

Forex – Market Cycles

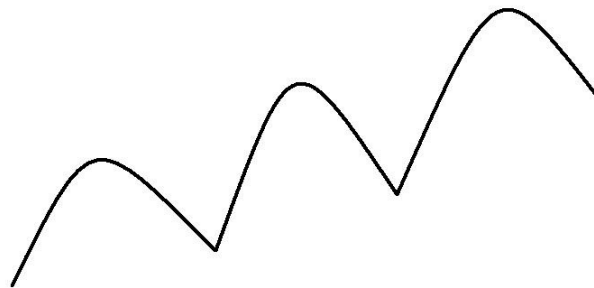
There is an amazing phenomenon within the financial markets that can help traders to enter and exit turning points of the markets with great pinpoint accuracy.

Most people are familiar with watching price movement on a chart. Prices seem to rise and fall like a bouncing ball going up or down a hill.

The phenomenon is 'cycles' in time that regularly present in every market and in every time frame.

These cycles work both in Bull (rising) markets and Bear (falling) markets, and are measured over a time frame, from a significant low in the market to another significant low. As these cycles of time unfold, the market will display characteristics of rising up from a low, making a 'crest' (market top) then falling down to make another low, before rising up again as it starts the next time cycle.

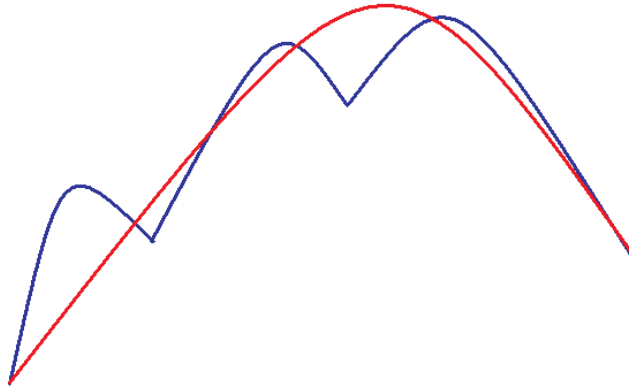
It is when traders can predict these lows, and then trade the market out of the new low made by the markets natural pull back in the market, that they can enter the market much earlier within the overall trend.



Applying cycle analysis is more of an art form where traders are looking for an 80%, or more, accuracy for predictability.

There are cycles within cycles. What this means is that within one 4 year cycle there are three 16 month cycles, or ten 22 week cycles etc. Every market has different cycle variations.

In the image following you can see that there are three smaller cycles that make up a larger time frame.



When looking for the cycles of a market, first you look for the longer time framed cycles, as they are more dominant.

Cycle Perimeter (orb period)

Cycles are also given a perimeter around the time frame in which they are due to end. Some traders call this the 'orb'. This perimeter is generally around $1/6^{\text{th}}$ (or 16.67%) plus or minus the time frame.

For example;

If we have a 20 week cycle where we added and subtracted $1/6^{\text{th}}$ (or 16.67%) to it we would have a cycle perimeter of 17 week to 23 weeks.

$$20 \text{ minus } 16.67\% = 17$$

$$20 \text{ plus } 16.67\% = 23$$

For our 20 week cycle we may also have an expectancy of 87%.

This means that we expect the market to make a significant low between week 17 and week 23, 87% of the time.

Cycle Expansion and Contraction

It is important to understand the reason of the 80%+ accuracy, and why that minimum figure is not closer to 100%.

The reason for this is that as the longer term cycles are more dominant, when these longer term cycles end, all the shorter term cycles must also end.

So if a 20 week cycle is only currently at week 12 and a longer term cycle, like a 2 year cycle is also due to end, it means that the 20 week cycle may be 'contracted' and end at week 12.

It also can happen that the shorter term cycle will be 'expanded'. This is where a 20 week cycle may expand out and finish a little later – say at 28 weeks.

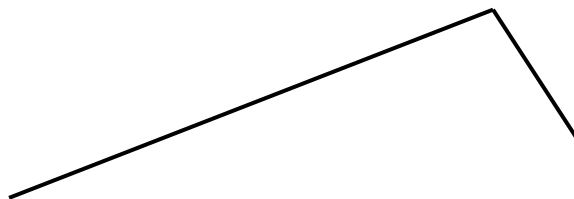
It is more common to find that the shorter term cycles will contract rather than expand.

Obviously if you find a market that has a 95% success rate you would chose that market over the minimum of 80%.

Bull Market Characteristics

The definition of a Bull market cycle is;

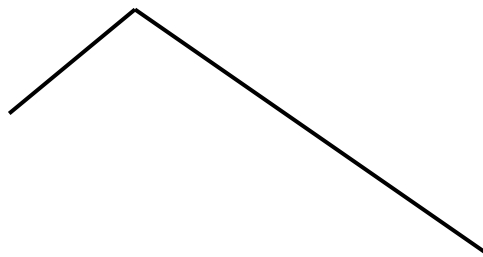
- the end of the cycle must end HIGHER than the start,
- the cycle crest is formed in the RIGHT half side of the cycle timeframe,
- there cannot be a lower price point between the start and the finish.



Bear Market Characteristics

The definition of a Bear market cycle is;

- the end of the cycle must end LOWER than the start,
- the cycle crest is formed in the LEFT half side of the cycle timeframe,
- there cannot be a lower price point between the start and the finish.



The third point for each of the characteristics is that there cannot be a lower price point between the start and the finish, as shown in this example;



The Forex Flight Zone

In the previous image, you can see if we were trying to place a 'time cycle' from the first significant low on the very left, indicated by the price of 1.1856 to the price of 1.1816, the other significant low on the very far right, there is a lower price in between these two prices. So therefore invalid.

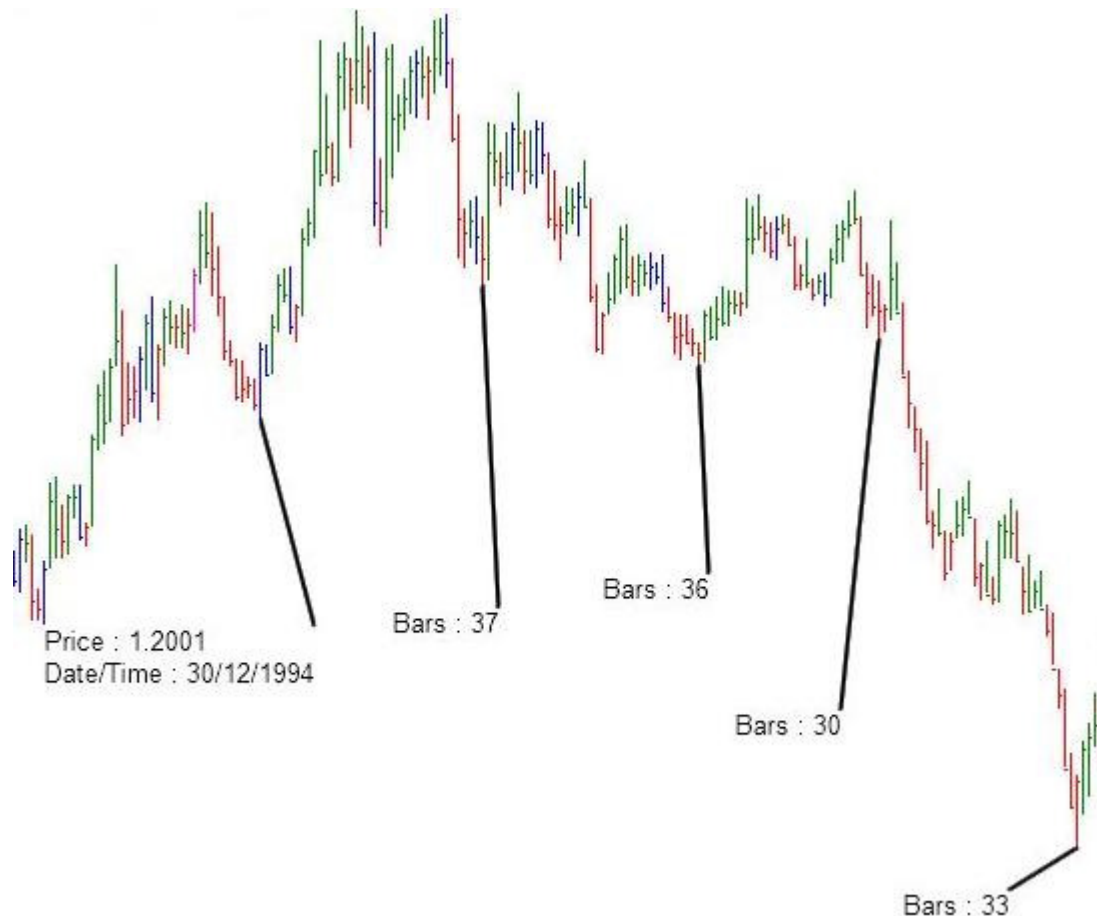
Let's now look at some cycles applied to a chart.

In the WEEKLY chart below you will see that I have selected as many of the more significant lows that I can, which by eye are roughly the same distance apart, (remembering that there can be no lower price in between each low).



The Forex Flight Zone

In the next chart I have placed on each of these lows a 'Time/Price' label tool that indicates how many bars there are between each of these points.



As you can see, all these figure are in the 30's.

Now we need to find the average of all these numbers, (add them together and divide by the total amount of numbers).

The average is **34.2 weeks**.

Next we need to find the Cycle Perimeter (cycle orb). So need to work out what 34.2 plus and minus 16.67% is, which gives us our Cycle Perimeter of 28.5 to 39.9 weeks.

Once we have found our average cycle length we can project forward from the most recent low to determine the time frame in which the next 'low' is most likely to form.

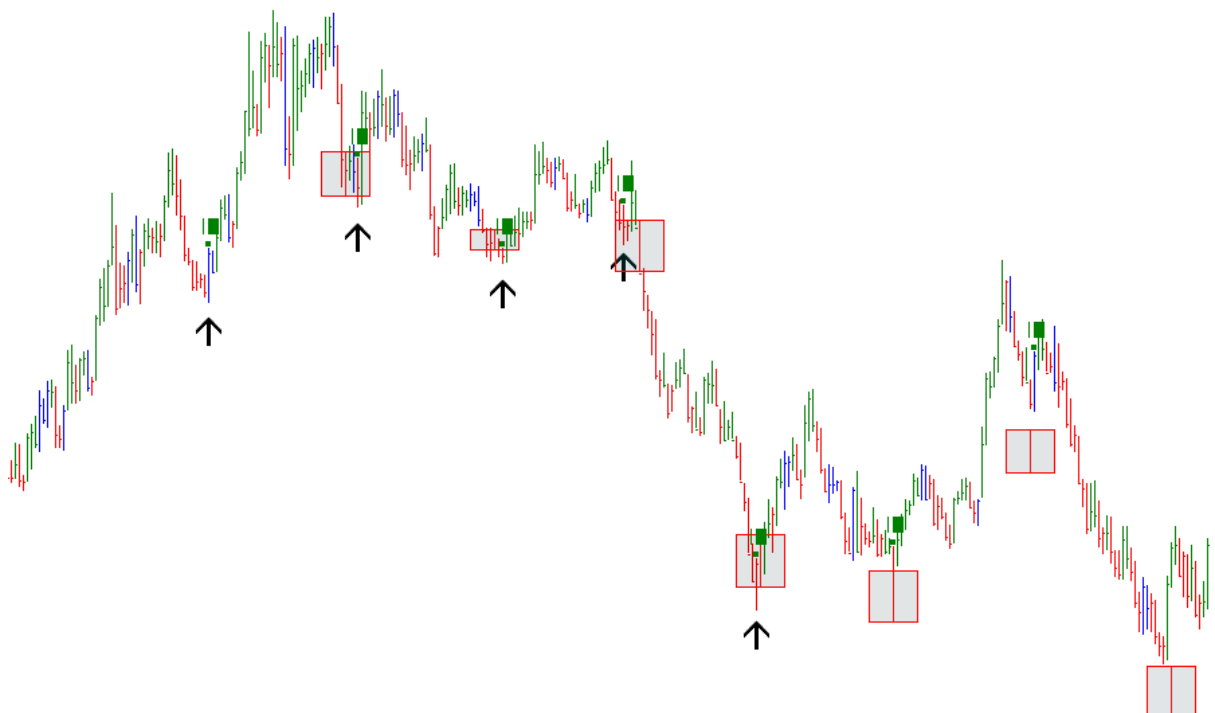
The Forex Flight Zone

Using a 'cycle tool' with the 34.2 week setting I will project forward the next cycle. And what we can be guaranteed is that we will have a 'predicted low' in between the Cycle Perimeter (our time band).

As the market moves in time, we will gain an indication as to whether the cycle is more likely to be a bull or bear cycle.



As you can see the next three cycles all made fairly significant lows within our time bands.



The Forex Flight Zone

Looking back again at the first image you may remember I had also drawn a line from the cycle start - to the cycle crest - then down to the cycle end.

What you will notice in the first cycle is that the cycle crest is more in the 'middle' of the cycle rather than to the left or to the right. The market leading up to this was a Bull market so the cycle crests were in the right hand side. When we see a crest that forms in the middle of the cycle it can show that the market is 'topping' out and is shifting – quite likely that it is about to change direction. Which in this case it does – the next cycle is a Bear cycle with the crest is in the left side. The third cycle is almost another mid crest cycle and the end is higher than the start – sometimes we do see cycles that don't form normally.



So how are cycles useful?

As mentioned at the very start, reading cycles is certainly an Art Form. But once you gain an eye for it, it can certainly be a useful tool to include within your trading plan as it can help you to determine 'where the market is currently at' and what it is likely to do next.

For example, if the market is in a bull run (previous cycles have been bull), and the market is continuing to go higher past the middle of the current cycle, you can be certain that it is soon due for a decent pullback and would not want to take on any more long positions.

Q&A – Questions

QUESTION & ANSWER SECTION

		Answers
Question 1:	Cycles analysis is the measurement of time usually from low to l____.	
Question 2:	Traders should look for cycles with a minimum of _____% predictability.	
Question 3:	Shorter term cycles are more dominant than longer term cycle. True or False?	
Question 4:	Cycles may not always fall in to the low on time. The reason is they may be either e_____ or c_____ due to a longer term cycle falling due too.	
Question 5:	Shorter cycles are more likely to be contracted rather than expanded. True or False?	
Question 6:	Bull Cycles have their 'crest' in which side?	
Question 7:	Bear Cycles have their 'crest' in which side?	
Question 8:	Can a cycle have a lower price in between the start and the finish?	
Question 9:	The cycle perimeter/orb is _____% plus or minus the average figure.	
Question 10:	Cycles allow the trader to determine if the upcoming cycle is likely to be bull or bear as it unfolds, and when the next major low is likely to form. True or False?	

Q&A – Answers

QUESTION & ANSWER SECTION

		Answers
Question 1:	Cycles analysis is the measurement of time usually from low to l____.	Low
Question 2:	Traders should look for cycles with a minimum of _____% predictability.	80%
Question 3:	Shorter term cycles are more dominant than longer term cycle. True or False?	False
Question 4:	Cycles may not always fall in to the low on time. The reason is they may be either e_____ or c_____ due to a longer term cycle falling due too.	Expanded or Contracted
Question 5:	Shorter cycles are more likely to be contracted rather than expanded. True or False?	True
Question 6:	Bull Cycles have their 'crest' in which side?	Right
Question 7:	Bear Cycles have their 'crest' in which side?	Left
Question 8:	Can a cycle have a lower price in between the start and the finish?	No
Question 9:	The cycle perimeter/orb is _____% plus or minus the average figure.	16.67%
Question 10:	Cycles allow the trader to determine if the upcoming cycle is likely to be bull or bear as it unfolds, and when the next major low is likely to form. True or False?	True