TRADING
with
THE PITCHFORK

TIME-TESTED

$STRATEGIES

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The author's thanks to
the late

Dr. Allan Hall Andrews
Founder
The Foundation for Economic Stabilization
and author of

CASE STUDIES
FOR INVESTORS
INTRODUCTION

The introductory page of Dr. Alan H. Andrews' “Case Studies for Investors” home study course was a chart that had been prepared by George Marechal in 1933. It was a yearly chart showing Mr. Marechal's projection of the Dow Jones Industrial Average for the years 1934 thru 1950. Beneath Mr. Marechal's chart the actual yearly price chart of the Dow Jones itself had been added. It was remarkably similar to Mr. Marechal's earlier projections.

Dr. Andrews wrote that he met Mr. Marechal at a dinner and seminar he had hosted, and that their meeting was the beginning of a several decade friendship. He said, “Mr. Marechal provided me with advice of coming price movements whose accuracy has never been equaled by any of the many forecasters whose services I'd engaged.”

Although the forecasting methods Mr. Marechal used were not revealed in Dr. Andrews' course material, it seems likely that the two exchanged thoughts and ideas over the years, resulting in at least some of Mr. Marechal's expertise finding its way to the action/reaction trading methods used by Dr. Andrews.

Dr. Andrews credited another person with help in his research. According to Andrews, a close friendship was established with Roger Babson, a well-known businessman, author, and investment banker. It was this friendship, Dr. Andrews wrote, that provided the impetus and background information for his own subsequent action/reaction trading method discoveries.

Before he retired, Dr. Andrews reportedly made well over a million dollars trading the commodity and stock markets using the techniques he later taught in his Case Studies for Investors course. He taught his course for several years as a retirement project, stopping only because of ill health. He has since passed away.

But his trading methods live on.....

ABOUT THIS MANUAL

One of the best things that can happen to a trader is to find a trading approach that makes a profit year in and year out. Roger Babson did, and so did Alan Andrews.

I have used the methods I learned from Dr. Andrews to analyze and profitably trade the financial markets for many years now. The technical indicators I found to be most useful with Dr. Andrews' methods, and the trading strategies I found to be most profitable over the years, are presented in this manual.

I hope you, too, will profit from their use.
Chapter 1

THE MEDIAN LINE TECHNIQUE

“The median line technique enables you to be one of the few investors who always know in advance the probable place where a reversal of the trend will come.”

Dr. Alan Andrews
Case Studies for Investors

The exact date of birth of the median line technique isn't given in his course material, although Dr. Andrews did mention it followed as a result of his friendship established with Roger Babson.

Many traders regard the median line as Andrews' most important contribution. Indeed, it's the basis for what is commonly referred to as “Andrews Pitchfork,” a trading indicator found on many popular software charting programs.

To draw the median line configuration by hand on a price chart, three pivot points are selected. As shown below, the pivot points you select can be in either a high-low-high, or a low-high-low sequence.
1. Locate the mid-point between pivots 2 and 3 of the pivot group you selected. Mark that point with a small dot.
2. Next, draw a straight line starting at pivot 1 that extends through and beyond the mid-point that you marked. This line is called the median line.
3. From pivot 2, draw a line that is parallel to the median line.
4. From pivot 3, draw a line that is parallel to the median line. Dr. Andrews called the lines on either side of the median line parallel lines.
5. Now draw a line connecting pivot 2 to pivot 3. That completes the configuration.

An example of a median line with upper and lower parallel lines is shown below. Pivots used are in a low-high-low sequence.

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**Selecting the pivots.....**

I've often been asked how a trader can determine which pivots are the best ones to use for the Andrews pitchfork on any given chart at any given time. Dr. Andrews answered that very question at one of his seminars for course members. He replied that any three alternate pivot points (high-low-high, or low-high-low) can be used when drawing the pitchfork. He pointed out that no matter which set of three pivots was used, each resulting pitchfork would tell its own story as prices interacted with the median line and parallel lines of the pitchfork. Consider the following chart example that illustrates that point.

Each pitchfork used a different combination of pivots, yet each gave valuable clues as to the potential strength or weakness of the price action. Soon you'll learn how to interpret, and then act on those clues. As Dr. Andrews stressed, you'll discover that each pitchfork does indeed tell its own story.
THE PRICE FAILURE RULE

Traders who have studied Dr. Andrews’ techniques in depth, know that he taught ways to anticipate a change in market sentiment---change that often results in a price move that catches many traders by surprise. There's a saying I ran across years ago that goes something like this: “many traders spend a good deal of their time watching what prices are doing, but they would be better off if they spent more time watching what prices are not doing.”

A core Andrews technique that ties in with what prices are not doing is called the “price failure rule.” It deals with those times when prices don't reach the median line. But before we go over the technique, let’s first consider the broader interpretation of price action vs. the median line.

A price magnet....

Dr. Andrews said his research found that prices reached a median line approximately 80% of the time....and then reversed direction. Here's an example of that:

Next, you'll see examples showing where prices were on the way to the median line, but then fell short of it.

When prices don't reach the Median Line....

As you gain experience working with the median line technique, you'll find that it is much more than simply another indicator that draws channeled support and resistance lines. In the hands of an informed user, it offers valuable clues about the underlying price strength or weakness of an issue as prices interact with the pitchfork lines. Consider the example below:

One of the things Dr. Andrews observed during his research on the inter-play between the median line and the price action, was that when prices change direction before reaching the median line, they will often move further in the new direction than they did on the previous one. He called that event a price failure, and considered it to be a reliable signal indicating that new strength (as in the above example), or weakness, was showing up in the issue. Which is what happened when prices crossed above the upper parallel line on the above chart.

You'll run across a price failure from time to time on issues you follow, so it’s important to know how to anticipate it, recognize when it happens, and then how to trade it.

One more example....
The end of the rally....

The chart below shows another view of a price failure. Here the buying power was not strong enough to send prices to the uptrending Median Line. Instead, a price failure was indicated when the lower parallel line of the pitchfork was penetrated.

To review the previous three charts, the first example shows prices reversing after reaching a median line, an event Dr. Andrews expected to happen more often than not. The second chart illustrates new strength when prices reversed before reaching a downtrending median line, and the third shows prices weakening in a failed attempt to reach an uptrending median line.

At this point, two important observations should be noted:

• There is a high probability that prices will reach a median line, and then reverse.
• New strength (or weakness) is indicated if prices fail to reach a median line.

Confirming a price failure

The pitchfork drawn on the chart below shows prices were well on the way to the median line. Considering Dr. Andrews' concept that prices will reach a median line more often than not, a trader would have had good reason a couple of days after drawing the pitchfork to look for prices to reach the 15 area.

That outlook would have changed, however, when the downside momentum eased, and a few days later one of the price bars penetrated the upper parallel line of the pitchfork. That was a warning sign that a price failure was probable, calling for Hagopian's rule, a trendline adaptation named after one of Dr. Andrews' early course members. Here's how Dr. Andrews described the rule in his original course material: “When prices reverse trend before reaching a line at which probability indicates such a reversal could start, proper action may be taken in buying or selling when prices cross a trendline they were moving along before reversing.”

Next, we'll take a closer look at the Hagopian rule.
Hagopian's Rule....

The chart below illustrates Dr. Andrews' description of Hagopian's rule: The “line at which probability indicates such a reversal could start” is the median line of the pitchfork. The “trendline they were moving along before reversing” is the Hagopian line, labeled in red.

When prices reversed before reaching the median line, and subsequently penetrated the pitchfork upper parallel line, it was time to draw the Hagopian line. When prices broke through the Hagopian line, a price failure confirmation signal was given.

How to trade a price failure signal is detailed in one of the trading strategies presented later.

Next, in chapter 2, you'll learn two little-known Andrews techniques that can make all the difference.

Chapter 2

PITCHFORK PARTNERS

THE MINI-MEDIAN LINE
( not as “mini” as the name implies)

The mini-median line was one of the last techniques Dr. Andrews drew on a chart before making a trade decision. With this technique, he was able to determine the price level at which to place a buy, or sell trade order. Unknown to many traders, this mini version of the pitchfork signals buy and sell opportunities as the price action of a stock or commodity unfolds day to day.

The procedure for drawing the mini-median line technique is similar to that of the regular median line technique, except alternate closing prices are used as pivots instead of price bar alternate highs and lows. As with the regular pitchfork, three alternate pivots (closes) are selected. The pivots used for the mini-median line configuration below are circled in red.

Next, we'll add the sliding parallel technique to the mini-median line pitchfork.
The sliding parallel line...

An essential part of the strategies in your manual is the *sliding parallel line*. We'll use the mini-median pitchfork example shown on the previous chart for this study.

A sliding parallel line is drawn whenever prices breakthrough a parallel line. (for purposes of this technique, a breakthrough is defined as that price bar that has all or the largest part of the trading range extending beyond a pitchfork parallel line) Once a breakthrough takes place, a line starting at the breakthrough low (or high) is drawn so that it is parallel to the appropriate mini-median pitchfork parallel line. The example below shows the sliding parallel drawn from the breakthrough price bar low after it penetrated the lower mini-median pitchfork parallel line.

The idea behind the sliding parallel is that when (if) prices penetrate it, new trader sentiment has very likely entered the picture, and prices can be expected to continue on—lower in this case. Note: the sliding parallel can also be used with the regular pitchfork.

Coming up next in chapter three, price/oscillator divergence patterns that you'll be using with your strategies.

Chapter 3

OSCILLATOR STUDIES

Oscillator studies such as the Relative Strength Index (*RSI*), the Moving Average Convergence/Divergence indicator (*MACD*), and the Stochastics indicator, to name a few of the more popular studies, are designed to graphically measure the velocity of price movement. In a nutshell, when price movement is confirmed by momentum, then the trend can be expected to remain intact. If price diverges from momentum, then the market is about to reverse direction.

The key to understanding divergence is simply to find where the study and the price are moving in different directions. Consider the diagram below showing bullish divergence between the oscillator and price:

Prices made a lower low (c), while the oscillator line showed a higher low (c). When that combination shows up on a chart, it's an indication that bearish momentum was weaker on the current low than on the previous low. Probabilities are high that the market under study is about to change direction from down to up. Shown on the following page are two charts that illustrate *standard bullish divergence*.
Next, we'll look at standard bearish divergence.

The above diagram shows that the oscillator line and the price line are moving in different directions. Notice that prices made a higher high (c), while the oscillator line showed a lower high (c). When that combination shows up on a chart, it's an indication that the bullish momentum was weaker at the current high than it was at the previous high, and that the market under study is about to change direction from up to down. Shown below and on the following page are price charts that illustrate standard bearish divergence.

Next, we'll look at **standard bearish divergence**.
Reverse divergence patterns....

Many traders are familiar with the standard price/oscillator divergence patterns shown on the previous pages, but are less acquainted with reverse divergence patterns. These patterns, which are shown on the following pages, will form an integral part of one of the trading strategies in this manual.

While standard divergence patterns show up frequently on a chart, reverse divergence patterns are less common and can be somewhat more difficult to recognize. As with standard divergence, reverse divergence alerts the trader to a probable change in price direction. Its primary difference, however, is that it usually signals that a sizeable swing in the direction of an issue’s underlying trend is about to take place.

The drawing below illustrates the bullish reverse divergence pattern:

**Bullish reverse divergence** takes place when prices hold above the previous low, but the oscillator moves to a lower low. Notice that the price low at (c) is above the low at (a), but the oscillator low at (c) is below the oscillator low at (a).

The price charts on the following page illustrate this pattern.
Notice that following the bullish reverse divergence pattern, prices continued to move in the direction of the underlying trend. Next, we'll look at bearish reverse divergence.

**Bearish reverse divergence** takes place when prices make a lower high, but the oscillator moves to a higher high. That's shown on the following drawing:

Below, and on the next page are examples showing what bearish reverse divergence looks like on a price chart. Note the dominant trend on each chart, and how the pattern indicated that a resumption of that trend was about to take place.
Once you get in the habit of looking for the oscillator divergence patterns you've just studied, the matching up process of price v.s. oscillator will likely become second nature to you. It might take a while to reach that point, but experience has shown that it is time well spent.

**Meanwhile, consider this:**

Recognizing divergence patterns that have already formed is one thing...but for most traders, knowing how many divergent peaks or valleys to expect can be a problem. Sometimes the market sentiment is so strong that even though divergence is present, the market continues to make new highs (or lows). When that happens, traders who make their trade decisions based solely on oscillator divergence are likely to experience a large number of unprofitable trades, and worse, find their trading capital steadily eroding. That's where the Andrews techniques you'll be using, along with the divergence patterns you've studied in this manual, can make all the difference.

Next...**choosing your oscillator.**

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**Choosing your oscillator....**

Many traders prefer using Gerald Appel's moving average convergence/divergence indicator for their primary oscillator studies. Others say Welles Wilder's relative strength indicator is the only logical choice. Still others rely on George Lane's stochastics indicator to help generate trade signals. These, and many other technical indicators, are found on any number of computer charting programs available to traders today. Thanks to the personal computer and also the internet, what was once a time-consuming (and error prone) task requiring calculation by hand of large amounts of price data is now a simple matter of a few keyboard entries.

With so many different charting indicators from which to choose, finding one that best suits your personal trading style becomes of paramount importance. An obvious question arises:

**What's the best oscillator to use with the techniques in this manual?**

It's a matter of personal choice. An oscillator that shows a line that can be studied for divergence patterns is the only requirement. For illustration purposes, the charts in this manual use either the relative strength indicator or the moving average convergence/divergence indicator. An important consideration is whether the oscillator can be user-adjusted so that the number of time periods used in the calculation can be set for personal preference. That's a necessary feature, because some traders prefer longer-term scenarios, others prefer right-up-close calculations. Changing formula parameters is usually easily done on the more popular charting programs available today.

Two charts are shown on the next page. Both are of the same issue, but one uses the relative strength indicator, and the other uses the moving average convergence/divergence indicator. Note the similarity of divergence patterns shown on each chart.
See if you're able to recognize the two types of divergence shown on each chart. Hint: each chart shows one bullish reverse divergence pattern, and one standard divergence pattern. Note the RSI and the MACD oscillators reflected nearly identical patterns.

Fine-tuning your oscillator....

A common dilemma technical analysts deal with is that of determining the time period and boundary parameters to use for their favorite technical indicators. Since each price chart has its own personality, and should be analyzed on its own terms, a “one size fits all” configuration can produce misleading signals. For example, a 14-day RSI, set to overbought and oversold levels at 70 and 30 is a common setup. One popular approach signals a trade after the oscillator has entered an extreme zone and subsequently reverses direction, moving back outside of the zone. Traders who use that approach are likely to find that it might work fairly well for the S&P, but not for gold, or it might work for a GE chart but might not work for a Verizon chart.

Some of the more advanced charting programs offer features such as cycle studies and indicator optimizing tests that can be run on individual issues. But no matter how you go about the job of determining the number of calculation periods to use on your oscillator, i.e. cycle studies, indicator optimization, or simply experimenting with various numbers, the goal is to find that number of days, or periods, that produces recognizable divergence patterns that fit your trading style. Many traders say they run into trouble with momentum oscillators when they pattern their trading approach after the general oscillator guidelines for its use. That might be a place to start, but there's a lot more information available to us on a chart besides prices reaching an oscillator overbought or oversold level, and then reversing out of it. And that's where the pitchfork trading strategies you're about to learn come into play.

Eventually you'll likely find that the number of calculation periods you use for your oscillator of choice is actually secondary in importance. That's because the oscillator role in the trading strategies you'll be working with is simply to furnish an early warning signal of a probable price change in direction. The Andrews techniques you'll be using will carry most of the load.
Chapter 4

PITCHFORK LINES IN ACTION

Most introductory articles I've read that describe Dr. Andrews' pitchfork suggest that it is based on the standard rules of interpretation of trendlines. The idea expressed most often is that a properly configured pitchfork should describe, or contain the price action under study. Traders can then make buy or sell decisions when prices reach support or resistance at one of the pitchfork lines.

In general, using the pitchfork in that fashion can uncover trading opportunities that might go unnoticed otherwise. But missing in that approach is the powerful way the pitchfork can be used to help discern beforehand whether prices are likely to continue to respect the pitchfork lines, (ie: reverse after reaching one of them) or whether they are more likely to penetrate, and then continue to move beyond a line. That missing link creates a dilemma for many pitchfork users when it comes time to decide what to do when prices approach, or reach one of the pitchfork lines. Our next study deals with that dilemma.

On the following pages, you'll find several chart examples that make use of tools you learned earlier in the manual. Analyzing your own charts with these basic tools will help you make an informed estimate of what to expect when prices reach a pitchfork line. We'll use the median line for our first studies, followed by examples of prices reaching a pitchfork parallel line. The studies used in the examples are:

- The dominant trend on the chart.
- The Pitchfork.
- Oscillator divergence.

The charts on the following pages illustrate how the use of these basic studies will help you determine the reversal probabilities when prices reach one of the pitchfork lines.

The chart below shows three studies that would have helped a trader determine the reversal probabilities when prices reached the pitchfork median line. In addition to Dr. Andrews' observation that prices will more often than not reach a median line, and then reverse, two supplementary indicators shown on the chart supported a reversal probability.....the dominant trend was down, and the oscillator had formed a bearish reverse divergence pattern. Those three basic studies then; the dominant trend, price proximity to the median line, and oscillator divergence, reflected the prevailing market sentiment, and would have alerted a trader that prices would very likely reverse after reaching the median line.

It should be noted at this point that these studies are preliminary in nature, that is to say they are performed to help determine the broader outlook of an issue under study. They should be among the first studies you make on your charts. Later in the manual you'll be introduced to the strategies that will reveal trade setups, including the price level to use for trade entry or exit.

Next, a median line study of prices in a correction phase in an uptrending market.
The study below is an example of a price correction in an up trending market. After putting in a high, prices moved down to the median line, stalled out for a few days, but then continued lower instead of reversing at the median line. The bearish divergence pattern that had formed when prices were at the median line would have raised a warning flag suggesting that even though prices stalled out at the median line, a reversal was unlikely. A buy order at the median line would have proven premature, as the downside correction taking place in this up trending market was not yet finished. Prices were heading towards the lower parallel line.

Prices at a parallel line....

Two pitchforks were drawn on this next chart. The one in blue shows that prices gapped higher after putting in a low at the 77 level. The gap day carried prices to and beyond the blue median line. No bearish divergence was noted at that time, so a price reversal would have appeared unlikely. Instead of reversing at the median line, prices continued higher, eventually reaching, and then stalling out for several days at the upper parallel line.

The price stall out at the blue upper parallel line prompted the drawing of a new pitchfork. (dashed black lines) As a point of interest, Dr. Andrews taught his course members to draw a new pitchfork whenever prices reached one of the lines of a previously drawn pitchfork. The purpose for doing that, he said, is to help stay in tune with developing prices in anticipation of a reversal in that area. After drawing a new pitchfork, he made special note of the price level of the new median line, reasoning that if prices did in fact reverse, they could very well reach that median line.

Note the bearish oscillator divergence that formed after prices reached the upper parallel line of the blue pitchfork.

Next in chapter five, the pitchfork trading strategies.
Chapter 5

THE STRATEGIES

Our first strategy uses the price failure rule that was presented earlier in the manual. A couple of important chart studies need to be made before working on the trade setup configuration, so let's look at those studies first.

The first two steps....

The very first step is to identify the price trend of the time frame you are interested in. The time frame of interest is a personal choice, and can be anywhere from a few days or weeks to several months. That should be the first study you make.

The second step is to select three recent pivots that you'll use for drawing a pitchfork that slopes in the same direction as the trend of the time frame under study. You'll see the reason for this shortly. The chart below shows the trendline, plus a pitchfork drawn from three fairly recent pivots. Notice the trendline and the pitchfork slope in the same direction.

The price failure strategy....
(preparing for a price reversal)

After drawing the trendline and the pitchfork on your chart, note where prices are in relation to the median line of your pitchfork. Remember, the median line is the target. On a chart with a downward sloping trend and median line, for example, the probabilities are high that prices will continue lower until they reach the median line, at which time a reversal is likely. But, if prices are moving away from the median line instead of continuing on towards it, a price failure, and possibly a trend change might be in progress. It's time then to get ready to put the first trading strategy to work.

The Setup Rules

The price failure trading strategy uses the pitchfork, sliding parallel line, Hagopian line, and oscillator divergence.

Here is the sequence that will set up the price failure strategy:

- Prices reverse before reaching the median line.
- Prices penetrate a pitchfork parallel line.
- Prices penetrate the sliding parallel line.
- Prices penetrate the Hagopian line.
- Oscillator divergence has formed.

If all of the above steps are present on the chart you're analyzing, enter a trade order using a price a couple of ticks or so beyond the Hagopian line.

A chart illustrating a sell signal setup is on the following page.
Notice that all the steps for entering a sell order using the price failure trading strategy were in place on the chart below.

- Prices reversed before reaching the median line.
- Prices penetrated the lower pitchfork parallel line.
- Prices penetrated the sliding parallel line.
- Prices penetrated the Hagopian line.
- Bearish oscillator divergence had recently formed.

The chart on the following page illustrates how the price failure strategy identified a buying opportunity when prices changed trend from down to up.

- Prices reversed before reaching the median line.
- Prices penetrated the upper pitchfork parallel line.
- Prices penetrated the sliding parallel line.
- Prices penetrated the Hagopian line.
- Bullish oscillator divergence had formed.

In order to minimize the number of lines, the dominant trendlines were not drawn on the previous two chart examples. Trendlines are, however, an integral part of the price failure strategy.

You should find this to be an excellent trade entry or exit technique, as well as a reliable trend change indicator.

Next, the mini-median line trading strategy.
The mini-median line strategy....

The mini-median line strategy uses a 5 day simple moving average of closing prices, oscillator divergence, a trendline, the mini-median line technique, and a sliding parallel line.

We'll go over the trade setup rules shortly, but first study the chart below. It illustrates a typical trade signal that was generated using the above studies.

All the conditions supporting the sell signal were present. The trend was down, bearish reverse divergence had formed, and the moving average, coupled with the mini-median line pitchfork and sliding parallel line, touched off the sell signal.

As a reminder, when reverse divergence forms, it's a good indication that prices will soon resume their move in the direction of the trend under study.

Next, we'll go over each of the steps that you'll be using to put the mini-median line strategy to work for you.

The setup rules....

Like the price failure strategy, the first step of the mini-median line strategy is to determine the dominant trend of the issue you are studying. You've probably often heard or read that “the trend is your friend,” and we'll keep that thought in the forefront as we develop the mini-median line trading strategy.

An oscillator reverse divergence pattern study is the second step. This step will play a key “early warning” role to help you determine when a resumption of the dominant trend appears to be near at hand.

In partnership with the first two steps, the 5 day simple moving average provides the trigger for the third step of the study....drawing the mini-median line pitchfork. You'll learn how to select the closing prices to use for that shortly.

Completing the setup is the sliding parallel line. It serves as the final hurdle prices need to clear before a trade signal is generated.

To review, for the mini-median line trading strategy, you'll use:

- A trendline study
- An oscillator reverse divergence pattern study
- The 5 day simple moving average
- The mini-median line technique
- The sliding parallel line
**Going with the trend....**

The mini-median line trading strategy will uncover many trade opportunities for entering a market that is currently either in an established uptrend, or downtrend. Reverse divergence formations are used with this strategy because they indicate that even though a market may be in a correction phase, a continuation of the dominant trend is probably right around the corner. It's a probability that we want to take advantage of. Here's how:

**For an uptrending market...**

Following the formation of a bullish reverse divergence pattern, look for the first close to cross above the 5 day moving average. That close is used as pivot three of the mini-median line pitchfork. Then working backwards, locate the lowest recent close below the moving average. That close is used for pivot two. Still working backwards, from pivot two look for the highest most recent close above the moving average. That close is used for pivot one, the starting pivot of the mini-median line pitchfork. Here's how that looks on a chart:

Next, we'll add a sliding parallel to complete the configuration.

As you go over your charts, you should find numerous trade setups that are similar to the one shown in the above example. The trend was up, bullish reverse divergence had formed, followed by prices making a close above the 5 day moving average. The mini-median line pitchfork was then drawn, and on the following day prices traded above the upper parallel line, calling for a sliding parallel line. Three days later, a buy signal was given when prices penetrated the sliding parallel line. Here's another example....see if you can spot the bullish reverse divergence pattern:
For a downtrending market...

A bearish reverse divergence pattern plays a major role when applying the mini-median line trading strategy in a downtrending market. Here's how to spot a new sell signal when the trend is down:

Immediately following the formation of a bearish reverse divergence pattern, keep an eye out for the first close that crosses below the 5 day moving average. When that close takes place, draw a mini-median line pitchfork using the procedure described earlier. Follow that up with a sliding parallel if the lower mini-median line pitchfork parallel line is penetrated. A sell signal is given when the sliding parallel line is penetrated. The chart below illustrates a sell signal that was generated using those steps:

Note: The number of days to use for the moving average can be changed to suit user preference. If you feel that a 5 day moving average produces trade signals that are too responsive, the number of days can be increased to fit a less aggressive trading style. For example, I've found that using a 21 day moving average picks up on signals early enough in a new impulse move, yet helps prevent whipsaw that often accompanies signals generated with a moving average that uses fewer days.

Chapter 6

EXITING TRADES

Seasoned traders will tell you that they always place a protective stop at the time they enter a trade. Of the many different approaches used by traders to set a stop price, a fairly common one used for a new long position is to place the initial stop below the latest minor support level. For a new short position, a stop is placed above the latest minor resistance. If the initial stop is not hit, and the trade continues to move in the money, the stop is adjusted - but only in the direction of the trade. Serious traders will tell you that once an initial stop is placed, it's not a good practice to move it in the direction of a losing trade. Don't give the losing trade more breathing room in other words. If a trade isn't making money, it's usually because the trader's analysis is incomplete, or the market dynamics have changed. Either way, if a trade begins to lose money, I've found that it's a good time to get ready to head for the exit.

The above approach, or a variation of it, is the way many traders set their stops. But if you are uncomfortable using the fairly obvious and somewhat traditional support or resistance levels for your initial stop, here's a way to use the mini-median line pitchfork to help determine the stop price:

- To set a stop loss price for a new long position, use a price that is a couple of ticks or so below the upper parallel line of the mini-median line pitchfork you used to generate the trade signal.

- For a new short position, use a price that is slightly above the lower parallel line of the mini-median line pitchfork you used to generate the short trade.

I've used this procedure for many years now, but since it's not a common approach for setting an initial stop, you'll probably want to try it out on several of your work charts. To help with that, you'll find examples of the procedure on the next page.
The chart below shows how the mini-median line pitchfork could have helped determine the price to use for an initial stop order. The short trade in this example was entered when prices penetrated the sliding parallel line. Notice the oscillator divergence that had been forming prior to the new sell signal. After the trade order was filled, the initial stop would have been placed at the price level that is slightly above the lower parallel line of the mini-median line pitchfork - the level marked with a red X.

Here's an example showing where a protective stop price for a new long position was placed using the mini-median line pitchfork:

The chart examples on the preceding page showed where protective stops for new trade positions were placed using the procedure described earlier. In the best of scenarios the stop would not be hit, and the trade would continue to make a profit as prices moved in the direction the trader's analysis had indicated. Which presents a new set of options for many traders - whether to hold on and hope the trade continues to yield a profit; move the stop; or take profits and look for a new trading opportunity.

A way to handle that dilemma, and at the same time practice a consistent money management approach, is to use the same strategy for exiting a trade that was used for entering a trade. For us, that will be the mini-median line trading strategy. As a demonstration of its versatility, note on the chart below how it signaled a new trade, then showed where to set the initial stop level for that position, and finally, as the trade progressed, helped the trader decide whether to hold, or liquidate. In this example, note how regular bearish divergence was forming shortly after the buy signal was generated. That could have been a bit worrisome for the long trader in this situation, but prices were still some distance from the initial stop, and even though prices later made the first close below the moving average following regular divergence, the dominant Bullish Reverse Divergence pattern that formed indicated that the uptrend in this issue would very likely resume. (which it did a few trading sessions later)
Waiting to pull the trigger....

The daily chart study below represents a fairly common situation that you'll run across as you work on your pitchfork trading strategy setups. Here's the general scenario:

- The trend on both the weekly and the daily is up.
- A price failure to reach the black median line is probable, so a Hagopian line was drawn.
- Bullish reverse divergence has formed.
- Price then closed above the moving average.
- The mini-median line pitchfork w/sliding parallel was drawn.

The issue should be a buy. The weekly and daily charts show the trend is up, and a bullish reverse divergence pattern formed following a price correction. There are three nearby levels of resistance; the mini-median line sliding parallel, the black pitchfork upper parallel line, and the Hagopian line. In this example, where prices are currently very close to all of those lines, instead of buying when prices penetrate the sliding parallel line, a trader might want to wait for prices to penetrate the Hagopian line before entering a buy order. In any event, the trade setup looks to buy.

Summing Up

The trading strategies in this manual are good strategies, soundly based on Dr. Alan Andrews' time-tested techniques. They are fairly simple, and have withstood the author's occasional urge to take good strategies and ruin them by trying to make them perfect.

The strategies don't pretend to offer sure-fire, can't lose trade signals resulting in instant wealth. Most of us know there is no Aladdin's lamp in this business of trading. A trader might be lucky over the short term, but long-term, it's a tough way to earn money. With effort, skill, fortitude, and a good trading plan however, a trader can set a high goal with an excellent chance of reaching it and becoming really successful. Mastering the strategies you've just learned is a positive step towards such a goal.

A brief reminder - when looking for a potential trade setup on a daily chart, it's a good practice to first study the weekly chart of that issue. Make note of your studies, and be sure to determine the dominant trend on the weekly. Then, using the techniques you've learned in this manual, do your Andrews studies on the daily chart to see whether a potential trade setup is imminent. If you trade using intra-day charts, the same principle applies - first study the larger time frame charts, make appropriate notes, and then fine-tune your intra-day charts armed with your notes from the larger time frame charts.

It probably goes without saying, but a working knowledge of each of the oscillator divergence patterns presented earlier should be considered a must. To help with that, you might want to keep a copy of the pattern diagrams handy until it becomes second-nature for you to be able to identify and correctly tie the appropriate pattern to the price action under study. Then take time to check, and double-check. Which reminds me of what a construction foreman I knew years ago often told his workers: “measure twice and cut once.” Good advice then, and good advice now.

I wish you good fortune.
**Charts**

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“You can have anything you want if you want it badly enough. You can be anything you want to be, do anything you set out to accomplish if you hold to that desire with singleness of purpose.”

Abraham Lincoln

ABOUT THE AUTHOR

After serving 20 years in the United States Army, Gordon DeRoos retired as a Lt. Colonel in 1978. He served in various command and staff officer positions, and saw extended overseas duty in Korea and later in VietNam as an infantry rifle company commander, and as a battalion operations officer.

Following his army service, he and his family returned to their home state of Iowa where he became a licensed commodity broker. He spent several years in that capacity, owned his own brokerage firm, which he later sold after deciding to retire. It was during his years as a broker that he became acquainted with Dr. Alan Hall Andrews, who taught him the fine points of his action/reaction trading methods. Those methods had served as the linchpin for Andrews' stock and commodity market earnings that reportedly were in excess of one million dollars. (1960 dollars)

After selling his brokerage firm, Gordon and his wife Neva decided to spend their retirement years on the Hawaiian island of Kauai, near three of their four children who reside on the islands. Shortly after they settled into their island home, he organized all the material he had received over the years from Dr. Andrews, gathered his own personal notes, and put together an e-mail course designed to teach Dr. Andrews' trading techniques to other traders. As of mid-2008, his “Pitchfork Primer” e-mail course was in its 11th year of operation. Through his course, several hundred traders from around the globe have learned how to profitably analyze the markets using Dr. Andrews’ methods. Gordon continues to teach the course.