



The Triton Convergence

**Using Simple Yet Extremely Powerful
Stock And Market Timing Models To Rule
The Markets**

By Paul Lemal





In Greek mythology Triton was the son of Poseidon and Amphitrite and rode the waves on horses and sea monsters carrying a twisted conch shell upon which he blows either violently or gently to stir up or calm the waves.

As traders who make money when the “right kind” of waves (volatility) are present in the markets, there are several strategies that can be used to “smooth” out and ride some of the market’s mega-waves.

We’ll cover a few of those in this report.

Using a convergence of key signals both short and long-term can provide excellent signals for swings and even better for longer term position trades.

When combined with proper stock selection using momentum and other forms of analysis, this can create a “perfect storm” converging to **create explosive breakouts most traders only ever watch in hindsight.**

When done within the context of a “big picture” approach to the markets this can lead to the kind of explosive breakouts abundant throughout much of the first half of 2009 creating “6 month gains” in some stocks that traders would envy to have in a 5 year period.

This convergence visually is similar to the fireplace “bellows” the antique tool on the right used to fan the embers of a “small but growing flame”. As news and support re-tests converge into a “price squeeze” this can further ignite and fan the flames of the price action propelling the prices into strong follow-up cycles.



The initial momentum breakouts that catch our attention are often just a small preview of the strength of the eventual breakouts once the fundamentals congeal and channel the prices into these price squeezes.

As a trader who tends to focus my trading capital in the most promising stocks based on price action behavior (Why? Because it works!) and avoid so-so setups, understanding market and stock turning points is critical to minimizing risk and maximizing gains.

Triton Convergence #1-Stock Market Cycles

Observing potential zones where these turning points are more likely to occur is as easy as using a few simple tools to spot these turning points.

From a calendar standpoint the seasonal cycles tend to produce on an annual basis 3 bull and 3 bear or pullback cycles which, in general, follow this format during the calendar year:

Table 1-Market Cycles

Bull Cycles	Bear or Pullback Cycles
Mid-March to Mid-May Bull cycle	Mid-January to Mid-March
Mid-August to Mid October bull cycle	Mid-May to Mid-August
Mid-November to Early January	Mid-October to Mid or late November

This is not an exact science. In some years the 2-month bull-cycle during the summer may begin in July and end in September or push right through the 2 and sometimes 3 month cycles in a strong bull market, but the point is that having a general understanding of what to expect when, if combined with the other forms of analysis can provide some important clues as to what side of the market to be on.

In bear markets the market bounces are sometimes meek 1-2 month bounces before rolling over and falling off the cliff again but sometimes all that hot stocks need are these little glimmers of hope to blast into orbit.

To see a video on some of the power breakouts that can occur during these market bounces [click here](#)

Stocks that buck the overall market trend are usually doing so for good reason and it is in your best interest to pay attention to them.

These cycles can be sometimes blurred via strong bear or strong bull markets and can sometimes overlap by a month or more in either direction, but in general if you have been in the trenches in the market on a pretty active basis you've experienced these "lulls" first-hand during the consolidation or pullback cycles.

From a "big picture" perspective these cycles often mimic the trading community's attention spans.

Some people claim that the big hedge fund managers that usually provide the volatility and lift to the markets pull back on their buying during the summer months while they are vacationing "out on their yachts in the Hamptons" and that is why there is generally a summer "lull".

Whether it's this or individual investors who are distracted focusing on summer activities there are some consistent patterns of predictability to the markets and if you are like me and desire to keep your money working hard it can pay to be aware of this.

Here are some general rules of thumb:

- **Spring**-stocks “**Spring forward**”
- **Summer vacation**-Resting, consolidation, basing; outdoors too busy to trade
- **Fall**-“**Fall back**” (September and October have historically been some pretty harsh market “shakeout” months)
- **November-December** (Holiday euphoria-market does well)-**end of year climax run** is common for stocks that begin their breakouts in March
- **January 10th** (or thereabouts) – **profit taking and after holiday blahs** will often put the markets in a funk until Mid-March

The indexes even in a relatively tight trading channel often generate these approximately 2-3 month cycles on a pretty consistent basis.

Knowing that, makes it much easier to spot the potential gems in the market especially if you have become adept at spotting signs of accumulation in a stock via price action or other indicators.

Seasonal cycles can also “prop up” an otherwise weak broad market positioning them to fall even harder after these cycles play out. Let’s take a look at the DJ-30 and these cycles...

Figure 2-DJ-30



Can you see where the strong bull cycle in late 2006 (1st red circle) in Figure 2 on the previous page skewed the common market cycles-with no significant pause for a pullback in October just barreling through and even extending the common January market top in 2007 to February 20th?

Conversely, the weak bull rally that began in late November 2007 (2nd red circle) petered out pretty quickly with a lower high in late December and pretty much fell off the cliff going into January for a shortened end of year rally. Knowing "what **should** happen" when in the market can provide an excellent barometer for market weakness or strength.

In July-2007 even though the market pushed above the May highs it did so for only a week and in reality spent 95% of the 3-month period from mid-May to mid-August in either a sideways consolidation pattern or in a pullback.

Keeping in mind that the breed of stocks that can make us great money in the market, even in bad markets, only need a 1-2 month rally to create some spectacular gains and learning these timing models is critical to getting in and getting out quickly during these market downdrafts.

Can you see the power in understanding these common seasonal cycles and taking positions in stocks (short or long) based on the dominant cycle? ..Now let's apply a few other effective tools for calibrating market turning points.

Triton Convergence #2-Key Market Turning Point-Technical Indicators

McClellan Summation Index

The first one is the McClellan summation indicator. It is a popular market breadth indicator that is derived from the number of advancing and declining issues in a given market. It is regarded as a reliable indicator of the overall "health" of the market and the market's trend (<http://www.mcoscillator.com/>).

In many turnaround markets stocks that have been hammered unreasonably due to broad market weakness provide some of the best opportunities for substantial gains as the “slingshot effect” kicks in.

Using the McClellan summation index can give us the edge in spotting these turning points and allowing us to take positions in our favorite stocks with near optimal timing.

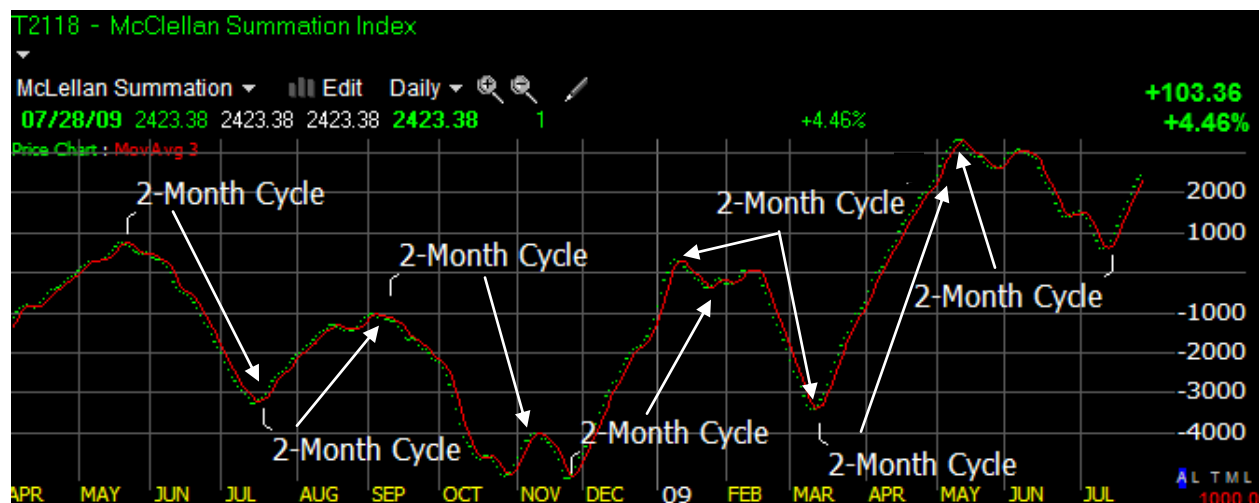
Here’s an example of some market turning point dates and the McClellan summation indicator signal turning point (*using a breakout of the 3-day simple moving average-green dots above the line go long-green dots below go short). Take note of the common 2-month index cycles playing itself out both short and long during this period.

Using this 3-day moving average of the indicator it is possible to easily and efficiently spot turning points that can provide fertile breeding ground for big stock runs.

Table 3-McClellan Summation Turning Points

DJ-30	7/10/09	6/11/09	3/06/09	1/06/09	11/24/08
*McClellan Summation	7/15/09	5/13/09	3/12/09	1/14/09	11/25/08

Figure 4-McClellan Summation Cycles



As you can see from the Figure 4 above the McClellan summation indicator was pretty much in lockstep with the index turning points except for the June 11th top in the index that occurred a month earlier in the McClellan Summation Index a rather meek rally (200 points) that took place on fewer advancing issues.

Can you see how the turning points in the McClellan summation index mimic the seasonal cycles nearly exactly?

Being on the right side of the market is made a lot easier knowing this and if you are the kind of person who prefers being on the golf course than trading in less than ideal market conditions then you can almost set your clock by this indicator.

Stochastics

Now let's apply one more simple to understand and easy to use technical indicator; stochastics and then we'll drill down and get in the trenches and breakdown a few stocks.

Let's apply 2 stochastics indicators to the mix: 9,3,3 and 20,12,12 and see how well they predicted market turning points.

Figure 5-Stochastics



As you can see in figure 5 on the previous page both indicators worked quite well when they dipped below the 20 oversold line-in marking market turning points.

Although this indicator can at times be a tad subjective the double bottom in the oversold zone in late February and early March in the 9,3,3 stochastic which was followed by a clear cross of the 20,12,12 stochastic a few days later suggested a bottom may be in place.

Combining this with seasonal market cycle analysis and the McClellan summation index can provide near fail-safe entry points for your favorite stocks that are near proper buy points.

Although there are numerous other technical indicators and oscillators that are excellent at spotting exact turning points for extended bull or bear runs it is not necessary to know them if your focus is on capturing significant movers in stocks bucking the market trend.

Information overload is not the friend of those who want to capture significant gains in the market, just a simple "big picture" approach to market and stock analysis and the chops to buy the right stocks at the right time.

Which leads me to...

Triton Convergence #3-Stock Timing Cycles

Although there are a slew of strategies to identify potential big winners both technical and fundamental one of the most critical aspects to consistently winning the stock market game is using stock timing cycles.

These are timing models for trade entries and exits developed based on a study of the best performing stocks of all time. How time/price interact can provide valuable clues for what to expect from the stock prices in the future.

Strong price momentum is one of the most reliable indications that something big is brewing with a stock and

there are a few simple concepts to avoid getting mired down in the “chop” that inevitably follows the original breakout.

Whereas most momentum traders are familiar with the concept of buy the breakout to a new high (assuming that the “basing” has been adequate and the price is not too extended from the initial base breakout) but fewer are aware of the stock timing models within the base that can lower risk and maximize returns.

Although there are 20 or so cycles to pay attention to depending on where a stock is in a super-cycle we’ll deal with just a few here.

The 3.5 TSS (TSS stands for trend-line setting spike) is a powerful stock timing model to use in one area of these super-cycles.

What this means is that the original breakout that caught our attention acts as a placeholder for a trend line across to another point in time-the price bars near the 3.5 month mark.

The period between these two points is generally an area of extensive “chop” and entering a trade before there is a clear breakout of the 3.5 TSS trend line can mean getting tossed around in the waves.

Not only that, it can also decrease your annual ROI and keep capital tied up unnecessarily missing better and more timely opportunities in the market. Let’s take a look at SOHU...

Figure 6-SOHU



As you can see in the chart above for SOHU a trend line placed across from the original breakout highs to the 3.5 month price bars gave an excellent entry for a 100% gain in a little over 2 months.

Figure 7-GHM



Same results here for GHM, no chop at all-just a 200% gain in 5 months. The “bellows” effect is especially prominent here blasting this stock out of the price squeeze in dramatic fashion.

Now, again there are many variables as to what TSS cycle to use depending on where a stock is in a super-cycle but as you can see it can be a powerful way to keep your money working hard not tied up in unproductive consolidation zones.

Having what may appear to others to be “insider knowledge” would not be unusual considering the strength of some of the breakouts coming out of these explosive price squeezes. As I am writing this, a stock this morning that showed up on my radar based on these common cycles is up over 1766% on the option in ONE day.

This can explain how some of the top momentum traders each year are able to generate thousands of percent gains in their trading accounts. The 3.5 TSS can occur on all time frames and is excellent for helping one to avoid the chop when the markets have had a major market shakeout.

Let’s look briefly at a few of the biggest market shakeouts of the past century using the 3.5 **year** TSS.

The great depression shakeout...



Perfect entry here into the next bull cycle

And again in 2003...



Another perfect entry coming out of the tech bubble collapse

Sure you could have scalped the index lower with the reverse head and shoulders bottom in early 2003 but there was nothing nebulous about the 3.5 TSS trend line once broken...

It is a powerful strategy on any time frame for capturing stocks primed to head into a new cycle without the unproductive consolidation zones to deal with.

As a position trader who has done quite well with un-earthing many of the stock market's biggest movers the past several years I prefer to stay in cash during choppy markets or if a particularly strong signal on the indexes on the downside (violation of key support, head and shoulders formations, etc.) trading inverse ETF's with 25% maximum of my trading account.

I know of too many traders who give back a fair share of the prior bull-run during these market downturns and in choppy markets in general.

Momentum traders who are looking for an edge in the markets and prefer a “big picture” approach to trading and choose to sidestep periods of market malaise can use these extended time frames to time entries and avoid having their trading account whipsawed.

It is overtrading that too often results in lackluster stock market returns and inferior stock selection is only part of the reason. When you have the right tools to target the top trading stocks and have the proper market conditions in place it can make a world of difference in your trading results.

Ok, let’s move on to an even tighter strategy using the 3.5 **day** TSS cycle.

When there is high price tension in the lower price ranges and the kind of big one week bounce produced by BAC (Bank of America) in March of 2009 this would again be one of those times to pay attention.

Figure 8-BAC



The hammer that formed in February acted as support on the re-test of the original breakout zone a few weeks later which squeezed the stock prices out of the 3.5 day TSS for a 330% gain over the next few months topping out near the \$15 mark.

Again, another powerful 3.5 TSS cycle and knowing where and how to use the various aspects of this cycle can be the key to some major stock market returns.

Being that I'm not a big fan of being glued to the computer I prefer to place trades that have a strong chance of an extended trend of a few months or more if not longer.

Besides the level of focus required to swing trade choppy markets is not what I consider to be a good time. Using the market timing models I've given here can help position yourself on the correct side of the market.

And since there is a lot more potential on the upside than via shorting (99.9% theoretical maximum gain via shorting) I'd rather sit out less than ideal trading conditions and wait for the inevitable bounce that always comes.

After 15 years of research (and yes, some "hard knocks" too) I have concluded without a doubt that this is the single most productive and profitable way to trade.

This style of trading is designed to turn down the noise and get you on the winning side of the market.

*Coming soon is more information on tips, tools and trading strategies for succeeding in the markets as well as information on an **upcoming webinar** that will forever change your perceptions about what is possible in the stock market. Stay tuned!*

A handwritten signature in blue ink that reads "Paul Fernald". The signature is fluid and cursive, with the first name "Paul" being larger and more prominent than the last name "Fernald".

P.S. Also, a reminder about the Triton Convergence video which can be viewed at:

<http://elitewavetrader.com/stock-trading/tcd.html>

The video expounds on some of the concepts I covered here including how these market and seasonal cycles can play out, creating a "launch pad" for the right stocks primed for action-so, before you forget head over there and check out this short video.

About Paul Lemal

My name is Paul Lemal and no reason why you should know me unless you have read a few of my editorials on alternative medicine (a passion of mine) that have been published in Time and Newsweek magazine.

I've been very much under the radar quietly researching and refining my stock trading methods over the past several years including developing the most comprehensive momentum trading system you'll ever come across.

You won't see me on the national "talking head" circuit (I'm rather shy)...but I am well known to a small group of professional traders and money managers who paid big money to look over my shoulders in a real-time trading environment with my trading partners Daryl Thompson and Gary Lane-who are some pretty darn good traders in their own right and who I've worked pretty closely with in the past few years.

This was my "Hamburg" you know the place where the Beatles went before they hit it big. This is where I refined, tweaked, tested and hammered my system into a rock-solid money generating system worthy of the title "Elite."

This is where many new trades were developed and where my biggest mega-winning stocks were generated.

I no longer have the real-time trading environment (it is not necessary with this style of trading as this is not a "day trading" system) and besides I wanted to enjoy life more and trade less so that's exactly what I'm doing.

Traveling, writing, spending time with family – balance is something we all seek and sometimes you just have to decide that it can no longer wait...

So in order to get some balance and actually "have a life" I closed the real time trading lab and spent the necessary time to bring all my years of research into a format that others can benefit from. This report is just a small sampling of the powerful trading

strategies I've used over the past several years for consistently targeting the stock market's high performing stocks.

I also produce a weekly webinar and video analysis of the top trading candidates not to mention making myself available via email to answer students questions and provide coaching if needed...so I haven't turned it completely off...but who knows in the future I just may, so if this is something that piques your interest-take advantage of my knowledge NOW!

Let's Rule The Market's Together!

Paul Lemal