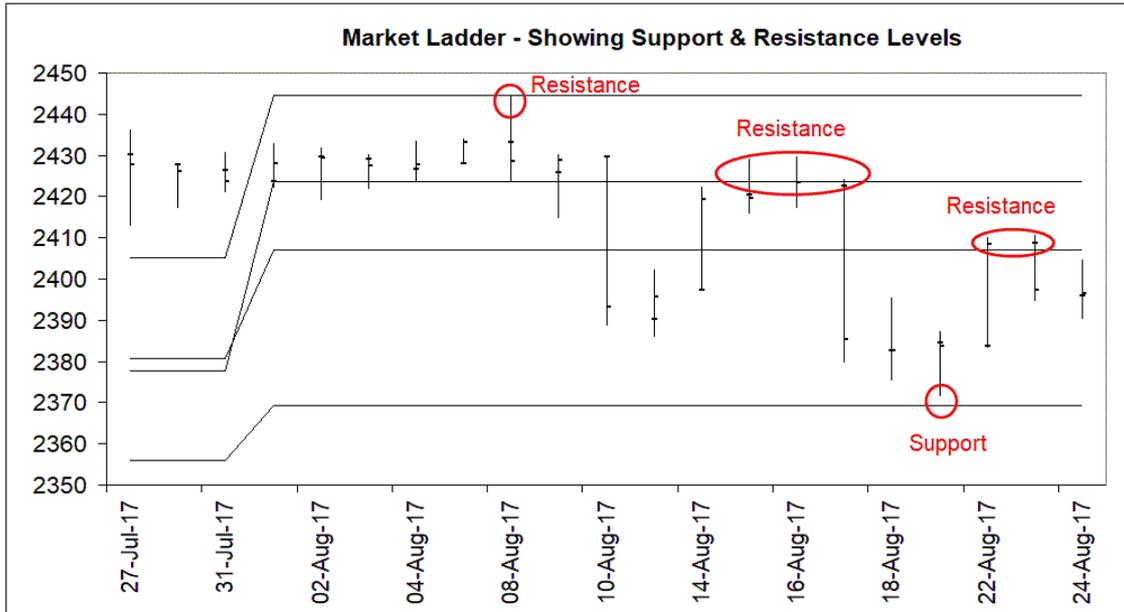
Simple.



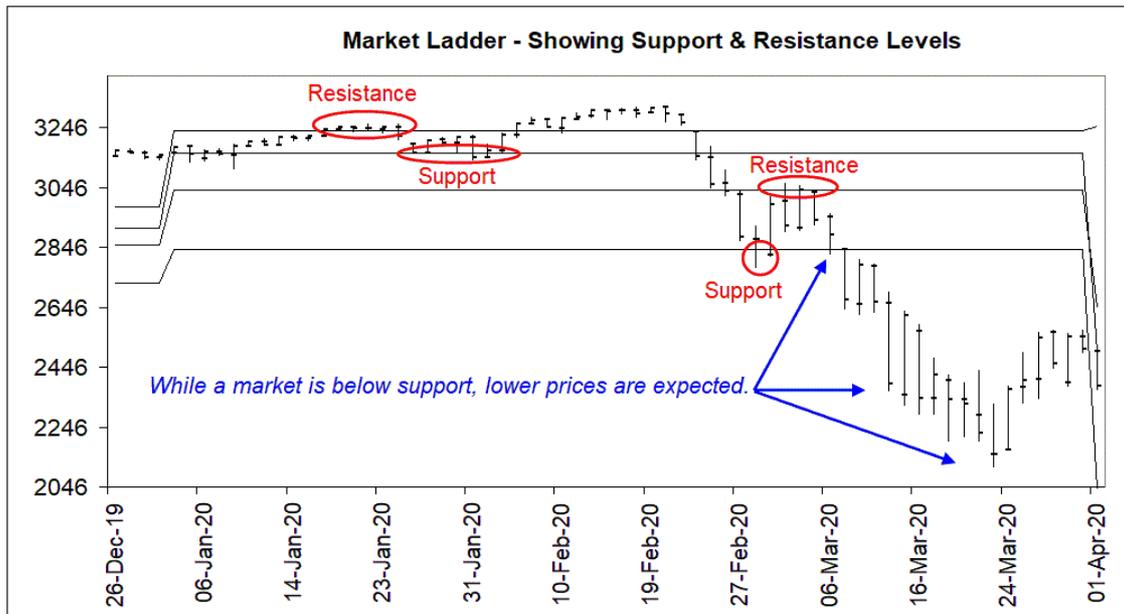
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Here's my monthly Market Ladder overlaid on a daily chart showing support and resistance levels.



This is a simple tool that generates the levels in advance at the commencement of the relevant timeframe. Remember markets are fractal. What we see in one timeframe should be seen in other timeframes. Here's my quarterly Market Ladder.





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Although a simple tool, I think you'd agree it's also an effective tool.

However it's only an effective tool if you're aware markets are fractal and that you observe significant patterns across higher timeframes with the knowledge higher timeframes dominate and influence lower timeframes. Know what's happening on the higher timeframe and you'll be halfway to understanding what to expect in lower timeframes.

Let's see what my yearly Market Ladder on the SP500 is telling us. What clues it can reveal if we're prepared to listen?



As you can see late last year and early in 2022 the SP500 hit yearly resistance and has since fallen from record highs. It's currently sitting on yearly support.

My yearly Market Ladder, if I'm listening correctly, is telling me to expect higher prices above 4400 and lower prices below 4400. It's currently sitting on a significant make or break level.

However before I can consider whether or not prices have room to fall further, or move higher, I need to understand the context.

What is the higher timeframe fractal pattern telling me?

A higher timeframe that dominates and influences the yearly timeframe?

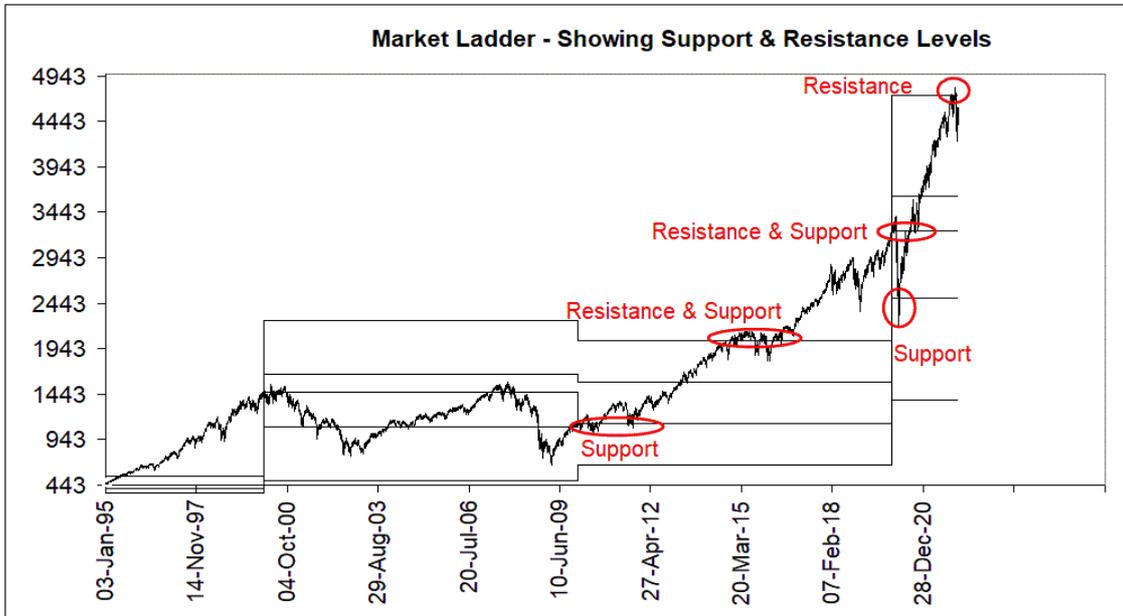
So let's see if I can gain a greater understanding of what the market is saying by viewing my 10 year decennial Market Ladder.



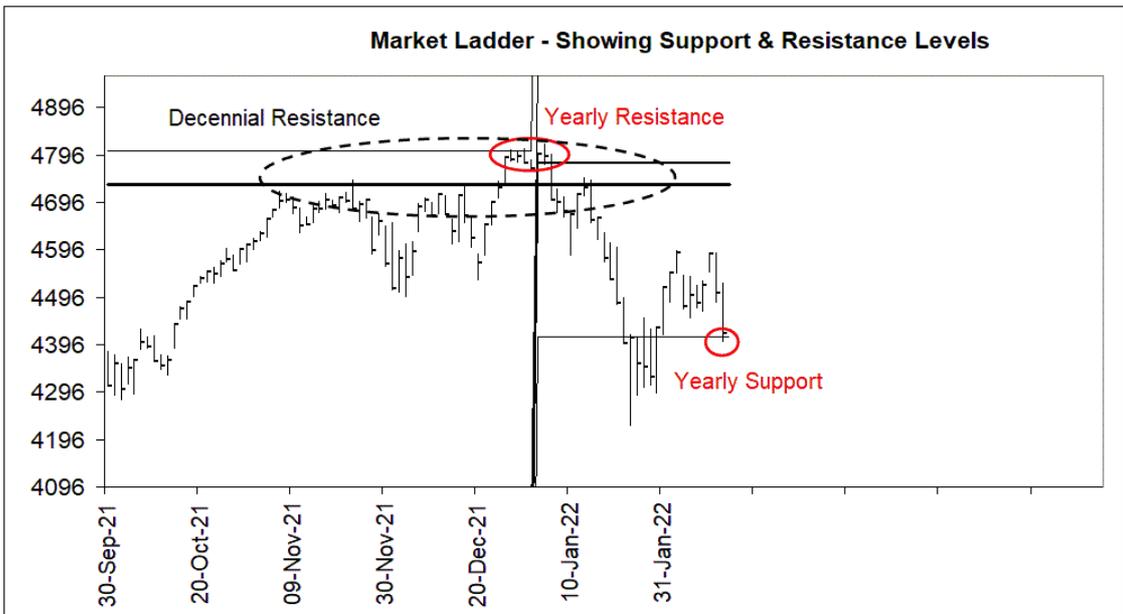
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Here it is, my decennial Market Ladder.



If you're listening, I think this higher fractal decennial chart is self explanatory. It's telling me, for this 10 year decennial timeframe, that while prices remain under 4800, the potential for lower prices is significant, particularly if the yearly support at 4400 fails. Let me overlay my yearly and decennial Market Ladders.



Look at how well the market respected the 10 year resistance level?



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Interesting hey? We're currently only 2 years into this 10 decennial cycle and it begs the question. If the market cannot recover 4800 have we seen the highs for the next 8 years?

Well if the market can't recover 4800 it'll certainly remain under pressure where rallies may be seen as selling opportunities, but only if the lower timeframe fractals support it.

In Summary

The point of this Working Paper is to remind and inform traders of the importance of monitoring multiple timeframes given the fractal nature of the markets.

It's also an opportune time to do so given the SP500's position.

Also please understand this Working Paper does not constitute trading advice.

Its purpose is only to educate traders of the fractal nature of markets.

Please remember markets are fractal and always ensure you're aware of what the higher timeframe is telling you.

Market Ladder Tool

For many of you who are familiar with my work through your support of my books, models and Workshops you'll no doubt guess what my Market Ladder tool is. :o)

If in the pass you have attended one of my Workshops or own one of my models and would like confirmation of my Market Ladder tool then please feel free to send me an email at bpenfold@tpg.com.au, remind me of which Workshop you attended or which model you own and I'll send you its details, no worries.

Sensible money management everyone and good trading.

Brent Penfold

Helping traders since 2001
Sydney, Australia
14 February 2022



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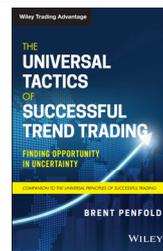
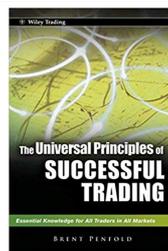
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Brent Penfold

Trader, Advisor, Author and Educator



Brent Penfold
Helping traders since 2001.



Brent Penfold is a 30-year veteran trader having begun his career in 1983 as an institutional trader with Bank America. In addition to being a professional trader Brent is an advisor, author and educator. Today Brent trades a diversified portfolio of global markets including indices, currencies, interest rates, energies, metals, grains, softs and meats.

He is the author of three books;

- **Trading the SPI** (Wiley 2005),
- **The Universal Principles of Successful Trading** (Wiley 2010) and
- **The Universal Tactics of Successful Trend Trading** (Wiley 2020).

The *Universal Principles of Successful Trading* has become an international best seller that has now been translated into Polish, German, Korean, Japanese and simplified and orthodox Chinese. Brent expects his third book to be similarly well received by international traders.

Brent publishes daily newsletters for active index traders and is a popular and sought after international speaker who has presented to traders throughout the Asia Pacific region including;

- Australia
- New Zealand
- Malaysia
- Singapore
- Hong Kong
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- Thailand
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Brent is an advisor and holds a Master of Commerce (Finance) degree. To learn more about Brent Penfold and his services you can visit his web site:

www.IndexTrader.com.au

Please read the following Warning on the next page.



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Warning – Please read

This Working Paper does not contain any trading advice, personal advice or general advice.

This Working Paper is educational only and is designed to encourage traders to independently verify trading ideas before they consider using them in the market.

When researching certain trading ideas this Working Paper does not take into account individual trader needs, their individual financial situation or their individual investment objectives.

If you wish to further explore the ideas shared in this Working Paper you will need to, with or without the assistance of a licensed financial adviser, determine whether the particular trading idea is appropriate in light of your particular needs, financial situation and investment objectives.

You need to understand there is risk of loss in trading and that this Working Paper does not indicate future trading success.

By receiving this Working Paper you acknowledge that you understand and accept these warnings.