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by Dennis D. Peterson

This is the second of a two-part home study series on how to trade using the Pristine method. Part 2 (TPM2) gives more insight into the approach taken by Part 1 (TPM1). In Part 1, setup patterns lead to trade entry. In fact, you are given a point system to quantify how successful a trade might be. Part 2 drills deeper and analyzes what technical analysts really try to do: Understand what emotions and expectations are in play with price and volume patterns. Pristine trading has little reliance on indicators. It is about understanding what price patterns tell you about emotions and expectations.

This course has 16 modules. While Part 1 was rich with example price patterns, Part 2 emphasizes explanation with text. The presentation quality you saw in Part 1 has been carried over to Part 2: a map that allows you to pick any module of interest or revisit ones you've already studied, mouse-controllable sliders to advance or repeat the dialog for one slide chart, advance and reverse buttons to move back and forth between slides in a module, and a table of contents allowing you to select any topic in a module with a mouse-click. It is also clear that like Part 1, the words on the slide charts in Part 2 have been chosen with care. Let's take a look at some of the modules.

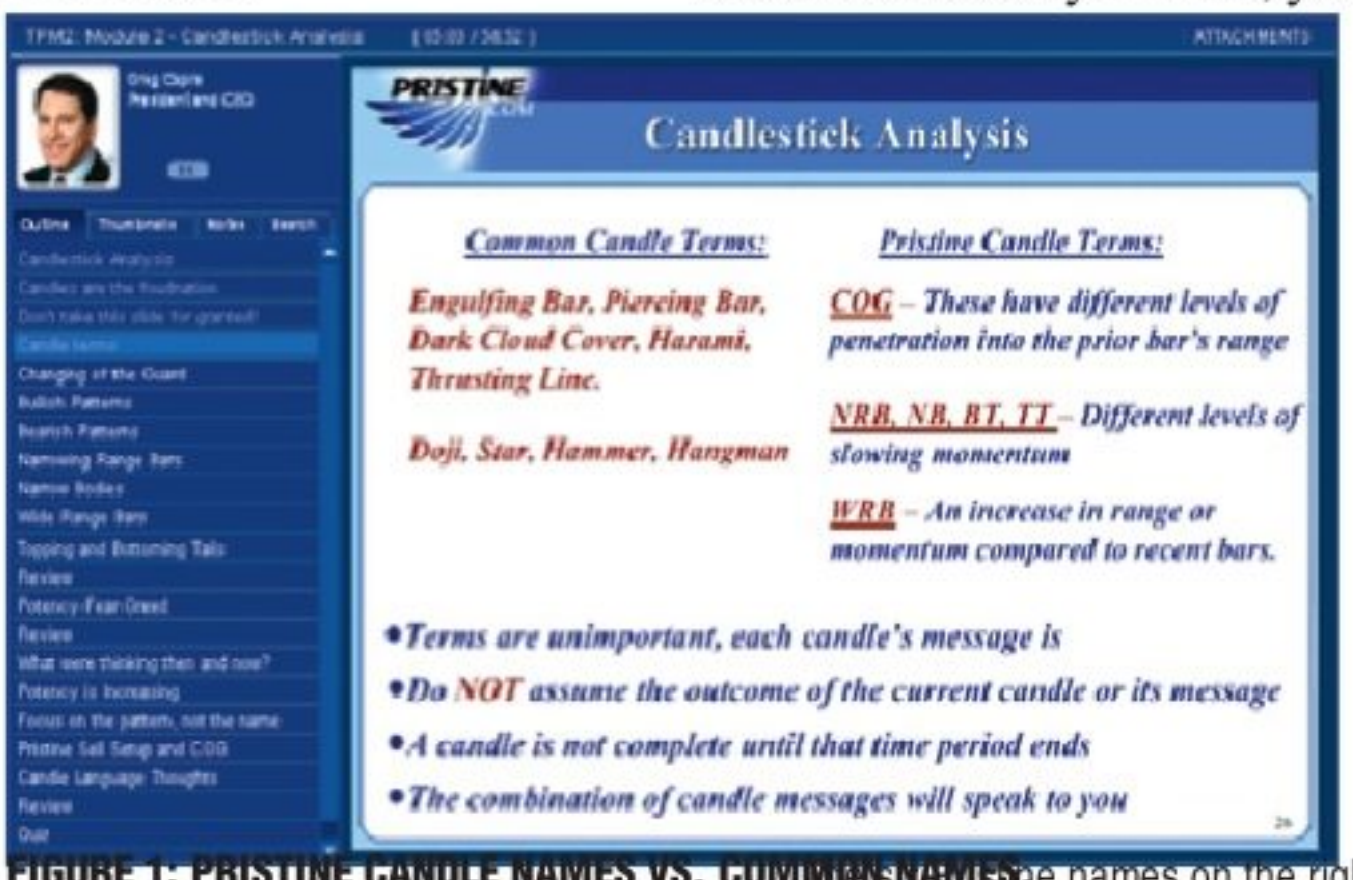


FIGURE 1: PRISTINE CANDLE NAMES VS. COMMON NAMES. The six Pristine candle names on the right are all a Pristine trained trader needs to use for the Pristine trading method. The common candlestick names are shown on the left. This simplification helps the student focus on the key points of TPM.

CANDLESTICK ANALYSIS MODULE

A helpful aspect of this course is charts that summarize. Several examples can be seen in one of the first topic areas, "Candlestick analysis." The Pristine Trading Method (TPM) uses candlesticks because it wants the Pristine trained trader (PT) to observe the size of the body, its relationship to the upper and lower tails, the color, and candlesticks that have preceded the current ones. The course explains that while there are numerous names for candlesticks such as doji, hangman, and engulfing bar, what matters to the PT are just six TPM names such as WRB (wide range bar) and COG (changing of the guard). See Figure 1.



iar patterns with the very last three bar combination, the most potent of the patterns for reversal. Looking for visual candlestick patterns that work tells you that the PPM approach determines what seems to be true in the trading world, not an academic discussion of candlestick patterns.

SUPPORT AND RESISTANCE MODULE

As mentioned, Pristine's trading uses few indicators. In the support & resistance module, this is repeated (Figure 3). The statement is made that indicators, such as trading bands or envelopes, are "subjective and unnecessary when you understand what is real." Pristine's point is that indicators work as support and resistance when they are a self-fulfilling prophecy. Some traders might take argument with that statement and say that indicators are useful devices to quantify price action. In any event, Pristine's statement reinforces their visual price action/pattern approach. This module emphasizes supply and demand and defines patterns that are sources of either supply or demand.



FIGURE 3: SUPPORT AND RESISTANCE. This chart makes the case that price bars alone are the only determine support and resistance and nothing involving math, such as moving averages or they are based on a math series.

RETRACEMENT MODULE

In the retracement module, Fibonacci retracements are set aside as subjective tools that work only because of self-fulfilling prophecies rather than as an actual predictor. As in PPM, the percentage of retracement from the prior pivot is one of the key factors, but PPM also looks at the shape of the pivot. If the shape is what Pristine calls a rounded top, the course says that the odds are that sellers are waiting to act out as price approaches (Figure 4) the rounded top.

Well-illustrated charts are the norm for both PPMs 1 and 2. Midway through the retracement discussion, a chart (Figure 5) illustrates several



FIGURE 4: RETRACEMENT ANALYSIS WITH A ROUNDED TOP. In the following material presented in the support and resistance module, a rounded top (candlesticks with red ribbon over the top) is identified as support (or demand). The point of this chart is that odds of reversing this downtrend with a rally with prices headed into an area of supply.



FIGURE 5: RETRACEMENT ANALYSIS WITH A W TOP identified with the blue ribbon marks the point where price was above a prior major peak and retraced no more than 50%. Note the pattern identified as "BT and range expansion." BT stands for "bottoming tail" and it is considered bullish, especially relative to the immediately previous two red candlesticks. Range expansion refers to the fact that the range (high to low) of the bar is greater than the previous bar. The downward momentum started by the two red candlesticks (to the right of the candlestick identified with the ribbon) lessened as evidenced by the narrow range (NR) bars that follow, one of which is the bar identified as having a BT.



FIGURE 6: BAR-BY-BAR ANALYSIS APPROACH What does the current bar tell you about bullishness or bearishness? This chart, along with three others, goes through each of the permutations. The charts give examples.

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successful Pristine buy setup can be followed by a bottoming tail and range expansion. As always, Pristine is not reluctant to use acronyms. Bottoming tail is BT (Figure 5: just left and below "Buy" in green caps) and range expansion is "RE."

BAR-BY-BAR ANALYSIS

Pristine's bar-by-bar analysis tries to answer the questions, "What do you learn by each new bar? Given an existing three-bar pattern, or simply the prior bar, what can you say about bullishness or bearishness based on the most recent bar?" Pristine argues that penetration of the previous bar gives some information. Penetration is how far the current bar closes into or goes beyond the close of the previous bar. In the case of an engulfing bar, it actually goes beyond the close of the previous bar. Several examples (Figure 6) showing hypothetical current bars are discussed. The idea is that traders will get a sense of the bullishness or bearishness by watching each bar being formed, and be ready to act when a setup materializes.

By the time you get to bar-by-bar analysis, you should have digested enough material to characterize a considerable portion of price movement. The point is illustrated (Figure 7) with charts that bring in terms like "void," "large M top" and "very weak reversal."

The bar-by-bar analysis module fits nicely with the support and resistance module. The former looks at what the current bar means with respect to immediate prior bars, while the latter also looks at bar patterns —for example, defining rounding tops and price voids.

OTHER

A lengthy pivot discussion is contained in the trend analysis module. Pristine pivots are defined by higher highs or lower lows of adjacent bars. Using this

another equity.

The relative strength discussion stops short of getting into sector rotation. The market internals module discusses popular sentiment and market indicators. The sentiment indicators are the CBOE equity put call ratio, VIX (volatility index), VXN (NASDAQ volatility index), and bullish and bear percent based on AAII. The market indicators are the NYSE and NASDAQ TRIN and tick, and S&P and NDX futures.

SUPPORT

Besides online home study, you can take both TPM 1 and 2 courses live online, as well as at physical locations from time to time. Pristine encourages its students to retake the courses, which are included in the course fee. Pristine includes three forms of ongoing coaching and mentoring after someone takes Part 1 or 2 course. This gives you a way to interact with an instructor to make sure your questions are answered completely.

SUMMARY

If you look at the daily QQQQ since March 2009, you will certainly note an uptrend in place by June or July. This then would lead to Pristine buy setups for retracements, since you always trade with the trend. But you won't find many. This is not too surprising. If you look at chapter 7 of *CandlePower* by Gregory Morris, you'll see that while three white soldiers (equivalent to Pristine sell setup PS1) or three black crows (equivalent to Pristine buy setup PB1) are reliable compared to other candlestick patterns, they are infrequent. Even counting pattern occurrences now shown approximately 950 against three black crows at 17 for the same sample period. This says the guerrilla tactics at the end of Part 1 will come into play more often than PS1 or PB1. This means that if you want to trade every day, you need some plan for scanning a large number of stocks. One approach used by Pristine Education is to look at 40 different sectors each day and look at three different time frames (weekly, daily, and hourly) and select what looks promising in terms of setups. Some might trade the exchange traded funds (ETFs) that represent the sectors, while others look for the strongest stocks. Admittedly, you might have to look for some two-bar guerrilla plays shown at the end of Part 1 to be able to trade. But if you are going to trade daily, you'll have to have some way to screen for candidates. Given that you do, you should be successful in using the Pristine method.

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FIGURE 7: BAR-BY-BAR ANALYSIS EXAMPLE. This chart contains examples of much of the preceding seven modules, and as a result, you can see a large percentage of the candlestick price be characterized. Indirectly, it is also an illustration of all the acronyms that you learn in the repeated on a regular basis.

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SUGGESTED READING

Morris, Gregory [1992] *CandlePower*, Pandus Publishing.

Peterson, Dennis D. [2010]. "Trading The Pristine Method Course, Part 1," product review, *Technical Analysis of* STOCKS & COMMODITIES, Volume 28: February.