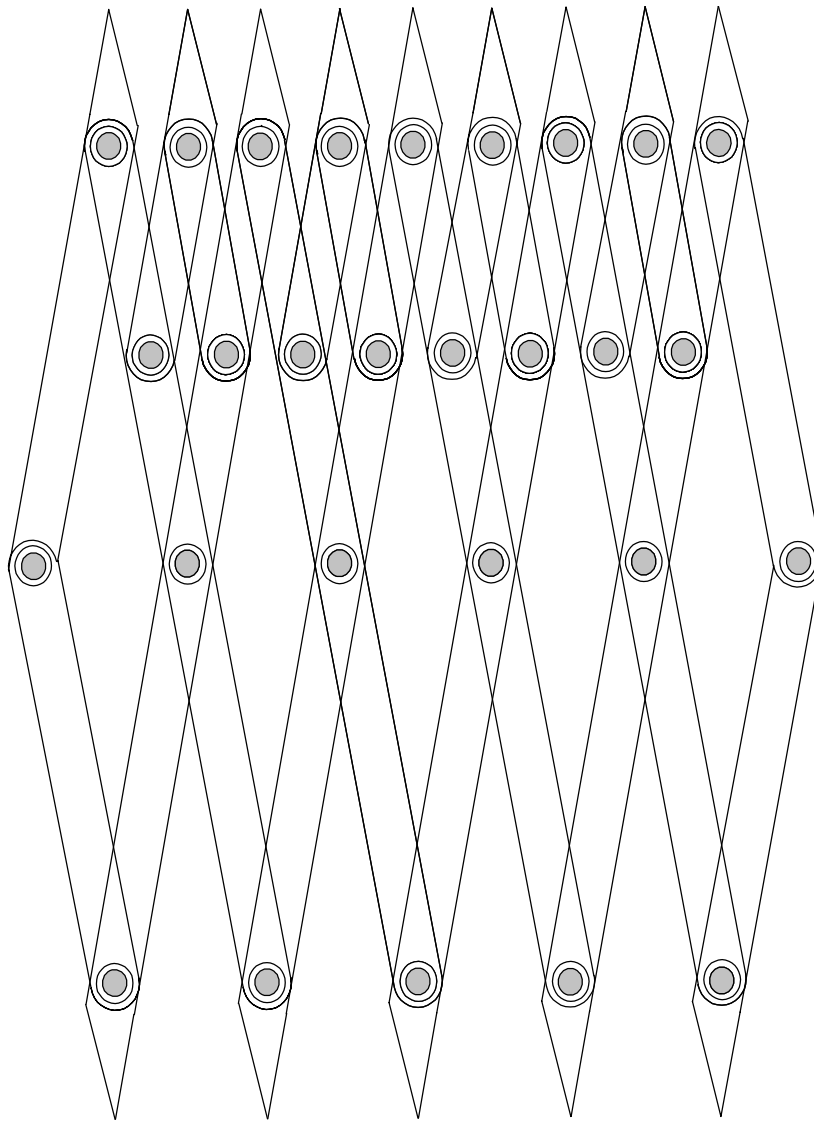


Ehrlich Cycle Finder

Instruction Manual

"A Universal Technical Analysis Tool"

Since 1978



Preface

The author feels that technical analysis is a science as well as an art. Therefore, flexibility in interpretation of the following material may be desirable. The Ehrlich Cycle Finder (ECF) is a device for helping the eye identify and measure cyclic patterns in commodity and stock market price behavior. As with any tool, the end results may depend on the skill and interpretive ability of its user. This manual is meant to help the user operate the cycle finder effectively.

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It should not be assumed that the use of the Ehrlich Cycle Finder[™] will result in profits or prevent losses. Those using the tool for trading purposes are responsible for their own actions and the Ehrlich Cycle Finder Co. assume no liability for its uses. This tool is designed to be reliable and accurate for its particular application. No guarantee or claim as to its performance other than its physical design can be made. In addition, no liability is assumed for any use or consequences thereof.

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INTRODUCTION

We are all aware of many cycles around us, but may not try to make use of them. Some are very short, like your heartbeat, and some are very long like the Kondratieff Wave or long economic waves (50-54 years). In investing, technicians are producing trades by analyzing price movements and trends, while the fundamental analyst is analyzing supply and demand factors. Whichever type of research you use, I think you will agree that TIMING is of the utmost importance.

I have found technical analysis to be of great help at those critical time periods when I expect a possible top or bottom to occur, because of a time cycle. The fundamentals usually shift during (which may be difficult to detect) or after trend changes. So the use of cycles can help the analyst anticipate when a market turn may develop. And the monitoring of technical studies at those time periods helps warn the trader that a turn is likely, or is in the process of happening.

OPERATING THE EHRLICH CYCLE FINDER

Place the Ehrlich Cycle Finder (ECF) on a chart with the label up so the sloped tips point down toward the price action. Most chart services are suitable for use, but as a rule the ECF is most effective on charts with a minimum scale of 3/4 inch per month along the time axis. If the chart is too small, try using a copy machine to expand its size.

When expanding or contracting the tool make sure you hold it by the center eyelet at both ends. This will help keep the points equally spaced. Do not open or close the tool from any other part because you may force the points to be unequally spaced.

The tool can be used parallel to the time axis across the bottom or the top of your chart, as well as on any angle following the trend of a bull or bear market. See the examples on pages 25, 26, 27, 28, 34, 36 and 37. If you use the tool on a slope, and then want to mark the cycle on the top or bottom of your chart, make sure when you swing the tool to the top or bottom of the chart, that the endpoints are still on the same vertical lines (days) and then all of the other points will line up automatically. When looking for short-term cycles such as a few weeks or less, you should use the end with the most points. When looking for longer-term cycles on similar charts, you should use the end with fewer points to obtain greater spacing between points.

FINDING AND FORECASTING CYCLES

Having decided which chart to use, place the ECF's far left or right hand point on a prominent market bottom. Depending on whether most of the price action is to the left or right of your market low, slowly begin to expand the ECF in the appropriate direction while holding the endpoint steady on the decided low. While very slowly expanding the tool you should begin to find lows occurring in a series of approximately equal time spans. Be sure to watch very carefully how well lows match up with the ECF points. Some judgment as to how much tolerance or variation of timing you are willing to accept must be made. Up to five or ten percent of the cycle time span is generally acceptable. You should not expect to find many cycles with exactly equal time periods, although it happens.

The greater number of cyclic lows found in a series will increase the accuracy of the next cyclic low projected. This might require a longer time span than is available on the charts that you are using.

As a guideline, use at least five or more repetitions for the most reliability. Again, the more repetitions you find, the more likely you have found a good cycle and the more accurate your timing predictions should become.

Now that you have measured the timing of a cycle accurately, simply shift the ECF one or more cycles (point to the right and you have calculated the next expected cycle turning point or points into the future. Make a reference mark on your chart on that day or week to remind you of the likely turn in price action at that time. Continue the expansion process because the low you have picked as a starting point may be a cyclic low involving more than one cycle!

After you have found a series of cyclic lows that you feel is usable, look for the cycle highs approximately in the midpoints between the cyclic lows. This is one way you may find cycle highs. Cyclic highs are somewhat less reliable to use than cyclic lows. This is probably due to the emotionalism, which often accompanies tops. Reversing the previous process can be used to find cycle highs first, and then cycle lows.

RECOGNIZING CYCLIC TURNING POINTS During Bull Markets

Long Term (6 months or more):

These cycles are more likely to produce major bottom formation over a moderate time span of several weeks or a few months. These will most likely be head and shoulder, sideways consolidation trading ranges, or possibly double bottoms. Watch for historic support and resistance areas. Other formations may occur, but remember to look for major long-term patterns.

Intermediate (about 60 to 180 days):

These cyclic lows can be signaled by small head and shoulder patterns, double bottoms and the like. There may also be one, two or several day reversal, or key reversals possibly following exhaustion gaps and/or touching important trend lines. Large percentage retracements in long-term bull markets are also important to watch for.

Short Term (60 days or less):

Shorter cyclic turns will probably be one or two-day reversals, also correlating with gaps, trend lines, and short-term oscillators, overbought and oversold indicators, and similar short term oriented technical signals. Certainly smaller percentage retracements should be watched for, and the backing and filling of gaps is quite common. In general, look for standard charting reversal patterns and signals relative in size to the cycle you are using.

RECOGNIZING CYCLIC TURNING POINTS During Bear Markets

Long Term, Intermediate and short-term cyclic high turns will occur in much the same manner as cyclic lows. It is probable that sharper tops, characteristic of bull market in its later stages, may occur. Remember that cyclic highs are slightly less reliable to use than the lows. This is not to imply that tops are useless as cyclical indicators.

It should be noted that a cycle low or high might cause a breakout of a formation and begin a trend, possibly after sideways price action, or the occurrence of a pennant or channel formation.

Generally the user should realize that most technical or fundamental trading technique will be complemented by the use of the ECF, because profitable signals are most likely to occur at cyclic points in time.

COMBINING CYCLES

Although some cycles are common to many markets, some are unique to particular ones. Combining cycles of different lengths can result in some dramatic effects.

Particularly fast and substantial price moves are sometimes the result of two or more cyclic highs or lows occurring in a very short time frame or simultaneously. The reverse occurs when opposite cyclic forces combine to neutralize each other, sometimes creating the familiar trendless sideways price action, which may make it harder, to see the cyclical results which otherwise would be more pronounced.

METHOD OF RESEARCH MACRO TO MICRO

When studying cycles in earnest, it is important to start with the proper perspective. Begin with long-term monthly continuation charts and proceed to analyze the market cycles from a long-term point of view first, working into very short-term cycles last. This will provide perspective relative to the major bear trend in bear market movements. It may be necessary to acquire monthly continuation charts to accomplish this task.

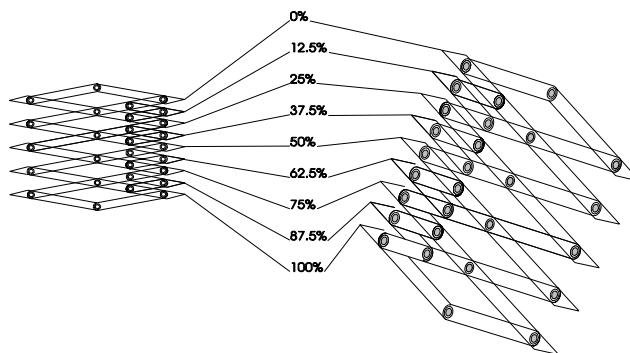
Then, working with weekly continuation charts, daily charts, and possibly tick-to-tick charts, you should be able to analyze price action more accurately. It should be noted that the shorter term of the cycle, the more difficult it is to recognize turning points. Cycles of several weeks, and more, have the greatest usefulness because they usually generate sizable moves.

It is a common practice to quote cycle lengths from low to low (i.e. from trough to trough).

Also, after finding a cycle in one market it is advisable to check other markets that are closely associated to see if the same cycle is present in that market. For example, a cycle in Live Cattle may also be useful in Feeder Cattle. It may be that the cycle you have found in one market is a cycle in a particular index, and therefore be usable in several markets.

CALCULATING PERCENTAGE RETRACEMENTS

Because the ECF expands maintaining equal spacing between its points it will measure a variety of percentage retracements (on arithmetic price scales only). The tool can be placed vertically on the chart (like in the example below) or close to the price action (on any angle) if the trend of the price action permits. The percentage retracements measured by the points of the tool will stay the same. If you are going to use the tool very close to the price action **try not to cover any of the price history**. See the examples on pages 29, 30, 31, and 32.



Used in the manner described, the ECF will calculate many different percentage retracements.

Using the top and bottom points to represent from 0%-100% you will be able to calculate many different percentage retracements based on the number of points used to divide the distance.

- 3 points in a series, each division (space) equals 50%
- 4 points in a series, each division (space) equals 33.3%
- 5 points in a series, each division (space) equals 25%
- 6 points in a series, each division (space) equals 20%
- 7 points in a series, each division (space) equals 16.6%
- 8 points in a series, each division (space) equals 14.3%
- 9 points in a series, each division (space) equals 12.5%

The most commonly used percentage retracements are **38.2%**, **50%**, and **61.8%**. The cycle finder comes within .7% of the exact 38.2% and the 61.8% Fibonacci retracement numbers. This is close enough for market analysis because it is common for the market to be very close to the mark but not exactly on the mark. Of course the end of the ECF with fewer points (and therefore more space between each point) may be used in the same manner for larger spaces on larger charts.

SPEED LINES

(Using 33 1/3% and 66 2/3% Retracements).

We've seen how a variety of important percentage retracements can be calculated using the ECF. We'll now use the 33 1/3% and 66 2/3% retracement levels to plot points on your chart, which will be used to draw, speed lines.

Find the low and the high of the move you wish to calculate from. Use these as your first two points. Put the first of four cycle finder points in a series which we will be using on the low and the fourth point up on the high. There will be two points in between which calculate (that is point to) the 33 1/3% and 66 2/3% retracement levels. Find the vertical line (that's the time frame) on which the high you are measuring from is drawn on. Usually this will be a date. Place a dot on the junction of the vertical line and the 33 1/3% retracement level. Also place a dot on the same vertical day, but at the junction of the 66 2/3% retracement level. Now from the low you are using draw a line to and through the 33 1/3% point and another line from the low through the 66 2/3% point. You should have two lines drawn at different angles upward towards the right. These lines are not true trend lines but will often hold the market close to the line for a while. See examples on page 33.

Andrews Pitch Fork Lines

The Andrews Pitch Fork is a channeling system based on the work of Dr. Alan Andrews. There are three important points: a significant high (1), the next significant low (2), and the second significant high (3), or the converse (like in my example). By Connecting the high and low extremes of a price swing i.e. using points (2) and (3), over a relatively short period of time, several days to about one or two months, with any **odd** number of points of the tool, you will find the midpoint (50% retracement) between points (2) and (3) on the chart. *Mark that point!* Draw a straight line from point (1), your first important high or low, to and through the half way point you have marked. Draw parallel lines to that line starting from point (2) and also from point (3), off to the right. If you wish to draw more equally spaced lines, use 5, 7, or 9 points of the tool in a series. See the example on page 38.

Trading signals occur when price action crosses or fails to cross the channel lines.

Gann (Division of the Ranges)

(Support and Resistance Levels)

One of W. D. Gann's charting techniques is to divide a horizontal and or vertical range in to eight spaces. If you use all nine points of the Ehrlich Cycle Finder to measure a space you will automatically be dividing that space into eighths.

Point and Figure

Some technicians employ point and figure charts. Although little research has been conducted, it is notable the cycles, as a result of price action, seem to apply on some point and figure charts.

Verify your findings, to your personal satisfaction, before using cycles you may find using point and figure charts.

Comments

By now you may realize that the tool functions much like a multiple point compass. The ECF will perform the same functions as any standard drafting compass, and many more. Use it for measuring objectives off of price patterns, like the example of a head and shoulder bottom on page 35. Or for deterring measured moves.

The most important aspect of using the ECF is the psychological advantage in expecting i.e. predicting market turns at specific points in time. This helps to generate much more confidence on the part of the investor and helps increase profits and decrease losses if the cycle performs as planned. Be careful not to become too confident, because *cycles are not perfect*. Use good common sense and money management techniques. Again, confirm your observations with other trading techniques.

HELP LINE

Please call Stan Ehrlich at 415-892-1183 or email to Stan@StanEhrlich.com, if you have any questions about the Ehrlich Cycle Finder and its operation. You may also write the Ehrlich Cycle Finder Co. at 112 Vida Ct., Novato, CA 94947.

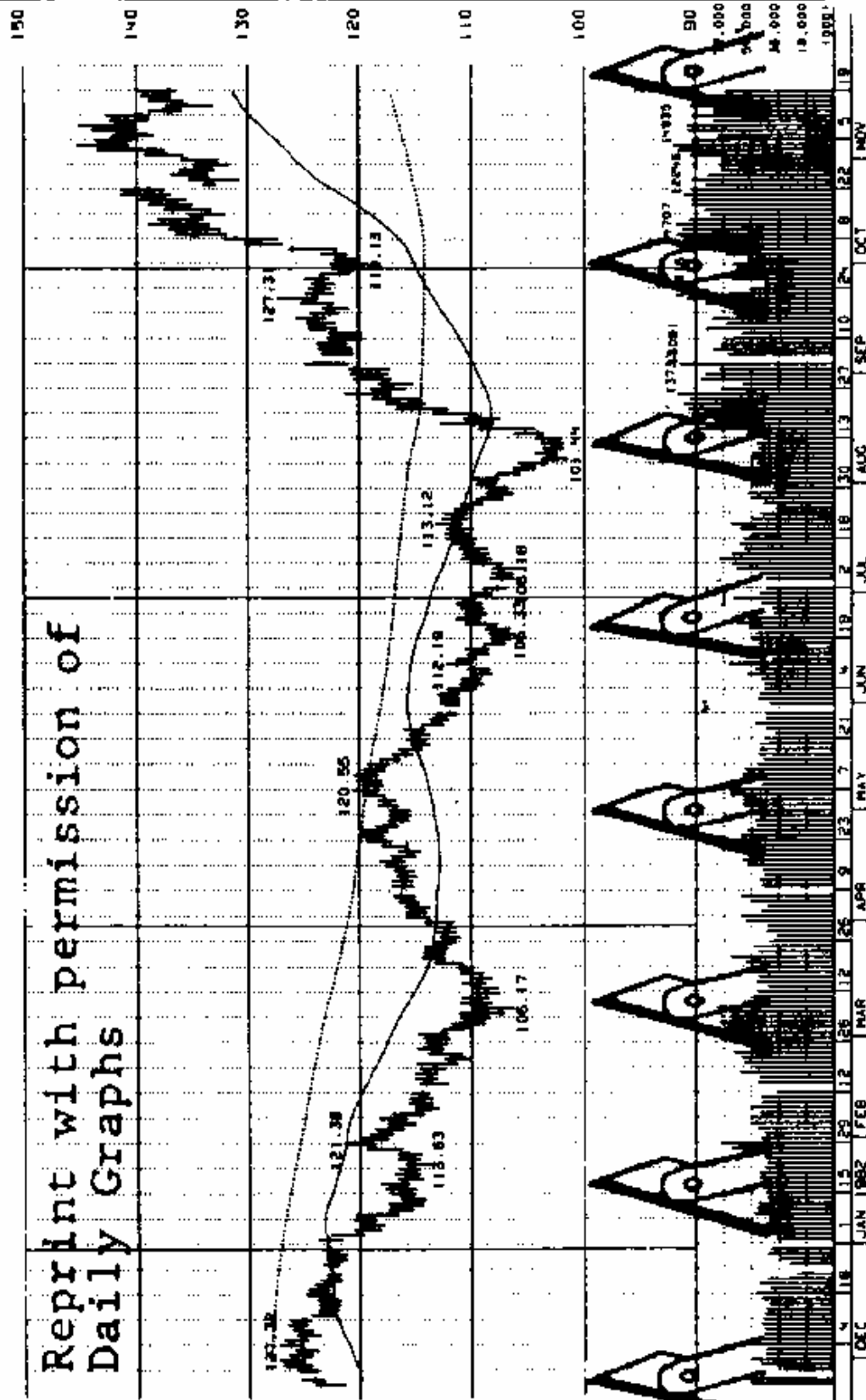
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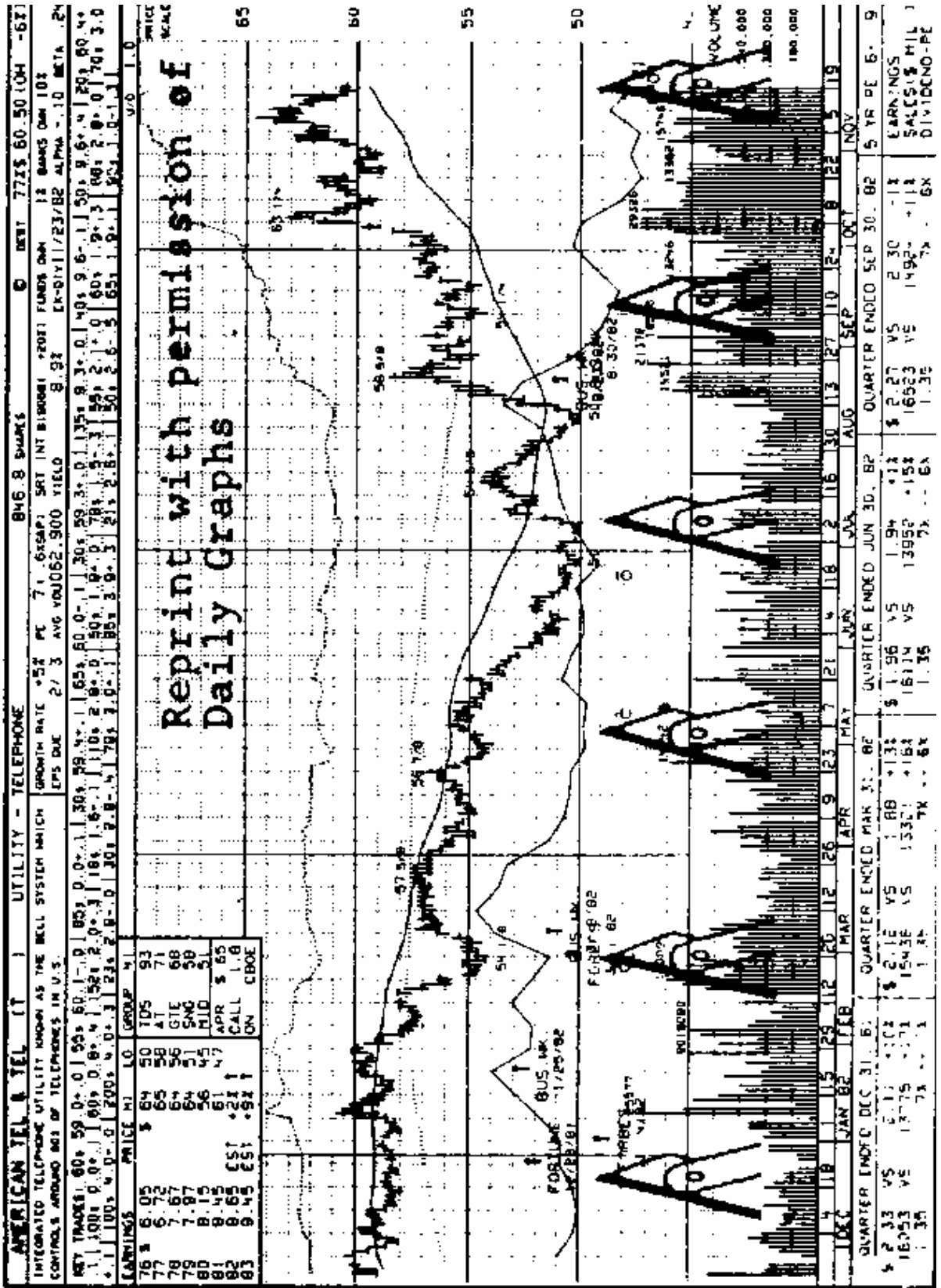
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Stanton L. Ehrlich Jr.

STANDARD & POORS -500-

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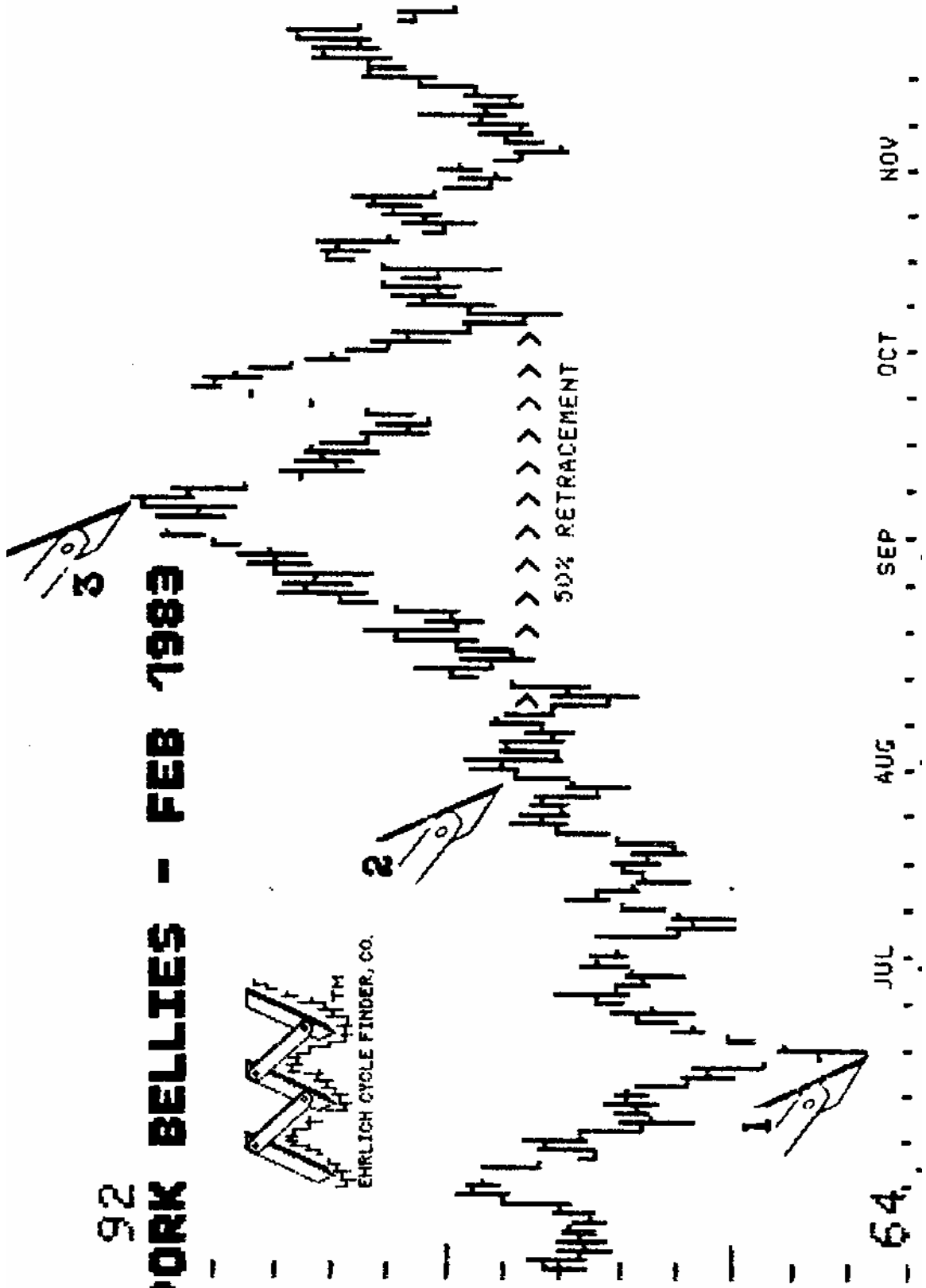


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PORK BELLIES - FEB 1983

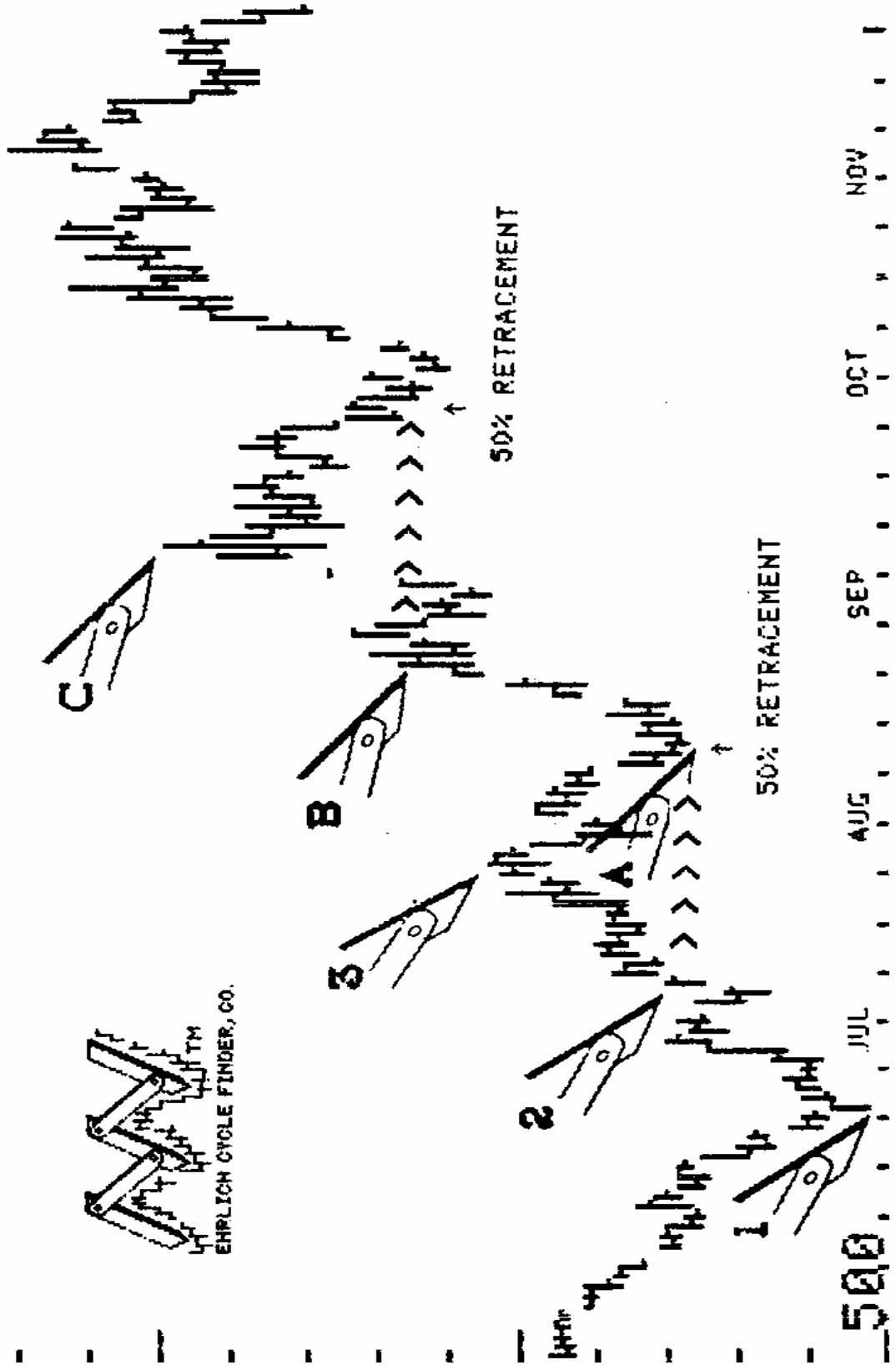
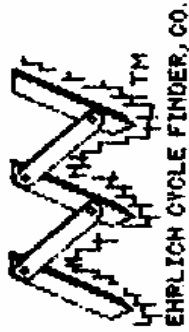


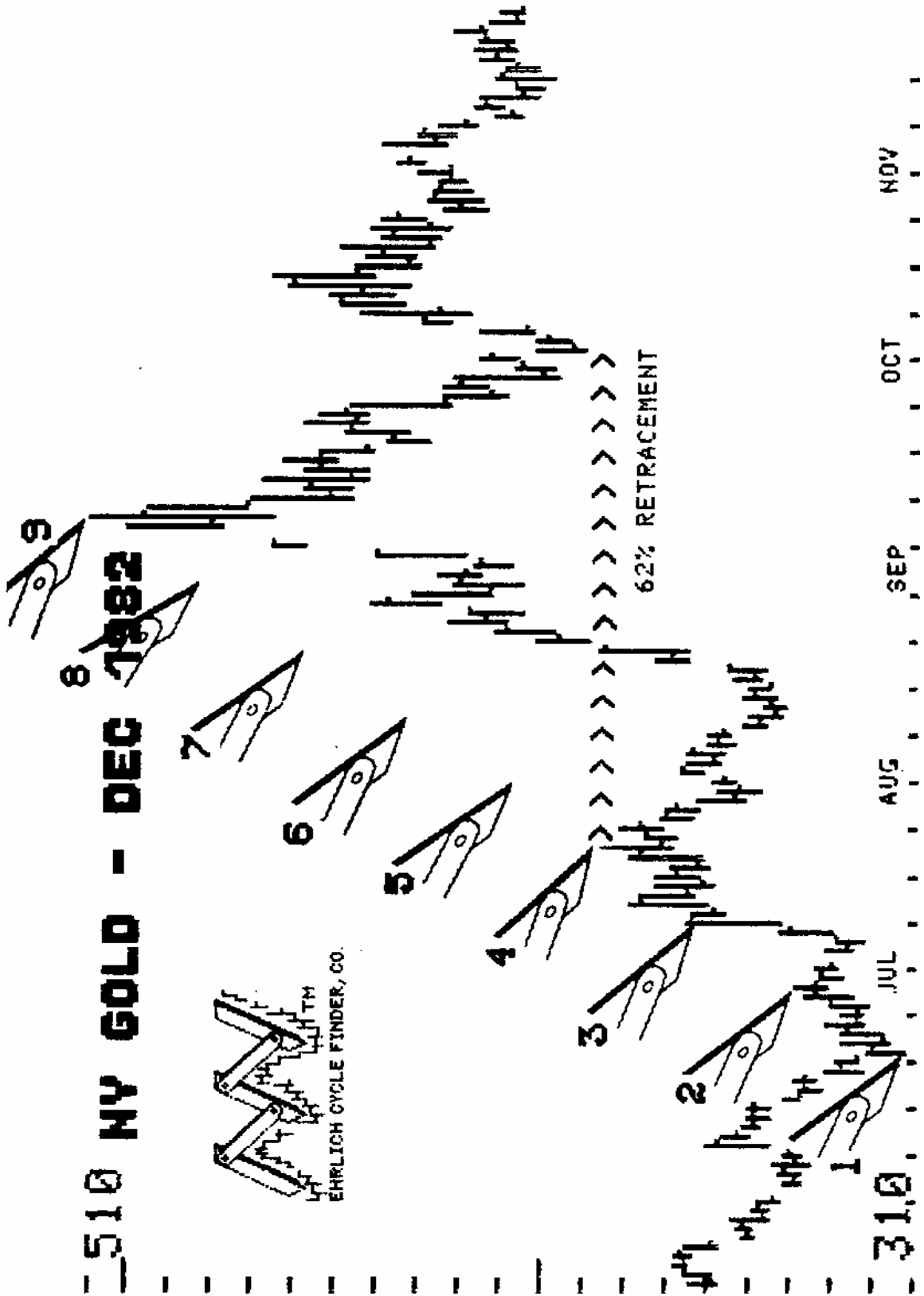
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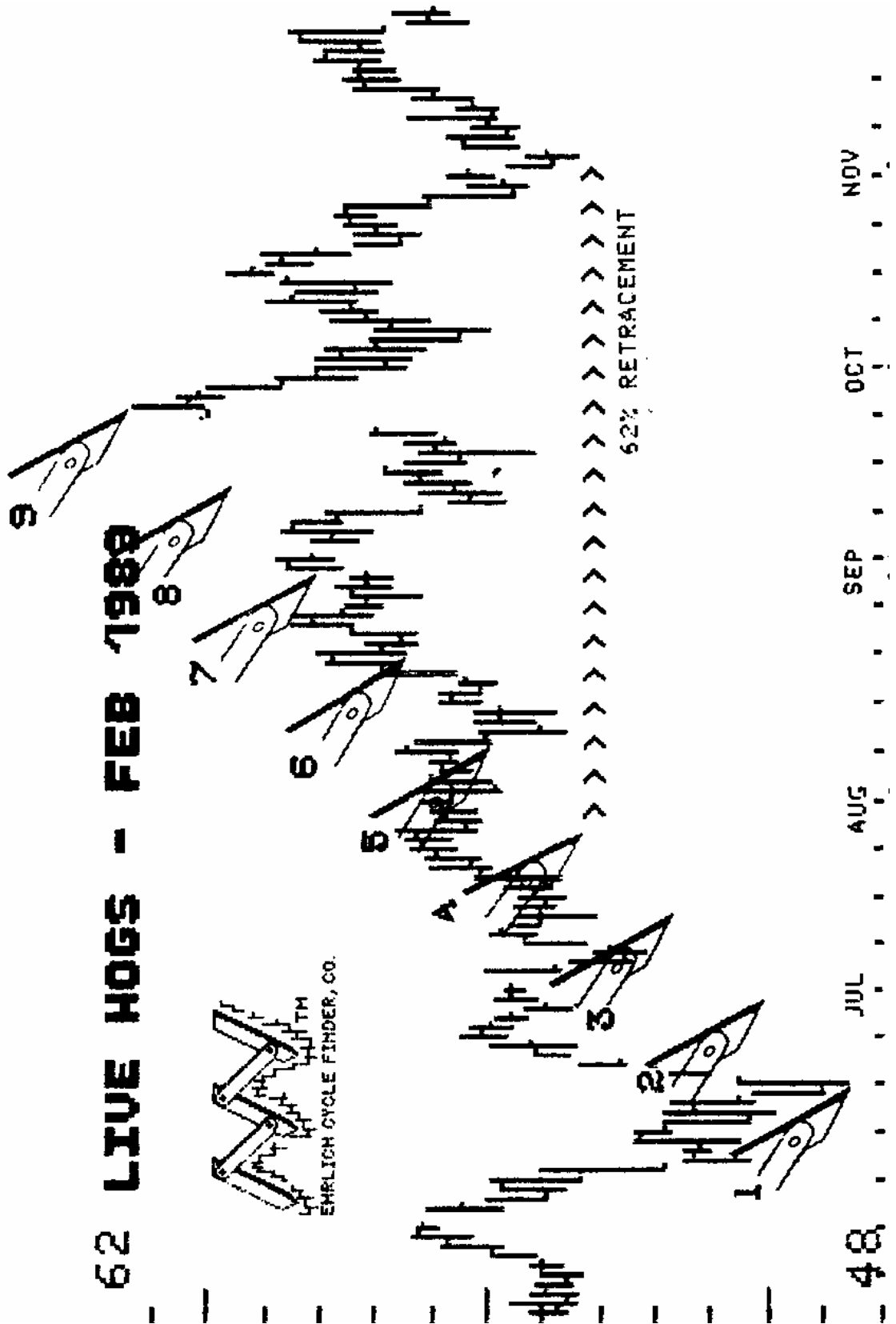
64 JUL AUG SEP OCT NOV

1150 NY SILVER - DEC 1982





62 LIVE HOGS - FEB 1989

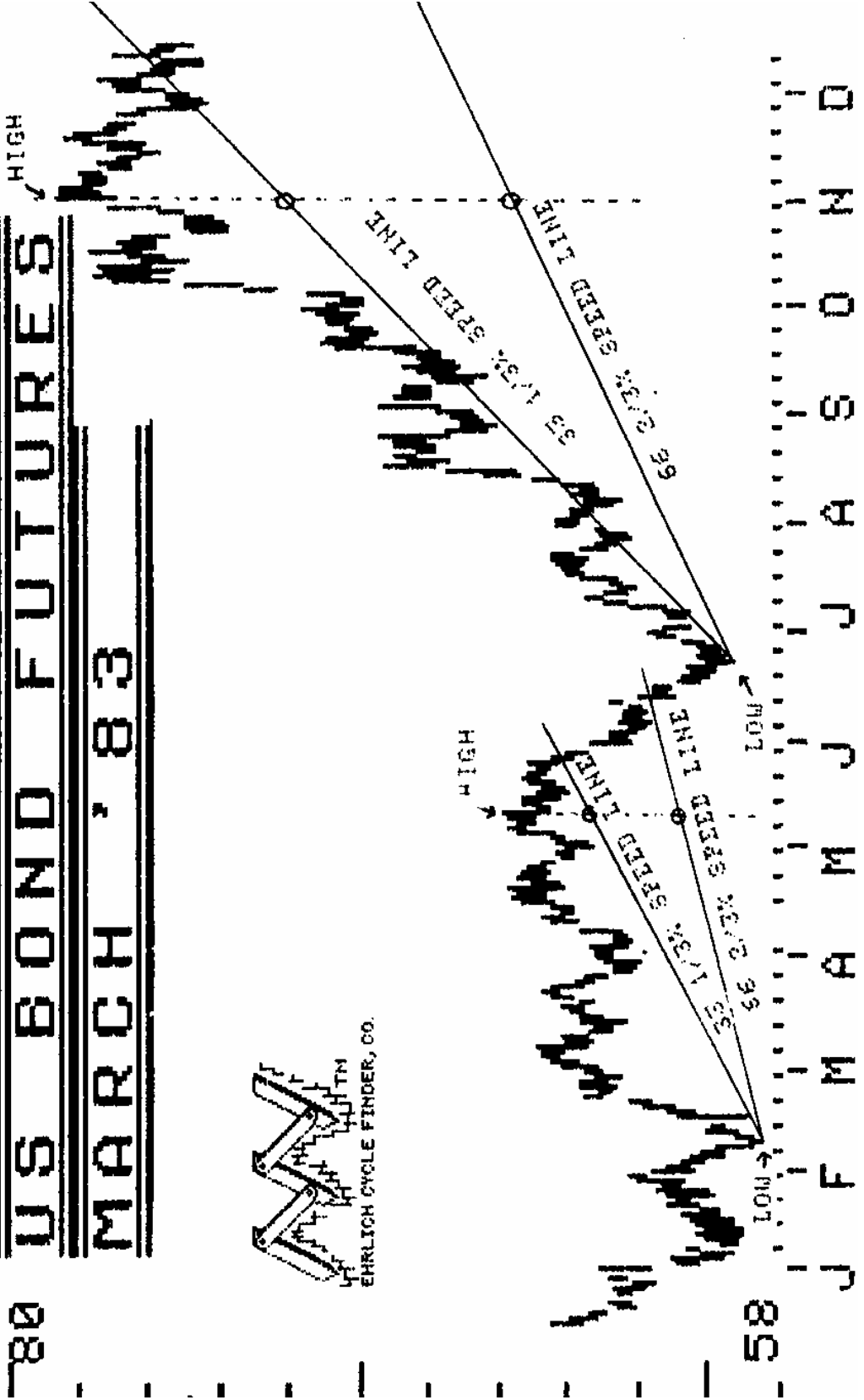


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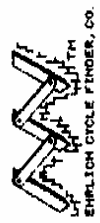
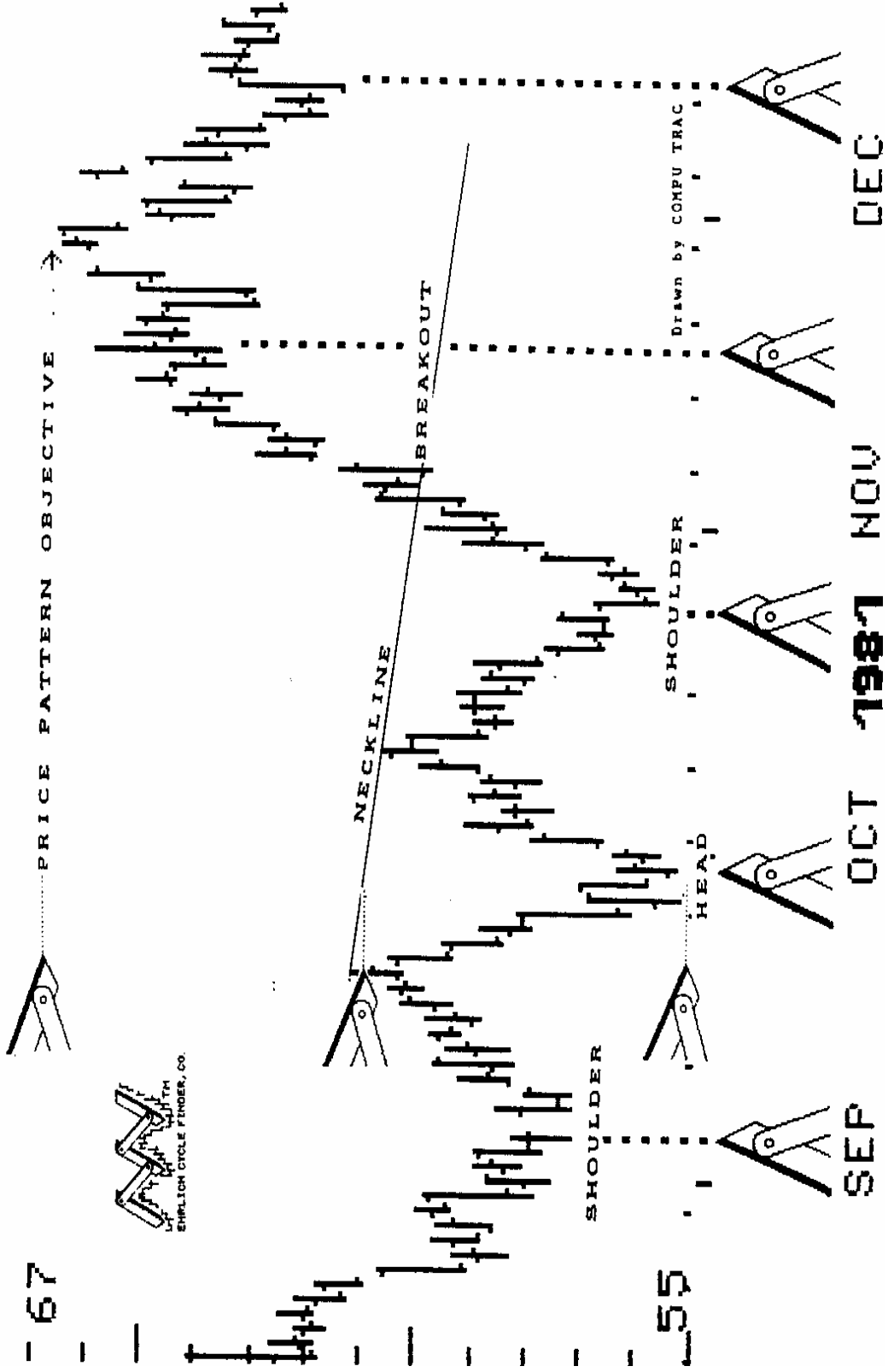
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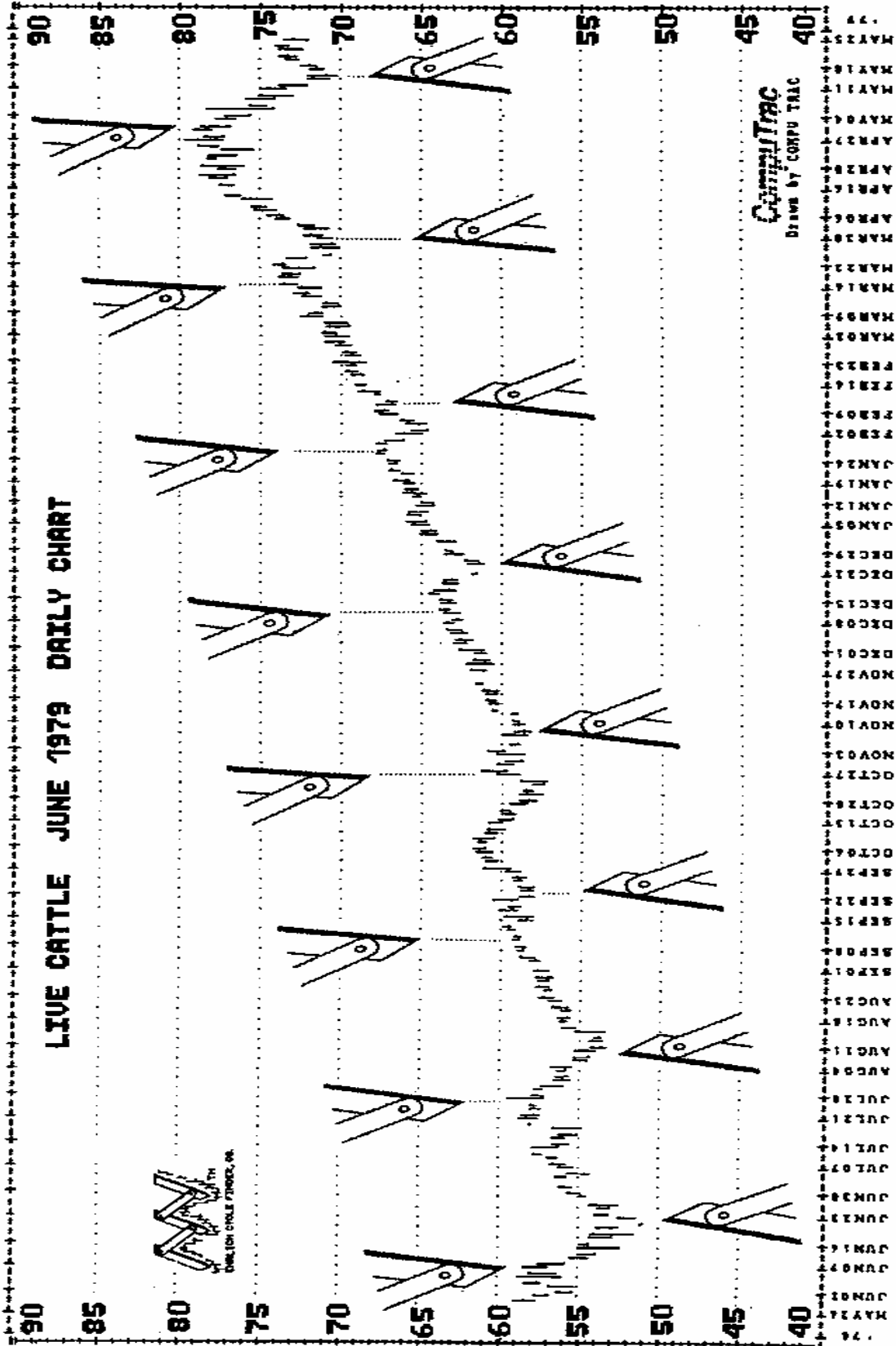
US BOND FUTURES

MARCH '83



US BONDS - DECEMBER 1981 PRICE PATTERN MEASUREMENT:

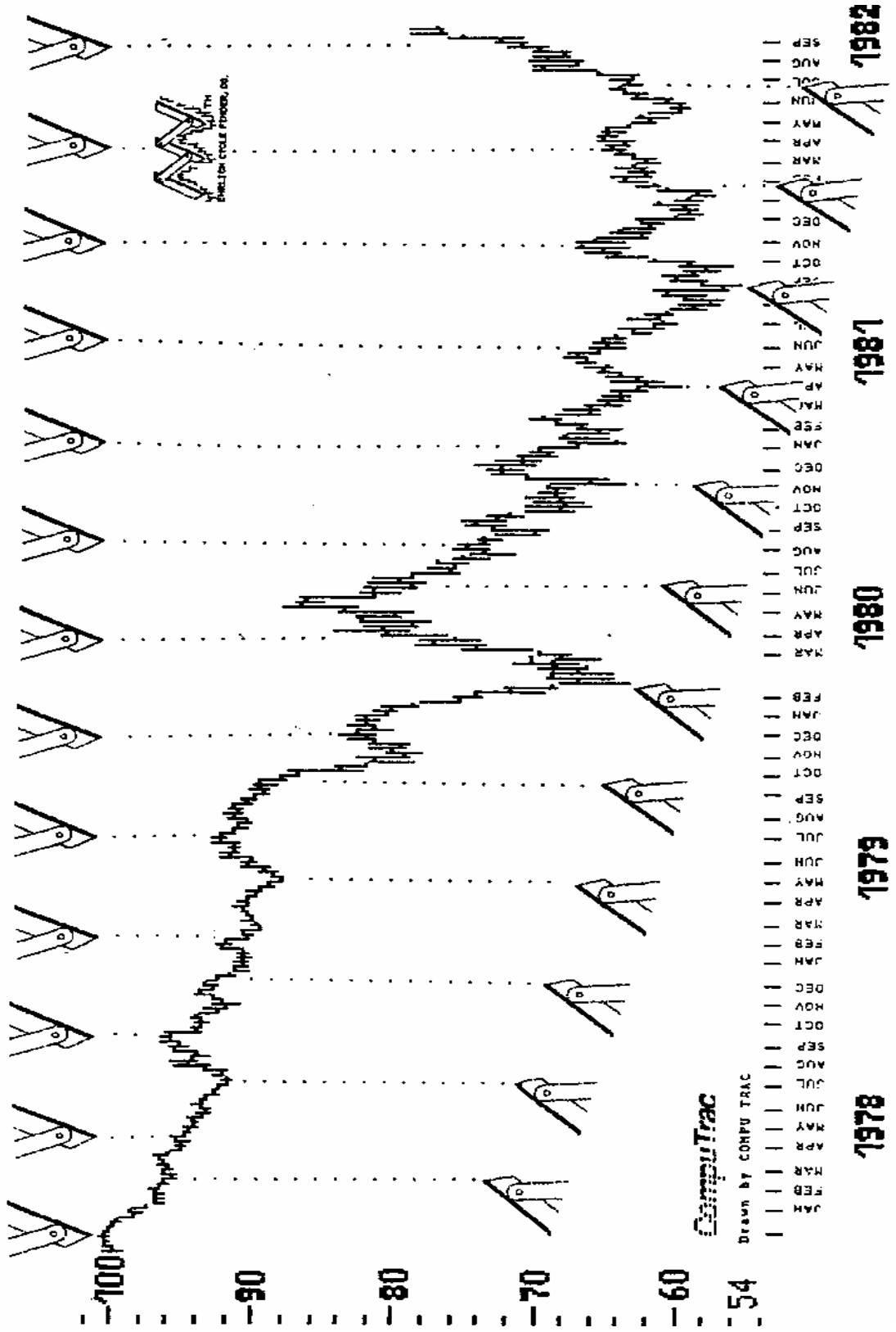




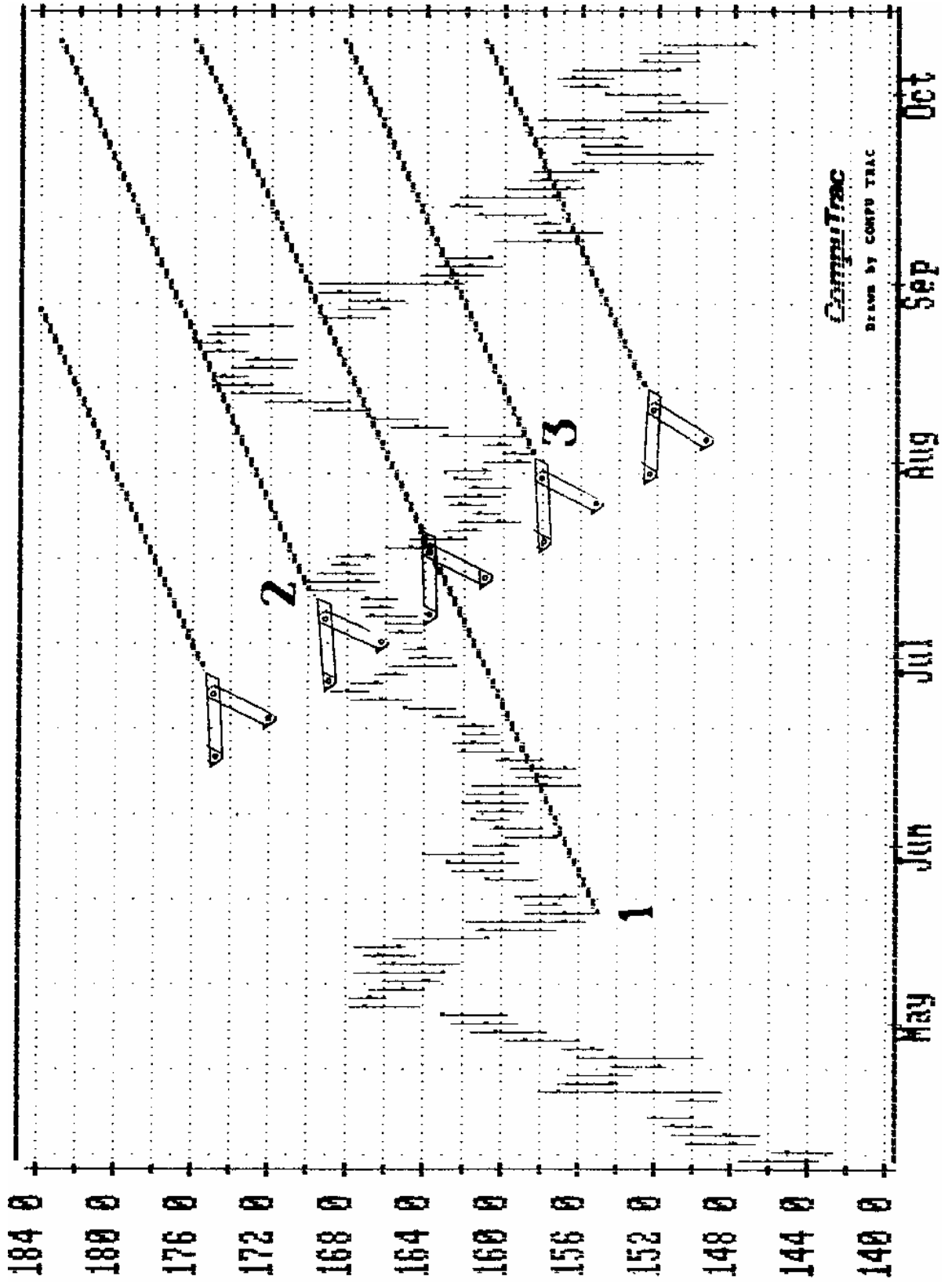
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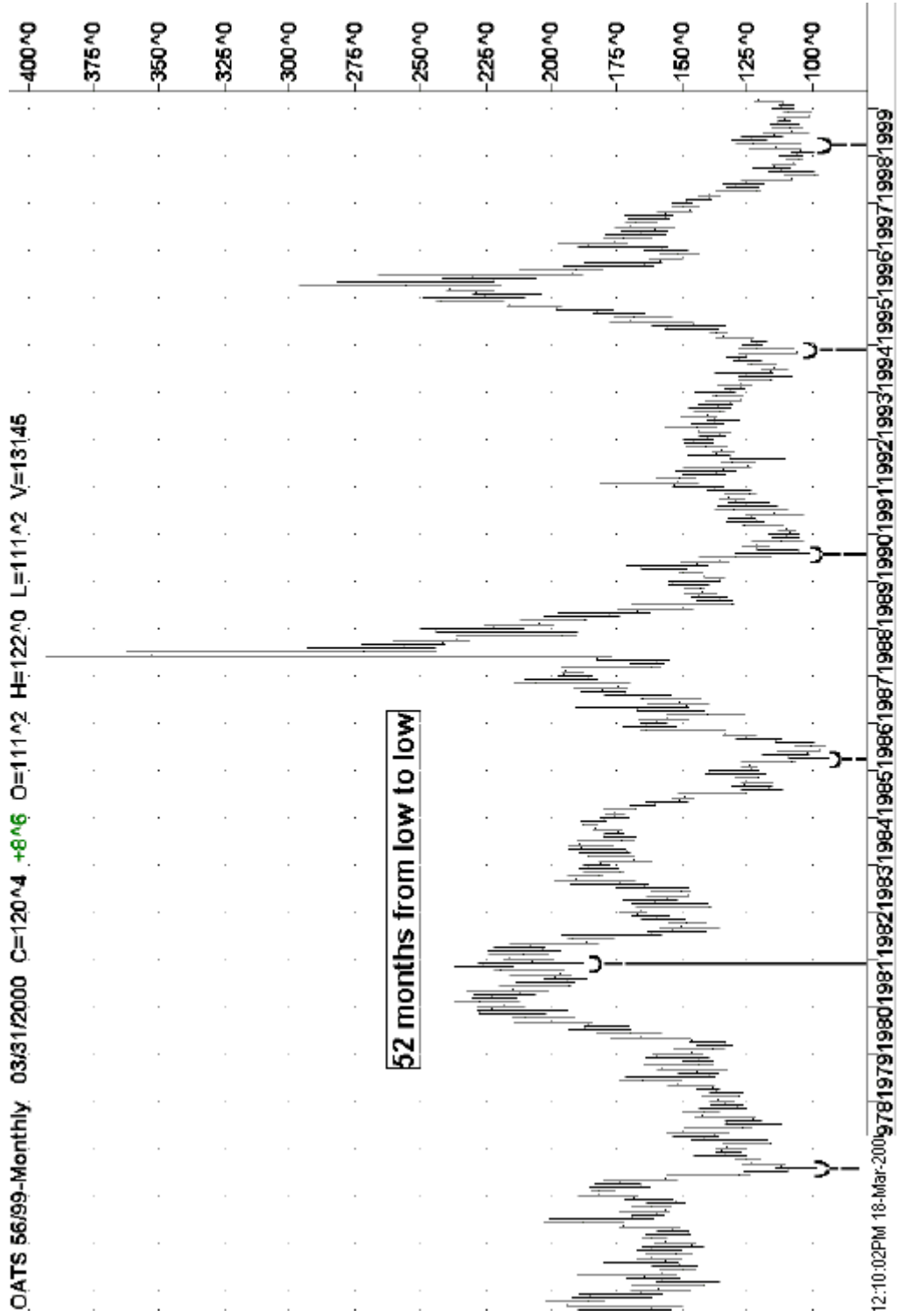
Compitrac
Draws by CORPU TRAC

US BOND FUTURES WEEKLY CONTINUATION CHART



CompuTrac
Drawn by COMPU TRAC





NOTES

Questions - call (415)-892-1183

OR

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Web Site = www.stanehrlich.com

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