The Two Fold FORMULA

The Best **Single Trading Pattern** I Have Ever Used

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Introduction

Hello my name is Mike Swanson and what I'm going to show you in these pages is the single best trading pattern that I have ever used. It can work with stocks, exchange traded funds, and futures. Really it can work with anything that you can plot out on a technical analysis price chart. If it trades and the pattern lines up then it's a go.

I call it The Two Fold Formula, because it is the one pattern that I know of that has the greatest odds to lead to large gains in something with the least amount of risk. It is simply the most reliable pattern that I know of and that's why I tell people that it is the single best trading pattern that I have ever used.

On my website WallStreetWindow.com I write about the markets just about every single trading day and when I see something that lines up with this pattern I bang the drum on it!

I know what it is like to start out trading with a new account and struggle in confusion as you watch it gyrate up and down with wild swings. It takes controlling risks to stop big swings and then it takes taking trades that make the swings go in the direction you want them to go! And the only way to do that is to find a pattern that repeats as often as possible. In other words you need one pattern that works the best.

Most people don't take the step to finding that pattern. They get into the markets and just gamble it up chasing things. And then when whatever they buy goes down they just sell and go to chase something else. For many that can mean going from one trading system to another and for some it can mean going from one market to another. There are people who traded internet stocks in the 1990's and then went on to real estate after that bubble bust. Then once that hurt them they got into binary options and then when that didn't work (they're designed to take your money) they moved into the wild world of crypto currencies in 2017 where the moves were totally insane.

Going from one thing to another like that rarely works, because it doesn't fix the problem that the newbie and losing trader has. And that is they aren't using a system that works.

Instead they are just jumping from one thing to another almost like a slot machine player in casino who thinks that if he moves from machine to machine he'll eventually find a lucky one. What the trader who has been losing needs to simply do is STOP and LOOK at the markets and STUDY the price action for days and weeks until they find something that is repeating over and over again.

This means that you have to realize that there are some thing that are impossible. It's pretty much impossible for anyone to turn on their computer and just instantly expect to make money in thirty seconds or even on any single day. Just because a market or a stock makes a move one day doesn't mean there is a way to really make money off of that.

People who try to make money every single day in the markets are trying to do something impossible and they need to stop. You simply can't expect to make money just by buying a stock because it went up already. That means you have to accept the fact that to try do so is to try to do the impossible!

And if you stop trying to do the impossible then you can look to see what is possible. And I am here to tell you that there are incredible things that it is indeed possible to do in the markets if you take them seriously and accept them for what they are.

When I started out trading after a few months I realized that if I kept chasing things I would lose all of my money and I had to stop. I didn’t want to give up on the game, but if I kept chasing I would be forced out of it and I did not want that to happen. So I had to stop what I was doing and do the study and take the time to find something that worked.

That led me to reading dozens of books on trading and charts and technical analysis and all of the indicators and chart patterns. It meant even reading classics like Richard Wyckoff’s Studies in Tape Reading written in 1910, and Gann in the 1920’s, and the Jesse Livermore books, and Edwards and Magee, and more recent ones such as Stan Weinstein’s How to Make Money in Stocks.

I did not find one single answer in these books. But the books flooded my subconscious with trading knowledge and the classic trading patterns. And as I read them I spent hours a day looking at charts over and over again until I saw the pattern.

I saw it. I saw a chart pattern that frequently led to stocks doubling in price in a short amount of time over and over again. And so I started to use it. Now I wouldn't recommend doing this and I would never do it now, but I put all of my money in one stock. And it doubled. And I went from that to buying more than one at once. To eventually betting against stocks when the 2000 bubble bust, to buying into entire sectors and now often owning dozens of stocks at once. But it was when I discovered this pattern and began to use it that everything clicked and changed for me. And I believe it can change your relationship with the financial markets too.

I must give you one word of warning though. And that is that you should not put all your money into one thing and do not do anything in any market without controlling your risks. I believe today that even having all of your money in a retirement mutual fund is simply too risky even though most people do that. And you must realize that no one single pattern is going to work 100% of the time and account for that reality. There are risks to trading and you can lose everything if you take outsized risks. Nothing is guaranteed.

And remember this pattern is not going to enable you to make money every single day in the financial markets or in a stock every single minute or give you the ability to jump in and out day trading.

This is one single pattern that only can work when it lines up. And it takes two things for that to happen. First you got to be patient and let it appear. And you got to let that happen at the right time. This pattern is not designed to get you to buy one morning and sell on a daily high and buy the next day and try to do that over and over again. It’s designed to buy when a big move is most likely to start to happen. That’s why it’s called The Two Fold Formula.

And that just doesn't happen very often with one single stock. In fact typically this pattern only appears every few years in an individual stock. But that's fine. All we have to do is watch many sectors and many stocks to expand the opportunities. So let me show it to you.

The Two Fold Formula in Action

I'm going to tell you something that I probably shouldn't, because most people like to hear complicated things when it comes to the financial markets. That's why the "experts" always wear suits and try to talk fancy jargon to make it sound like they have mastered complex material. Well I believe that the reason why The Two Fold Formula works is because it is simple.

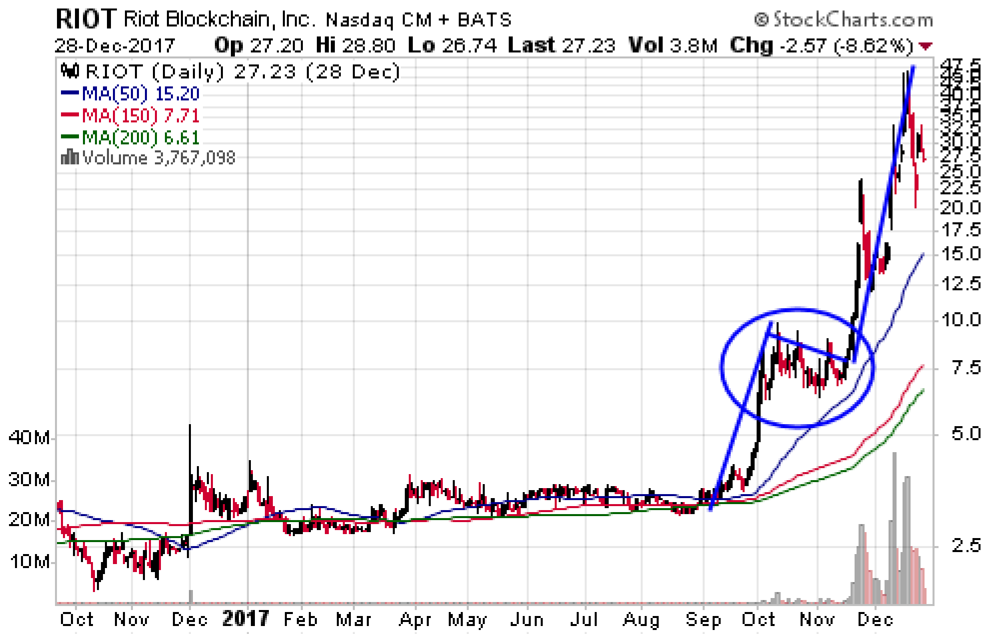
The simple idea behind The Two Fold Formula is to find the best price chart pattern that is most likely to precede a big fast move up. I have found that many stocks and exchange traded funds make giant moves after they bottom after falling for a very long time, but it's very difficult if not impossible to predict a bottom when something is in freefall and too often those that try to do so end up catching what the trading veterans call a "falling knife." In other words guessing bottoms usually means losing money and that's why bear markets and market declines end up eating people alive as they run their course. Now that doesn't stop people from trying, because they know that if they can catch the bottom they can get in something that can double in price off of it and sometimes go up even more than that.

That just rarely works, but the good news is that when it finally does come if that big rally off of a bottom is sustainable it is going to end up being the first of many rallies. And that's where The Two Fold Formula comes in.

I have found that if a stock or ETF or currency (anything you can put on a price chart, but I'm going to stick with stocks for now to keep things simple) doubles off of a bottom and then pauses for a few weeks going sideways and then begins a new rally that second rally is often similar in size as the first rally off of the bottom!

When a stock successfully pauses after having a big rally off of a bottom what it is doing is breaking the back of the previous bear downtrend. By pausing it has provided a nice entry point and by showing us that it can rally hard on that first rally it has shown us that it can be a big mover. Not all stocks or ETF's can double off of a bottom, but the ones that can prove that they can move when they do. And that's a lot to know.

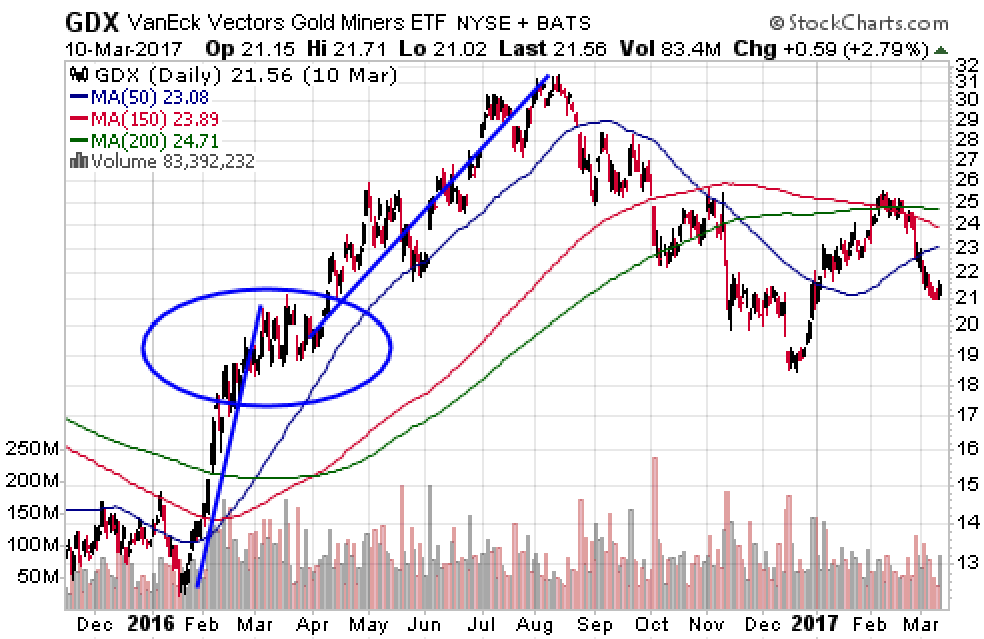
So there is no reason to watch much less buy stocks and ETF's that move like a turtle. We can narrow down our buy candidates. Then we can just watch a basket of possibilities and wait for one of them to line up exactly the way we want. We don't force things to happen. Instead we let The Two Fold Formula setup materialize. We have to wait for that to happen. There can be days that go by before I see anything in the markets that are playing out to make the price pattern needed for The Two Fold Formula, but it is worth the wait. The best thing I can do now is show it to you with examples.



What you are looking at are shares of RIOT. RIOT began a big rally in September that ended right on $10.00 in October. It more than doubled in just two weeks. It caught my attention and I actually made note of it as a potential breakout candidate for later if The Two Fold Formula came into play. And it did as RIOT succeeded in pausing and going sideways towards the end of November after which it broke out again and exploded higher. Now I don't believe this stock is a good buy now or a good investment. What is important is that at one time it was in 2017 when The Two Fold Formula came into play. Let me show you another example.

Exchange traded funds that represent entire stock markets rarely double, but they can go up huge. In 2012 the stock market in Greece put in a major bear market bottom in June after having fallen for several years. The GREK ETF went up 39% off of that bottom and then paused for several weeks. I have circled the time period in which it paused. That big rally and pause showed that not only had the Greek stock market put in a bottom, but that it was providing an entry point and if it broke out of this sideways pause pattern to the upside it would likely rally at least another 39%. That's a big move for an entire financial market of a country.

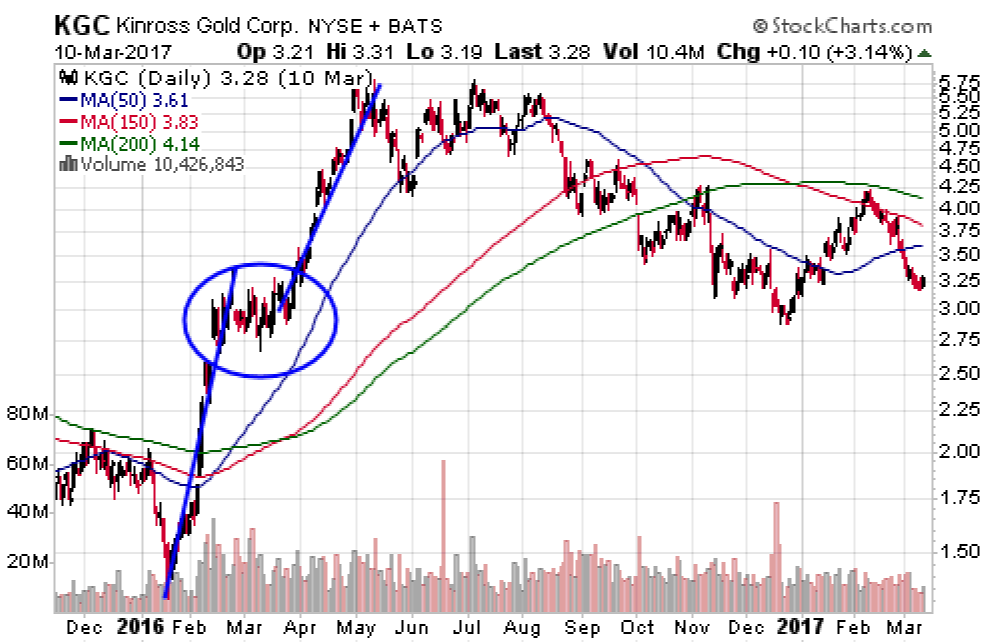
And the thing is there were individual Greek stocks that the GREK ETF held that doubled off of that bottom and had the complete Two Fold Formula pattern ready to trigger. I was able to point out what was happening at the time and actually bought GREK and some of the stocks myself. As you can see GREK surged after the pattern completed. The same thing happened with the GDX gold stock ETF in 2016.



From 2011 to 2016 the GDX gold stock ETF fell in a bear market. It then put in a major bottom in early 2016 and doubled in just weeks. It paused after doubling during the time period that I circled on the chart in a sideways price pattern.

The Two Fold Formula was once again playing out and once GDX ended this sideways period it rallied fast again to almost double again in just a few months. Those are huge moves for an exchange traded fund and even bigger moves came in individual mining stocks. The Two Fold Formula pattern even works with cheaper penny stocks. For instance take a look at this chart of IDM Mining.

Just like GDX and the other gold mining stocks IDM Mining had been in a bear market for years until it bottomed in January of 2016. It then surged off of that bottom up to 11 cents a share and paused for over a month as it traded between 10 and 11 cents in a sideways trading range. It broke through 11 cents a share at the end of April and triggered The Two Fold Formula and more than doubled in less than two months. It was an incredible run (at time of publication of this book I still own an interest in IDM Mining and GDX). It is important to note that many individual stocks that are part of the GDX ETF went up much more than ETF and played out The Two Fold Formula pattern to perfection. For instance look at KGC.



Shares of KGC also were in a vicious bear market that ended in January of 2016 when it fell below $1.50. It then bottomed and jumped up to $3.25 in just a few weeks to more than double off of its low. It was an incredible move and The Two Fold Formula began to line up as KGC went sideways to trade between $3.25 and $2.75 in March of that year.

It then busted out of that sideways pattern in April and more than doubled in only two months. There is a key thing to remember with this. The first giant move in KGC off of its low showed that it was a fast mover so that when it paused in March it was a top buy candidate and that sideways trading zone provided a much safer entry point than had been seen in the years preceding 2016 in the stock.

WHY THE TWO FOLD FORMULA REALLY WORKS

I have many more examples to show you in a moment and more recent ones too, but before I get to them it is important for you to understand why The Two Fold Formula actually works. It's all about supply and demand. These are the forces that really move financial markets and the things that cause prices to go up and down whether they be the prices of stocks, exchange traded funds, futures, options, and even crypto currencies.

Despite the fact that it is price movements that make people money in the markets or cause them to lose money people don’t really spend much time trying to figure out those movements and so end up being controlled by them. In order to master the markets and make them work for you need to understand what really makes prices move. So spend a few minutes thinking about this with me and you’ll see why The Two Fold Formula works.

Most people try to use things to try to predict future price gains like stock tips or rumors. Relying on such things is unreliable and in fact all too often makes one simply react to price moves that create stories. You have seen this happen before I’m sure. Most people that buy on news instinctively know this, but they just get caught up in the excitement of the moment.

In time they start to think that their answer is to find out about stories before everyone does. That is why people get attracted to stock rumors where someone tells you about some development happening in a company that is going to make the stock price go up.

You could get the tip from someone you know working at the company or read about it in a magazine or a newsletter. But the problem is most of the time these tips don't work out either, because they aren't really secret knowledge at all. There is no way you can know more about a company second hand than the corporate executives and their friends, their competitors, and the few analysts who are true experts on the company and its industry do. These people make up the smart money that creates sustainable moves in a stock. When you buy on a second hand tip that you hear or read about you are trying to outsmart these people and are putting yourself in a position where you are being led by others if not manipulated.

And that's a game you really cannot win. But you do not have to outsmart these people at all. The people you need to outsmart are the masses of other people who buy on stock tips, react to market news, and invest with little knowledge of what is going on. Think of this as the dumb money. Once you understand what really drives price action then you'll realize that you actually do have an inside edge that you probably didn't even realize.

It is really the dumb money that makes up the bulk of trades in the stock market even though they aren't the real force that moves stocks, futures, and ETF's in the long-run. The thing is though the biggest group of dumb money traders and investors actually is on Wall Street. The very people who try to appear to be the smart money are not the smart money at all. You can actually beat Wall Street traders, mutual fund managers, and hedge fund managers at the stock picking game, because you have a real edge over them.

For one thing most of them have so much money that they have to invest that they have to spread themselves very thin to do their job. They have to buy dozens and sometimes hundreds of stocks to properly diversify, where you can focus your resources on just a few issues.   What is more by managing other people's money they often have to make decisions that negatively impact their performance in the long-run.

For instance professional money managers are graded on a quarterly and often monthly basis. As a result they often make buy and sell decisions designed to lock in profits at the end of a month. They have to think short-term whereas by being completely independent you do not have to take such actions. The very fact that you are independent and can focus your resources on what works the best independently without regard to the influence of others is what gives you an inside edge over Wall Street.

The real smart money traders are not the people on Wall Street, but the people in the know – the company insiders and their friends. And then there are those that simply completely know the company and its industry and understand it much better than anyone else, because they live it. There are very few people with such knowledge, but they have the power to move stocks by buying and selling themselves ahead of future developments and by influencing others close to them to do so too. When a stock moves before news breaks it is these people that start such moves.

You can profit alongside the smart money by understanding specific patterns in price and trading volume that tend to occur over and over again in individual stocks when insiders buy during a major bottom and as a new major bull run in a stock begins. You do not have to know what they know to make money in stocks. You can't in fact, but that's ok. All you have to be able to do is recognize when they are building their position and you can see this in a stock chart. And this same pattern works beyond stocks with other markets too.

The reason why all you need to understand is price and volume action – what some call technical analysis patterns – is because every bit of known information is factored into a stock price and any financial instrument. What this means is that all of the information surrounding a company, including opinions about its management, products, earnings, the chances of a takeover, the broad economic outlook, and even the information known to insiders is represented by the trading price. As people's opinions change the price of the stock changes too – but these opinions can change minute by minute and be influenced by the change in stock price itself which impacts investor psychology and by insiders at major bottoms and tops.

What you need to realize is that when the smart money investors decide to build a position in a stock they impact the price of the stock and often influence the trading volume also. They cannot hide their own actions. You can buy near major bottoms in a stock price or when a stock is about to begin a bull market by simply looking for the patterns that repeat during these key moments when the smart money accumulates. If you have been trying to do this and losing money by buying just because a stock is dropping then once you complete this book you will never have to do this again. The Two Fold Formula is key.

Let me show you with some more examples.

THE TWO FOLD FORMULA IN 2017

Now I'm actually writing this book in January of 2018 and the stock market has had a big rally in the past few months that has pushed many stocks higher. In fact there was a big boom in Two Fold Formula price setups at the end of 2016 as several sectors inside the US stock market emerged from their own malaise even though the DOW, S&P 500, and NASDAQ had been in their own bull markets for years.

For instance Resolute Energy, which trades as REN on the NYSE, had been in a bear market for years along with many other energy stocks until it began to base in 2016 and then went up from $2.50 to over $7.50 to more than double. It then paused for several weeks to put The Two Fold Formula price pattern into action. Once REN smashed through the high of that range then it went up crazy from then on. But if you look at what REN had been doing before 2016 it was a terrible stock to own in 2014 and 2015 too.

Many people bought REN in those bad years and lost money trying to guess a bottom that never came in time for them. But then in 2015 it finally bottomed. Smart money and big players could see that the stock was a true fundamental buy. Perhaps it simply got cheap enough for them to step up and stop the decline and put a floor in the price. Or perhaps they knew that a real turn around in the industry that would benefit Resolute Energy, its bottom line, and the stock itself was up ahead. The masses don't have access to the kind of information and the news simply is always behind the curve. Only the insiders and true experts on an industry have the knowledge to know when a real turning point is coming. The masses that bought in too early where too early and suffered.

But as REN completed that sideways consolidation pattern in the summer of 2016 trading volume in it exploded and so did the share price. There really was no way to predict ahead of time that this day would come. But it did come.

And the stock surged up towards $7.50 and paused for several weeks. That surge got the attention of those watching REN shares. It showed that a big bottom most likely had finally been put in finally for real and that the stock could move big now when it did move. The sideways pause after that move put The Two Fold Formula price pattern into action to provide a safe entry point to buy for anyone who wanted it. And so the stock went above $7.50 and became one of the best stocks to own in the stock market for the next year.

Now REN wasn't the only energy stock that moved like this. Tellurian, which trades on the NASDAQ as TELL, did it not only once, but twice!

As you can see TELL was one of the worst stocks to own in 2014 and 2015, but after it bottomed in 2016 it became one of the best stocks to own.

It went all of the way down below 25 cents and then went up over a dollar after it bottomed at the start of 2016. It then went sideways to put The Two Fold Formula price pattern into action and broke out and surged. Then it paused again for yet another entry point. Now not all stocks do this over and over again and the more times they do it in a year the more likely you'll end up getting a failed pattern the next time and this pattern is not guaranteed to work every single time. That's why you can never put all of your money in one single stock, but you really shouldn't put everything into one single fund or ETF either in my opinion even if lots of advisors will say it's safe to have your money in only one or two mutual funds.

Now a lot of stocks actually came out of The Two Fold Formula at the end of 2016 as the DOW broke through 20,000 that year. What happened is that there were many sectors and stocks that actually had been falling up until that point despite the fact that the stock market had been doing fine.

It made for an interesting moment to get into new stocks. There were entire industries such as transportation stocks and construction and material stocks that were catching fire and bank stocks also began to rally at the end of 2016 to become an entire leading sector of the market for much of 2017.

You see when you look beyond just the major US market averages there is always a lot happening underneath the surface. Pingtan-Marine Enterprise was one shipping stock for example that put on The Two Fold Formula price pattern right at the end of 2016.

The smart money simply put a floor in PME shares after years of losses. But don't mistake this for price manipulation. That's not what they do. They aren't forcing prices up or down and then causing the masses to chase to take advantage of them. They are not making things happen all by themselves.

We need to think more about what is actually making The Two Fold Formula work in detail. I only just started to touch on it earlier.

THE TWO FOLD FORMULA IS A CONSOLIDATION PATTERN AT THE RIGHT TIME

Remember stocks move up and down, because of supply and demand and nothing else. The smart money just happens to have a greater understanding of company prospects and true fundamentals than the people on Wall Street much less the masses do so they happen to know when the right time to start to accumulate really is. Most people when they try to buy bottoms are merely guessing.

In the end The Two Fold Formula price pattern works, because it is the best price pattern that I simply know of to buy out of all other price patterns. It is a price pattern of sideways consolidation at the right time. And this is why it works with more than stocks, but with anything that trades in the financial markets when it lines up to form The Two Fold Formula.

Let me dig deeper into price to show you what I mean. Stocks move up when there are more buyers than sellers and down when there are more sellers and buyers. In a bear market or big price decline like what hit REN in 2014 and 2015 the sellers were in control and those that tried to buy where basically spitting in the wind.

It bottomed when the sellers started to run out of shares to sell and more and more buyers came in. Those buyers on a bottom tend to be the smart money.

When REN finally exploded off of its bottom the buyers simply took over and the stock shot up. The reason they took over is because the sellers pretty much vanished. They ran out of shares to sell.

But then after that double REN went into a sideways consolidation period in which the number of buyers and sellers became equal for a brief amount of time.

That is the moment that The Two Fold Formula comes into action. It happens on the first big rally off of a major bottom when a moment comes when the number of buyers and sellers become roughly equal for a period of time. What happens is that there are people who decide to sell simply because the price went up. Maybe they are people who bought years ago and have losses and just want to get their money back or perhaps some of them are people who bought months ago and just are happy with a small gain. Whatever the case this group of sellers causes the rapid stock advance off of the bottom to stall out and for the stock to go sideways, but the stock does not crash or go into a serious decline like it would have done years ago.

That's because this time the rally is for real and more people realize that things are different for real this time and start to buy. It could be the smart money themselves buying more or early bird Wall Street traders and even small investors with a closer connection to the company or the industry the stock is in than the masses have and see a situation developing that few others see.

What is important is that this buying holds the stock up and prevents the sellers from making it enter a real decline.

And during the consolidation phase as the sellers and buyers are roughly equal the stock goes sideways to create The Two Fold Formula price pattern. The pattern completes when and if this new group of sellers runs out of shares to sell and the buyers take over again. Then the stock explodes higher again for big gains.

But understand this is a price consolidation pattern created by the forces of supply and demand at the right time. And that time is after the first big rally off of a bottom.

And this is why the pattern works for more than just individual stocks. It can work for entire stock markets and ETF's after a major bear market has played out.

It can work for things such as currencies that trade in the forex market and it even works in the futures market when the price pattern appears for gold, silver, and other precious metals.

It works for anything that can trade. For instance in 2011 many commodities began big bear markets that lasted for years. Most people as I write this in the year 2018 know that oil prices had a big drop several years ago, but so did agriculture commodities too and several of them put on The Two Fold Formula once the bear decline came to an end.

Using The Two Fold Formula requires patience, because it requires waiting for the pattern to form. It's a pattern that comes after a major bottom is put in and is not a pattern for trading or buying things that have already gone up for years on end and that's why only a few people use it.

The reality is the more a market or stock goes up the more people want to buy it. In the end the masses tend to chase price action and the longer something goes up for the more they want to chase. And chasing actually can work during most months of a bull market.

Even if you buy something right on a price top ahead of a correction once the correction is over typically prices will come back and go higher. That's of course assuming that you are in a strong bull market.

But once you get towards the end of a bull market chasing leads to losses and if you buy rallies during a bear market you can end up caught up in disaster. So while chasing can work at the right time at the wrong time it's a terrible thing to do.

This is why in the end even if other price patterns can bring gains The Two Fold Formula still remains the single best trading pattern that I know of and when I can use it there is no reason to use anything else. There simply is nothing else that can provide the size of the gains The Two Fold Formula can with the amount of risk needed to use it. Most things mean more risk!

Buying in the top of a market hoping for an additional couple percentage points is not worth doing in my view even though Wall Street money managers are forced to do so.

We can choose what we want to buy and when we want to sell. We are in control of what we do in the financial markets and being patient and using the best setups possible enables us to choose not to be a price chaser or to buy on a tip or a news story and only when we have the best high reward and low risk opportunity as possible.

That means sticking with the charts and the best patterns instead of just getting caught up with the crowd who tends to hate buying something after it has fallen in a bear market and actually has bottomed and who get the most excited around major market tops!

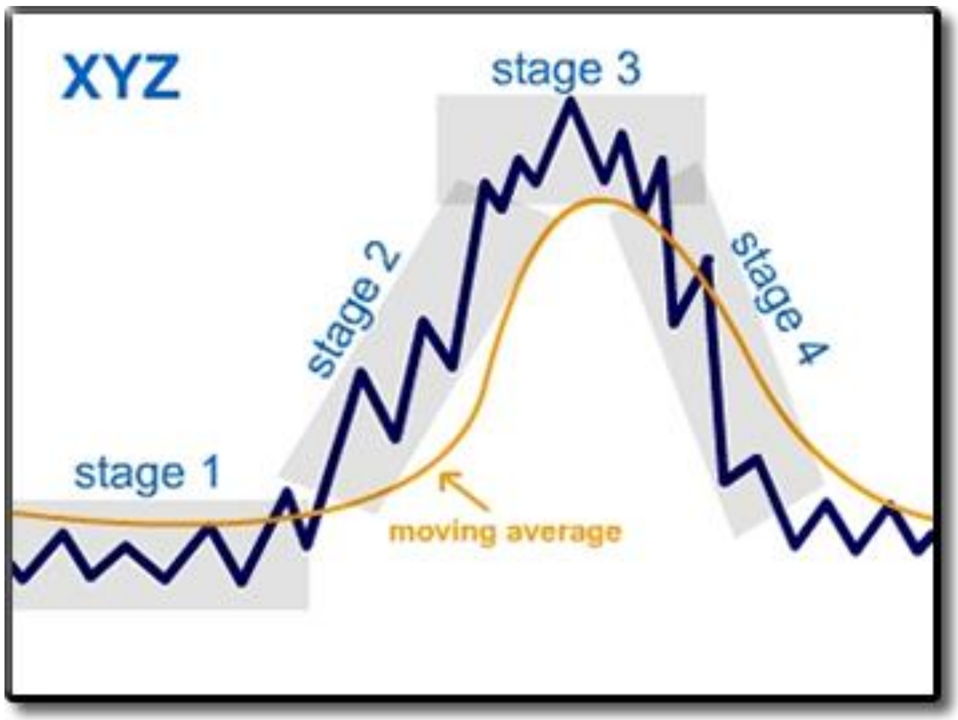
Now we can also choose what market, sector, or even asset class to buy too or in fact to get involved in several of them. The best way to make that choice is to use what I called stage analysis to identify where in a market cycle what you are looking at is in. When you put The Two Fold Formula together with stage analysis you make your market analysis incredibly powerful. Let me explain what I mean by applying several of the concepts we have used so far in this book to individual stock sectors. This will allow us to reinforce them in our minds so we can use them better and also see how they can be used in an overall investing strategy.

Sector Investing – From Trough to Peak

Of course you know the economy goes through a business cycle of recession and expansion in which troughs and peaks are formed. You may not know it but the stock market tends to lead such cycles, topping out months ahead of the economy and bottoming well before an economic trough is formed. In fact by the time the stock market is usually well into a bull market before it is clear from the economic data that an economic expansion is well underway.

The individual sectors of the market tend to lead the economy just as the stock market as a whole does. However, the sectors do not all trade together. Some sectors lead the economy while others lag, and there are times when developments particular to an individual sector cause it to seem to trade in its own world separate to what is going on everywhere else. In each stock market bull market too there are often new sectors that lead the bull market that didn't last time, because there are always new areas of innovation and growth in the economy.

Markets, sectors, and stocks all tend to have a distinctive cyclical pattern to them - I like to say they go through stages. Stage one is a sideways consolidation period following a bear market. Stage two is a bull market, stage three a topping phase, and stage four a bear market. You can apply this concept to stocks and stock market averages and anything you can put on a chart.



At a stage two bull market top almost all of the news focusing on a sector is incredibly positive. Analysts are projecting huge earnings growth for the future while the stocks often hold big valuations as a result of these expectations. However, often insiders are selling out at this time, because they believe that they have seen a peak in growth for their industry or else a recession is looming in the future. A top comes and eventually as the future the insiders see up ahead becomes a reality the stocks can often crash, because the big valuations have set them up for huge selling when investors get caught off guard. A classic example came with the home builder Toll Brothers when its CEO sold hundreds of millions worth of stock at the end of the real estate boom while the stock – and the homebuilding sector – remained a favorite of most Wall Street analysts. A year later it became clear to everyone that the real estate market made a major top in the US around the time this CEO was cashing out and the stocks got hammered for massive losses as a result.

After a major top a sector will go into a bear market stage three decline, but during this decline more often than not the analysts still stay positive for much of the time, thinking that any slowdown in the economy or earnings is just a temporary blip and that all pullbacks are buying opportunities. The public which got conditioned by the last bull market to buy dips, jumps in thinking all down days are buying days, but insiders and the smart money players know better and feed shares to them. Some even profit by short-selling. This goes on until finally the smart money sees that the price has fallen so much that it makes no sense to sell anymore. They stop selling and finally a bottom comes in the sector.

What you need to realize is that a bottom doesn't come when all of a sudden the smart money starts to buy and thereby makes everything go up, but when they stop selling. Bear markets end when the selling pressure comes to an end, and more often than not this process comes with a panic washout on the part of the public and so called professional traders on Wall Street who really are not much better at investing than the average man in the street. The mediocre performance of most mutual funds proves this fact.

Now you can quickly identify what stage a sector, market, or stock is in by looking at its price in relation to its 200-day moving average – which is an indicator created by looking at the average price over 200 days. If the price is above this moving average and the moving average is sloped upwards then you are looking at a stage two bull market. However, if the price is below this moving average and that moving average is trending down then you are looking at a stage three bear market. You can find this indicator and use it with your favorite stock on several free stock charting sites available on the internet. One I use often is stockcharts.com and I used it to make the charts for this book.

The above chart is a chart of the S&P 500. The moving average in the chart is the 200-day moving average. From 2003 till late 2007 the S&P 500 was in a stage two bull market, because this moving average was sloping up and the price of the S&P 500 stayed above this moving average. Then the S&P

500 entered a bear market by going below this moving average and staying below it as the moving average turned down.

It is during a stage one consolidation phase following a bear market that the insiders and smart money build a position and that you need to be most alert. The ironic thing though is that during this time the general public has no interest at all in the sector. The news generally is bad, earnings growth often has been negative the past few quarters, and the financial media, which talks more about stocks going up and hot news items reports very little on the sector. However, despite all of the negativity over the sector, the stocks that make it up simply are going sideways in a stage one basing phase.

What is happening is that the smart money has put a floor on the sector by accumulating shares, because either the valuations for the sector have become so cheap that it is ridiculous or else they see light at the end of a recessionary tunnel. The sector is not going up yet though. It’s just going sideways in a range and that fact either bores most people or frustrates them into thinking that nothing is good about the sector anymore. So the dumb money keeps selling as the smart money accumulates.

Just as the smart money helps put a floor on prices the dumb money keeps a lid on them, selling on up moves in the sector thinking that they have to be temporary because the news is still bad. This can go on for weeks, months, and sometimes even up to a year. During this time the 200-day moving averages flatten out and prices fluctuate above and below the moving average.

As the end of the stage one consolidation phase nears the buying pressure from the smart money begins to pick up. In the individual stocks that make up the sector volume often picks up too. The trading range begins to narrow as the peaks and lows of the sector form closer together. Then the dumb money simply runs out of shares to sell. Buyers take over and a big upside breakout through the consolidation phase takes place and a new stage two bull phase begins.

The optimal buy point occurs right towards the end of this consolidation phase right before a new bull market begins. It is at this point that you can buy a stock and watch it quickly rise double and then go even higher from there. But it's tough to buy right then without being an insider or practically an expert on the sector, because it is so dead and attracting little attention when almost everything else is moving faster.

Often though as the new bull market begins the news can still be negative and there is often a lot of doubt among people if the move is for real or not. The masses remember the pain they experienced getting excited over the false rallies that came with the last bear market and worry that this rally is probably a false one too. So many of them sell the rally.

They help to cause the stock to pause after the initial rally and cause it to enter a sideways consolidation pattern. Their selling keeps it down, but smart money buying holds it up. It is at this time that The Two Fold Formula price pattern emerges.

The masses typically remain totally asleep on the situation, but it is here that we can more easily see the opportunity at hand. The fact that the sector has rallied hard off of a bottom enables it to show up in technical scanning software and get on our radar screen and The Two Fold Formula provides us with an entry point. It is these situations I really enjoy pointing out to people following my work on WallStreetWindow.com.

In the end sentiment typically is still negative among people on this opportunity as you are still early in a bull market. They don't buy at the start of the bull move, but wait until much later when the news gets better and the Wall Street analysts and talking heads on television tell them they need to buy. And then the long and higher something goes the more the masses get in. And then eventually the cycle repeats itself once another top is formed with a stage three top, a bear market, and a bottoming phase of insider accumulation.

The great thing is when one market is in a topping phase often another market or sector or asset class is in a bottoming phase or early in a bull market. So there are always places to make money no matter what the US stock market is doing. And actually using some money to bet against certain trends is a way to reduce overall risk in a portfolio along with diversifying, but that's a topic for another book.

When I first began to use The Two Fold Formula back in the 1990's I did it with short-term trading in Internet stocks. Today I tend to hold my positions as an investor and use The Two Fold Formula for entry points and stage analysis to navigate my way through the big picture moves of all of the financial markets. I went from being a day trader to essentially a macro style positional investor.

It doesn't really matter though if you are doing fast trading or long-term investing, because I firmly believe that your knowledge of The Two Fold Formula price pattern can be one of your most powerful tools of analysis now.

Keep up with my work on WallStreetWindow.com, because in it I talk about the financial markets and apply stage analysis to them and look for opportunities for us to use The Two Fold Formula together.

- Mike Swanson (founder WallStreetWindow.com)