# THE BATTLE

## OF THE MARKETS

Introduction To The
1% Trader Masterclass

Learn The
3 Major Conflicts
That Moves The Markets

Aaron Valley

# Battle #1 - Dollar vs Oil

## Stock Market Timeline

| Timeline Legend | | | | | |
|---|---|---|---|---|---|
| Currency | Gold | Crash/Crisis | Oil Production | Oil Triggers | Significant |

- ☐ 1609 - Wall Street begins as a Dutch trading Post
- ☐ 1653 - African slaves build wall to protect from Native American raids (Wall Street)
- ☐ 1690 - Colonies create first fiat currency until 1764; Revolutionary War begins
- ☐ 1711 - Slave Market began on Wall Street (African & Indigenous traded); ended in 1763
- ☐ 1775 - Continental Congress creates second fiat currency until 1785
- ☐ 1781 - First Central Bank in the United States until 1783; Revolutionary War ends
- ☐ 1791 - Second Central Bank in the United States until 1811
- ☐ 1792 - Wall Street stock market created; moved indoors one year later
- ☐ 1816 - Third Central Bank in the United States until 1836
- ☐ 1817 - Formal New York stock exchange organization created
- ☐ 1837 - Stock market crash due to fiat failed currency
- ☐ 1848 - Gold Rush starts
- ☐ 1857 - Stock market crash due to gold;
  JP Morgan bails out Wall Street
- ☐ 1859 - First oil boom in Pennsylvania
- ☐ 1861 - U.S. Civil War begins ends in 1865
- ☐ 1863 - National Banking Act; "Greenback" Fiat currency fails; New York Stock exchange building built
- ☐ 1866 - Wooden pipelines invented ($13:3)
- ☐ 1869 - Black Friday stock market crash due to gold
- ☐ 1870 - Standard oil begins; Rockefeller consolidates refinery industry
- ☐ 1872 - Rockefeller launches "Our Plan";
  NY Mercantile founded;
- ☐ 1873 - Nobel brothers enter oil business in Russia; stock market crash
- ☐ 1879 - Standard Oil owns all pipelines and 90% of all us refining
- ☐ 1882 - Standard Oil Trust formed
- ☐ 1884 - Dow Jones Average created;
  Wall Street Journal founded
- ☐ 1885 - Rothchilds enter oil business in Russia; Royal Dutch discovers oil
- ☐ 1888 - Rothchilds, Nobels and Rockefeller create distribution in Britain

☐ 1890 - Rockefeller begins oil production, controls 90% of production by 1891;
Sherman antitrust Sherman Silver Purchase and McKinley Tariff Acts all pass

☐ 1893 - Stock market crash;

☐ 1895 - JP Morgan saves US government from bankruptcy

☐ 1896 - Ford builds first car

☐ 1900 - Gold Standard Act

☐ 1901 - Oil discovered in East; Texas Sun, Texaco and Gulf companies created

☐ 1902 - Dow Theory discovered and compiles until 1922

☐ 1903 - Wright brothers first flight;
NYSE building completed

☐ 1907 - Shell and Royal Dutch merged through Rothschilds; The Panic of 1907; JP Morgan rescued banks, the Stock Market, and New York City from financial ruin

☐ 1908 - Oil discovered in Persia; Anglo-Persian oil founded

☐ 1910 - Oil discovered in Mexico

☐ 1911 - Standard Oil split - Exxon Mobil Chevron Amoco BP Conoco Sun;
Stock Market trading rules created;

☐ 1913 - Federal Reserve Act; Ford Central Bank; Fiat currency

☐ 1914 - Britain acquires BP;
WWI begins, ends 1918;
Federal Trade Act

☐ 1920 - Russia nationalizes oil production

☐ 1922 - Oil discovered in Venezuela

☐ 1928 - Underwater drilling technology developed

☐ 1929 - Black Thursday, stock market crash

☐ 1930 - Major oil discovered in East Texas

☐ 1932 - Oil discovered in Bahrain

☐ 1933 - U.S. declares bankruptcy;
Banking Act (Glass-Steagall) passed (FDIC);

☐ 1934 - Anglo-American Petroleum Agreement;
Securities and Exchange Act (SEC)

☐ 1938 - Oil discovered in Saudi Arabia and Kuwait; Mexico nationalized oil

☐ 1939 - WWII begins, ends in 1945

☐ 1944 - International Bank for Reconstruction and Development (IBRD, later part of the World Bank group) and the International Monetary Fund (IMF) establish

☐ 1948 - World energy consumption triples;
Israeli Nation established;

☐ 1951 - Iran nationalized oil

☐ 1954 - U.S. Iranian consortium created

- ☐ 1956 - Oil discovered in Algeria and Nigeria
- ☐ 1959 - Oil discovered in Libya until 1961
- ☐ 1960 - OPEC created; Quotron created
- ☐ 1962 - Stock market crash
- ☐ 1967 - Arab embargo against Israeli allies
- ☐ 1968 - Oil discovered in Alaska; Iraqi Revolution
- ☐ 1969 - Oil discovered in North Sea; Libya's oil production exceeds Saudi Arabia; first algorithmic Black box created;
- ☐ 1970 - Stock market crash
- ☐ 1971 - Currency removed from final gold standard; Dollar becomes world currency reserve
- ☐ 1973 - First oil shock; Arab oil embargo ($3:11)
- ☐ 1976 - Superdot - Electronic order system created
- ☐ 1978 - Second oil shock ($14:34); Iran revolution
- ☐ 1982 - Non-OPEC oil production exceeds OPEC for first time; Automated trading begins; Black box connected to Quotron
- ☐ 1983 - Nymex launches (WTI) oil futures
- ☐ 1986 - Third oil shock ($32 - 10)
- ☐ 1987 - Black Monday, stock market crash (mortgage)
- ☐ 1990 - Fourth oil shock ($20:40); Globalization begins - world economy triples in size until 2009
- ☐ 1991 - Gulf War; Soviet Union collapses
- ☐ 1993 - Electronic Trading Funds (ETF) created
- ☐ 1994 - E-commerce begins
- ☐ 1997 - Asian financial crisis begins
- ☐ 1998 - Asian financial crisis causes oil collapse; Russian financial crisis - Russia declares bankruptcy; Consolidation of oil companies - BP Exxon Mobil Chevron ConocoPhillips;
- ☐ 2000 - Stock market crash (Tech)
- ☐ 2004 - Oil demand increases from Globalization
- ☐ 2006 - Oil discovered in Brazil
- ☐ 2008 - 5th oil shock ($30:147); stock market crash (mortgage)
- ☐ 2012 - Last open outcry; All markets begin trading electronically

## Market Timeline Highlights

**1837** - There have been 6 fiat currencies and 4 central banks (1690, 1775, 1781, 1791, 1816). None of the central banks have lasted longer than 20 years. The last central bank of this era lasted until 1836 and there was a stock market crash the following year. The panic of **1837** was a financial crisis based on the poor fiscal and **monetary policies** in the United States and Great Britain. The money supply in the United States grew at an average annual rate of 30 percent between 1834 and 1836 causing the central bank to fail and an economic crash soon after. Another central bank was not attempted until nearly 100 years later in 1914.

**1869** - Wooden pipelines were invented (1866) which created a faster and more steady flow of oil to refineries. No longer was there a long waiting period to transport the oil to the railways. Between 1863 and 1865, wooden pipelines were laid and they proved their efficiency to carry crude oil in a better and much cheaper way. This steady flow created an **overproduction** of oil in the markets creating a stock market crash 2 years later in **1869**.

**1893** - Rockefeller created a monopoly of oil in the U.S. by forming the Standard Oil Trust (1882) and controlling 90% of oil production (1870, 1879) and refineries by 1891. He also created partnerships with the Rothschilds and Nobels to create oil distribution in the U.K. This much control of oil distribution created another **overproduction** of oil causing the next stock market crash in **1893**.

**1913** - J.P. Morgan rescued the U.S. government and financial system on at least 3 separate occasions. (1857, 1895, 1907). He continuously pledged his own money as well as convinced other wealthy individuals to do the same in order to stabilize the banking system. He vowed to never do this again and helped create the final central bank for the U.S. This new central bank introduced new **monetary policies** that affect banking and economic policies. This new Federal Reserve system, however, didn't provide the solution J.P. Morgan had envisioned. Without J.P. Morgan to save them once again, the U.S. government declared bankruptcy in **1933**.

**1929** - Several countries like Iran (1908), Mexico (1910), and Venezuela (1922) discover oil in the early 1900s. Combine this with the new invention of underwater drilling technology (1928) which allowed countries to find oil offshore and what results are a major influx of new oil being introduced to the oil market. This **overproduction** of oil causes the stock market crash of **1929**.

**1944** - A new international monetary system was created called the Bretton Woods System. This Agreement established a system of fixed currency exchange rates that could be created using gold as the universal standard. This system created the World Bank and International Monetary Fund (IMF). The World Bank offers loans to developing countries in an effort to reduce poverty and increase growth through building infrastructure. The IMF oversees the stability of the global money supply and regulates currency exchange rates around the world. Although neither of them is a central bank since they don't have their own fiat currency, they are, however, backed by the Federal Reserve giving them the same level of influence and power. The IMF is controlled by a board of governors. The Secretary of the Treasury serves as the U.S. Governor to the IMF but the rest of the 24 governors are typically governors of a central bank in their respective countries.

1951 - When oil was originally discovered in the Middle East (1908) they were initially assisted by 8 oil companies to learn how to drill, refine, and distribute their oil. Agreements were made that gave these foreign oil companies up to 50% ownership of oil production. In 1938, Mexico nationalized its oil and removed all foreign oil companies from its country. Years later, Middle Eastern countries followed the same strategy as Mexico and nationalized their oil as well. These Middle Eastern governments voided these agreements and forced a buyout from these oil companies to sell their ownership. **Iran was the second to nationalize its oil (1951)** to remove Western control of its oil reserves. Then Syria (1964), Iraq (1972), Kuwait (1975), and Saudi Arabia (1974-1980) all nationalize their oil as well. Oil-producing countries in Africa, as well as Venezuela and Russia, also followed this strategy. These foreign oil companies (and their governments through taxation and tariffs) lost billions of dollars through the tactic of nationalization.

1960 - Western oil companies like the U.S., U.K., and France had taken control of the oil in many oil-producing countries through agreements like the Consortium Agreement of 1954. So these countries united to battle against this western influence and formed the Organization Of Petroleum Countries (**OPEC)**.

1962 - New deposits of crude oil are found in the MENA region of Africa like Saudi Arabia (1938), Algeria (1956), Nigeria (1956), and Libya (1959-1961). This **overproduction** of oil caused the stock market crash of 1962.

1967 - In retaliation for the nationalization of their oil, Western governments began putting heavy sanctions and tariffs on the countries in the M.E.N.A. region. With significant tensions existing between OPEC, foreign oil companies, and Western governments, OPEC responded by using the tactic of oil embargos. They would ban petroleum exports to targeted nations and introduce cuts in oil production. The first oil embargo only lasted 4 months and didn't make a significant impact due to a lack of solidarity and uniformity among the OPEC members.

1970 - Additional oil is also discovered in Alaska (1968) and the North Sea (1969) through the use of fracking which was invented in 1949. This was a more advanced version of the underwater drilling technology (1928) that had previously been used. Saudi Arabia was the single largest producer of oil in the world for more than 30 years until Libya outproduced them for the first time in 1969. This **overproduction** of oil caused the stock market crash of 1970.

1971 - The reason that the Federal Reserve System (1913) survived passed the 20 years span of its central bank predecessors was that its currency was not fiat, at least not yet. It was backed by gold and silver. Remaining on these reserves allowed this central bank to progress and establish roots within the banking, financial, and economic systems of the U.S. The silver reserve was removed in 1933 from the U.S. Dollar and the gold reserve was removed in 1971. President Nixon also removed gold as the universal standard of other currencies. The IMF under the guidance and authority of the Secretary of the Treasury then established the U.S. dollar as the world's dominant reserve currency. A reserve currency is held by central banks in significant quantities and then used to conduct international trade and financial transactions, eliminating the costs of settling transactions involving different currencies. The landscape of the global financial system was forever changed after these changes took effect.

1973 - OPEC initiated a second oil embargo in 1973 causing the 1st Oil Shock. This effort was more unified by the OPEC members and an **overproduction** of oil resulted in a barrel of oil increasing from $3 a barrel to $11 a barrel creating the Oil Crisis of 1973. OPEC targeted countries that supported Israeli in the Arab-Israeli War (1967) like Israel, United States, Britain, Netherlands, Rhodesia, South Africa, and Portugal. The embargo caused the United States and western European countries to reassess their dependence upon Middle Eastern oil. It also led to far-reaching changes in domestic energy policy, including increased domestic oil production in the United States. This brought soaring gas prices and contributed to a major economic downturn in the U.S.

1978 - OPEC continued to defend itself against the U.S. and its allies by using oil embargos. They decided on a third embargo in 1978, and **overproduction** of oil again caused a 2nd Oil Shock. The 12 countries that made up OPEC at the time stopped selling oil to the United States. This embargo took oil from $14 a barrel to $34 a barrel. Higher prices and concerns about supplies led to panic buying in the gasoline market. Monetary contraction by the Federal Reserve, combined with the impact of the oil price shock, pushed the economy into the most severe recession since the Great Depression.

1986 - OPEC realized over a decade of oil embargos and Oil Shocks that they had an effective weapon to wield against the U.S. economy. They executed a fourth oil embargo in 1986 which caused a 3rd Oil Shock. Unlike the two previous Oil Shocks, this time they chose an **underproduction** of oil which resulted in oil falling from $32 a barrel to $10 a barrel. OPEC decreased oil production several times in an attempt to maintain oil's high prices. Consequently, its production was surpassed by non-OPEC countries and OPEC's members began to have divided opinions. Fed up with lowering its production in the face of high output from elsewhere in OPEC, Saudi Arabia decided to punish the undisciplined OPEC countries. The Saudis began **overproduction** at full capacity, creating a huge surplus. As a result, oil fell to as low as $7 per barrel. This caused a stock market crash in 1987.

**1990** - The 4th Oil Shock wasn't connected to an oil embargo but instead, it was in response to the Iraqi invasion of Kuwait. Intentional or not, the spike still contributed to the recession of the early 1990s in the United States. The **overproduction** caused oil to rise from $17 per barrel to $36 per barrel.

**1998** - The Asian financial crisis began in **Thailand** and then quickly spread to neighboring economies. It began as a currency crisis when the Thai government ran out of foreign currency. No longer able to support its exchange rate, the government was forced to devalue its currency relative to the U.S. dollar. This set off a series of **currency devaluations** losing half its value by the end of 1997. The Russian ruble also came under speculative attack as the Central Bank of **Russia** lost nearly USD 6bn in foreign exchange reserves. **Japan** was also affected, though less significantly. The Asian currency and financial crisis had global repercussions, particularly on trends in the Japanese economy. The Bank of Japan (BOJ) hiked interest rates to cool down the real estate market. **Korea** was one of the last countries to be affected by the crisis. The won dropped in value and a large investment panic led to the eventual bankruptcies of several South Korean conglomerates. World commodity prices, including oil, started to drop as a result of the turmoil resulting in the Oil Price Crisis of 1998.

**2000** - The Asian Financial crisis and the real estate crash in Japan had a major effect on the U.S. economy and stock market. Asia's economic crisis in 1997 caused a drop in demand in what has been a growth region for oil markets. Though OPEC focused on **underproduction**, global prices still plunged sending oil from $20 a barrel to below $10 per barrel. These downturns, plus an increasingly constrained environment for oil concessions globally, encouraged a string of oil mergers among the world's largest private oil companies (BP & Amoco, Exxon & Mobil, and Texaco & Chevron). This was a unique economic climate where a weak financial system converged with a weak oil market. These factors exposed the market manipulation that existed in the U.S. stock market. Weak global markets and an overvaluation of tech companies caused a stock market crash in 2000.

**2008** - OPEC waited nearly 20 years before they implemented its 5th oil embargo. This is also the 5th Oil Shock to affect the U.S. economy. Whereas previous oil price shocks were primarily caused by physical disruptions of supply, the price run-up at this time was caused by strong demand confronting stagnating world production. An economic rise of China and India, along with rising fuel prices and high food prices, begin to cause unrest around the world. Markets in Asia and the Middle East started to feel the effects. Real estate bubbles started to pop around the globe until they finally reached the U.S. OPEC continued its overproduction of oil trying to meet the global demand. The **overproduction** of oil drove the oil from $30 to $147 a barrel. The oil embargo didn't just expose the market manipulation within the overbought real estate markets in Japan and Dubai but also in the U.S. All of this happened within one year as a stock market crash took place the same year as the Oil Shock.

## Battle #2 - Emotions

**Sentiment**
Most likely you've heard the word sentiment when the stock market is being discussed. Sentiment, in the financial markets, is the emotions each trader will have when deciding whether to trade and even how they will trade. As multiple people share those emotions and decide to trade in the same way, the sentiment will build. This increased sentiment will create groups of people, all moving in the same way. The group with the most people that share a sentiment will win the battle and the market will move in the corresponding direction of that shared emotion. These movements are tracked through buying patterns and trading cycles. A buying sentiment is called bullish and a selling sentiment is called bearish. Bull and bear markets are propelled by behavioral finance and mass psychology.

There are 3 main emotions that control the movements of the stock market:

I. Fear - Sends market towards a bearish sentiment
II. Greed - Sends market towards a bullish sentiment
III. Uncertainty. - An undecided market lingers in a static sentiment

**Supply & Demand**
The beginning of a trend in a market starts with supply and demand. Supply and demand are simply the relationships between the quantity of a commodity that producers have available for sale and the quantity that consumers are willing to buy. There is typically no emotion involved in this decision. Most people buy or sell because the fundamental and technical analysis is logically sound. This was how the original Dutch trading post functioned starting in 1609. It bought, sold, and bartered agricultural commodities based on supply and demand.

**Participants**
Next, the perception of the market participants will enter into the equation. People will see others increasing their purchase or sale of an item which will trigger the emotions of fear or greed. They will either have a fear of missing out (FOMO) or they will become greedy and want to accumulate as much of the item as possible. Since everyone else is validating the value or even the potential value of the item, people will react to these emotions to either be a part of the market action or leave the market because the fear of loss is too great. People are either buying because everyone else is buying or they are selling because everyone else is selling.

**Sentiment**
This group sentiment elevated the markets passed the concept of simple supply and demand. People were no longer buying for consumption or bartering. In 1844, the invention of the telegraph allowed securities brokers to adopt the technology of sending market quotations thus being the foundation of the infamous stock market ticker in 1867. This gave way to the open

outcry which was a form of communication between dealers and brokers in floor trading in which securities prices and trading volume are indicated via hand signals or by shouting. By 1849, the stock market introduced the auction method of buying and selling which increased the emotions and sentiments of the participants. In 1874 telephones were installed at the exchanges allowing them to process high volumes of trading. These four innovations brought a new and increasing level of emotion that would subsequently create more consistent panic and hysteria.

**Algorithms**

In times past, it took a lot longer for this sentiment to build in a market. It also took longer for the trading cycles to bubble and burst. But with the invention and implementation of automatic trading also known as algorithms, the sentiment builds faster and the bubble can burst quicker. Algorithms agitate the emotion of the group of buyers or sellers. Participants see the supply and demand growing because the algorithms are transacting in large quantities and at high frequencies. However, the participants don't recognize that these transactions are not real people and not real emotions. Nevertheless, they feed into the mass psychology and herd mentality of human nature and develop an emotional desire to participate because they perceive that everyone else is.

**Overbought/Oversold**

Sometimes emotion can become overwhelming or extreme and this affects the markets as well. The mania of buying or selling coupled with the algorithms and high-frequency trading increases the sentiment of the market. This causes people to buy or sell well past the needs of supply and demand. When the markets are no longer moving based on quantity available or quantity desired, it becomes overbought or oversold. An overbought position is caused by extreme emotion that leads to extremely high pricing but the value no longer matches the high price. An oversold position is caused by extreme emotion that leads to extremely low pricing and likewise, the value no longer matches the low price.

When the market is overbought the absolute value has reached a point where the participants are no longer willing to pay that amount. People are still buying out of greed, feeling that the price is still undervalued. Some are also selling out of panic, realizing that the item is actually overvalued. When the market is oversold the absolute value is so low that the participant will buy because the value is higher than the price being offered. People are buying because the item is undervalued. The low price provides an opportunity for future profits based on the anticipation of the value increasing again.

**Market Agitators**

The stock market is overwhelmed with emotion and that shared sentiment creates volatility. However, there are also agitators that can fan the flames and push the markets toward panic or hysteria. Let's review the top 10 agitators that contribute to the market's volatility.

1. Expectations

   The stock market is constantly adjusting and reflecting the outcome of news, events, conditions, reports, and analytics. But these are not the reasons why the markets move. Data and information don't move the markets, expectation does; it's the expected results of that information or the expected outcome from the information. The market expectations theory melds into the theory of efficient markets, which asserts that all market pricing already "knows" all of the commercial data that are known. The theory is that market efficiency causes existing market prices to reflect all relevant information at all times.

2. News

   Information from the news is a primary way for many traders to find the sentiment of the markets. Traders often act on this news which is, in some way, directly or indirectly related to a stock or the stock market. Good news will typically attract the attention of bullish traders just like bad news will catch the attention of bearish traders. A popular strategy is to buy the rumor and sell the news. This technique is used when a stock rises ahead of major news or events and then it declines sharply when the event is published or broadcasted in the news. News has been designed to spread sentiment on a mass scale which is why it is one of the primary agitators of the markets.

3. Company Quarterly Earnings

   It is routine practice for publicly traded companies to announce their earnings periodically through quarterly and yearly financial reports. These reports provide a market glimpse into how stocks will likely be valued in the future. Stock prices tend to rise when earnings results exceed market expectations while disappointing earnings results tend to lower share prices.

4. Monetary Policy Changes (Central Banks)

   Expansionary monetary policy is when a central bank uses its tools to stimulate the economy. That increases the money supply, lowers interest rates, and increases demand. It boosts economic growth. It lowers the value of the currency, thereby decreasing the exchange rate. An expansionary monetary policy will also reduce the cost of borrowing. Therefore, consumers tend to spend more while businesses are encouraged to make larger capital investments. Conversely, tight monetary policy periods cause equities to underperform, as higher interest rates restrict risk appetite and make it relatively expensive to buy securities on margin.

5. OPEC Policy Changes (OPEC+)

   OPEC and its member countries collectively agree on how much oil to produce, which directly affects the ready supply of crude oil in the global market at any given time. As a cartel, they subsequently exert considerable influence over the global market price of oil, controlling 40% of the world's oil production and 60% of internationally traded oil. This gives the organization massive control over the international price of oil, allowing it to keep prices high. Oil prices directly influence the value of oil stocks. When OPEC takes steps to increase oil prices, it can also boost the price of oil stocks. It can also impact the stock price of individual corporations since the cost of gas is reflected in every consumer product price. That's why when gas prices increase so does the price of consumer products. This, in turn, will affect the Consumer Price Index (CPI) and the Consumer Confidence Index (CCI) which will subsequently affect the entire economy.

6. Analyst Upgrades/Downgrades
   Often, when an influential analyst changes his or her rating on a stock, it tends to influence the price of that stock: an upgrade (e.g., from "hold" to "buy") tends to send the price higher, while a downgrade (e.g., from "hold" to "sell") tends to send the price lower.

7. Mergers/Acquisitions/Buyouts
   When one company acquires another, the stock price of the acquiring company tends to dip temporarily, while the stock price of the target company tends to spike. The acquiring company's share price drops because it often pays a premium for the target company, or incurs debt to finance the acquisition. The mere mention that a company has become a target for an acquisition is usually enough to generate volatility in the stock price of both the buyer and the seller. As a rule, acquisitions tend to drive up the value of a target company's stock. Depending on how the owners of the shares and traders on the market view the deal will determine how the market will react. If they believe that the deal will generate value (even after the premium is taken into account) they'll want to buy more of the stock, pushing its value up.

8. Business/Economic Developments
   When the economy is expanding, more people are buying goods and services, and are more likely to invest. All of this provides support to stock prices. The same can be said for companies. If a business is expanding with new business development investors will be more likely to buy into the company. Conversely, when the economy struggles, people tend to avoid spending, and companies effectively see a decline. The speculation for the rise or fall of a stock price can be swelled to major proportions by economic or business developments that may affect an industry or business as a whole. This is why equity securities are subject to stock market fluctuations that occur in response to economic and business developments.

9. Government/Political Conflicts
   Political actions can have a direct effect on the economy, and they have more of an indirect effect on the stock market. For equity markets, political risk could cause the share price of a company to decline significantly. An unexpected decision by a

government to change a particular law or policy within a specific industry could cause companies in that sector to be hit substantially.

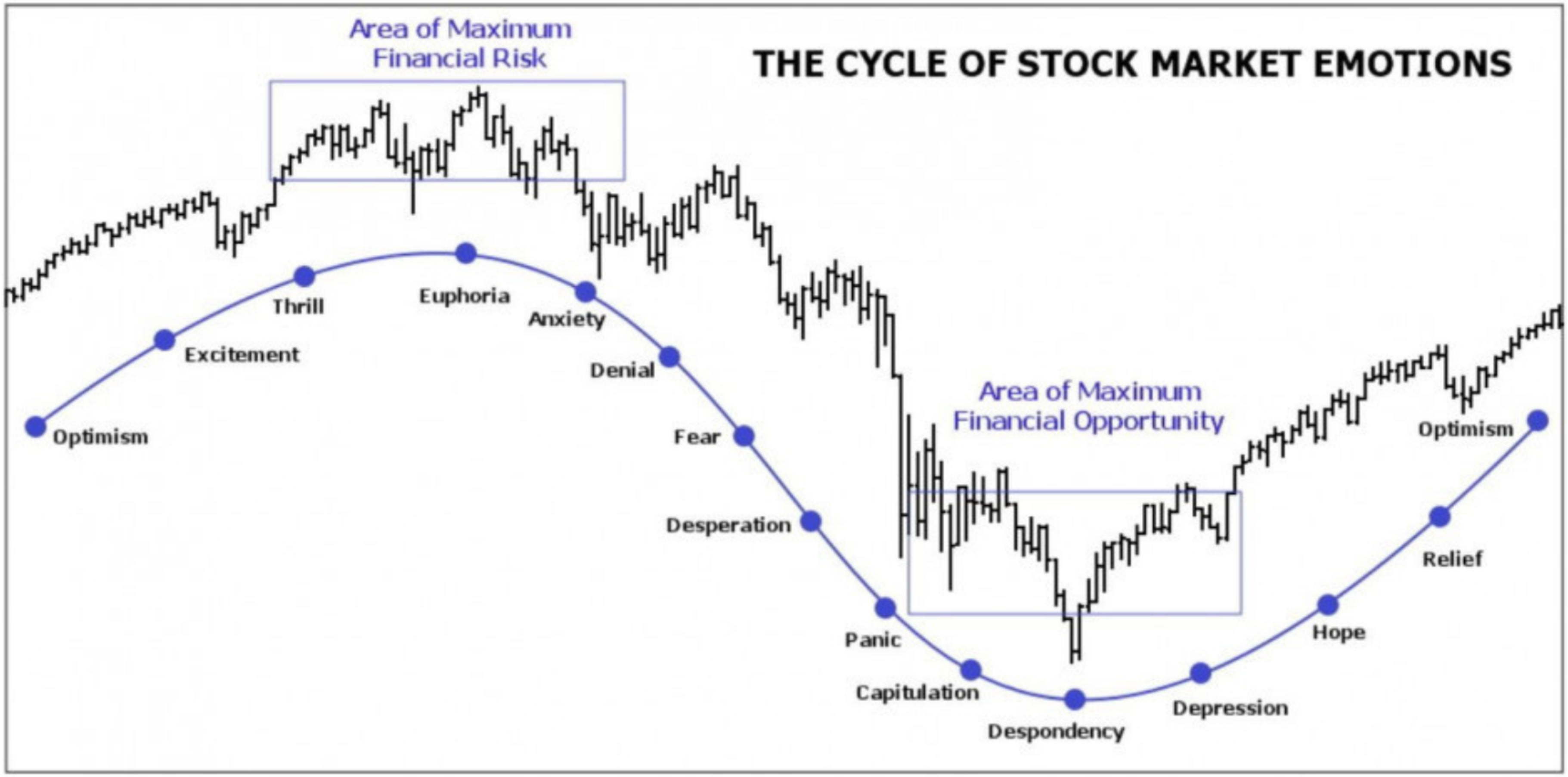
10. High-Frequency Trading/Algorithms
    Approximately 60–75 percent of total trading activity in the U.S. stock market. Algorithms handle 80% of the daily volume and on some days, it may make up as much as 90%. With this strategy, there is a lack of focus on earnings. Programs may use the momentum to simply sell or buy as the market swings upward or downward. This provides you with short-term movements based on very specific data that is released on a daily basis. Without any basis in fundamentals, this can exponentially increase volatility.

**Takeaways**
The goal of being a good trader and profitable trader is to remove emotion from the trade. This can be difficult when the market being traded is based on more emotion than value. Selecting an asset, security, or market with value, based on the foundation of supply and demand, will allow for emotion to be removed from the trade. However, if there is no value in the asset or market then emotion is inevitable and thereby a high risk of losing your money is also inevitable.

Learning how supply & demand works and how emotion can lead you away from the fundamental concept will help to identify when you are trading a high-risk market. Being able to identify emotions and agitators will assist you in determining how far away from the real value of the markets you are. The further away you get from the supply & demand of an asset the greater the risk and potential loss of money.

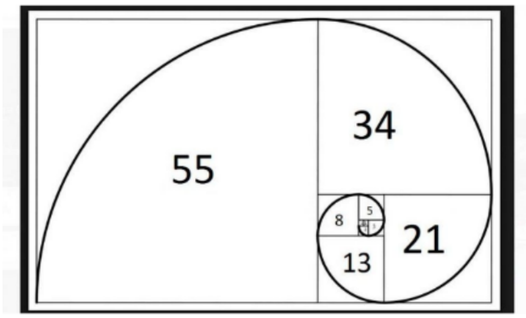
| | |
|---|---|
| 2006 | Electronic Trading |
| 1982 | Automated Trading |
| 1844 | Auction Method |
| 1609 | Trade/Barter |
| 1844 | Auction Method |
| 1982 | Automated Trading |
| 2006 | Electronic Trading |

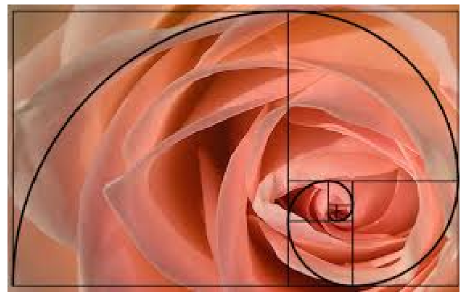
| | |
|---|---|
| Overbought | absolute value |
| Agitators | emotion |
| Sentiment (Bullish) | emotion |
| Supply & Demand | value |
| Sentiment (Bearish) | emotion |
| Agitators | emotion |
| Oversold | absolute value |

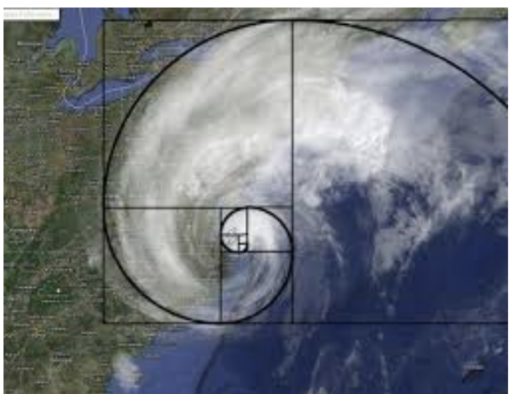

Area of Maximum
Financial Risk
THE CYCLE OF STOCK MARKET EMOTIONS
Optimism
Excitement
Thrill
Euphoria
Anxiety
Denial
Fear
Desperation
Panic
Capitulation
Despondency
Depression
Hope
Relief
Optimism
Area of Maximum
Financial Opportunity

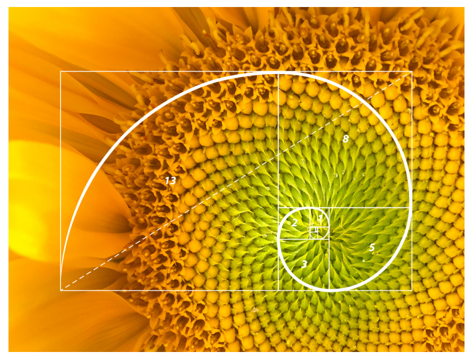
## Battle #3 - Human Behavior

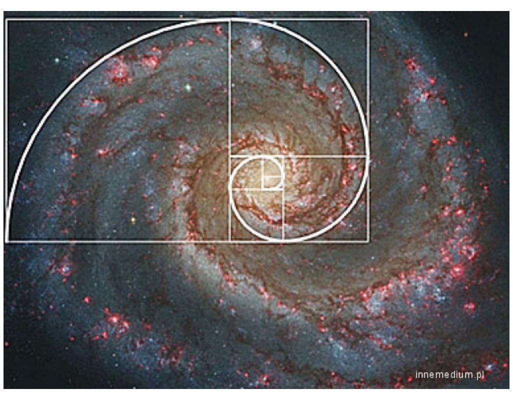
The Fibonacci sequence is a set of integers that follows the rule that each number is equal to the sum of the preceding two numbers. The golden ratio of 1.618 (Phi) is derived from the Fibonacci sequence. Many things in nature have dimensional properties that adhere to the golden ratio of 1.618. For examples of these natural occurrences watch the Youtube Video “The Pattern of Nature (Fibonacci Series).”

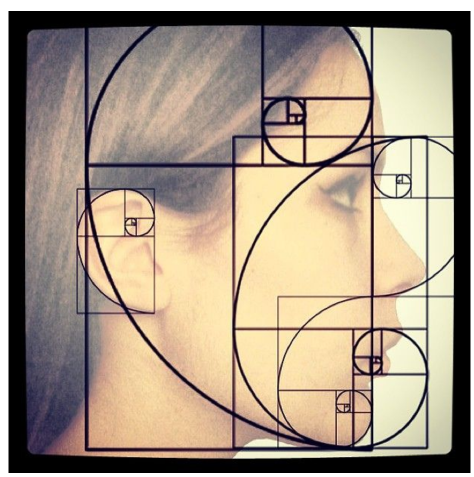








# The Fibonacci Secret

**Theory:** The Fibonacci Sequence is the foundation of the Stock Market.
**Proof:** The distance between every stock market crash lands near a Fibonacci number.

$$f_n = f_{n-1} + f_{n-2}$$

$$F_n = \frac{1}{\sqrt{5}}\left(\left(\frac{1+\sqrt{5}}{2}\right)^n - \left(\frac{1-\sqrt{5}}{2}\right)^n\right)$$

| Actual Values | 1st 26 Numbers of Fibonacci Sequence | | Years of Stock Market Crashes |
|---|---|---|---|
| 0.3819659 | 0 | 377 | 1819 |
| 0.7643/1.4646 | 1 | 610 | 1837 |
| 1.9098295 | 2 | 987 | 1857 |
| 3.0557272 | 3 | 1597 | 1869 |
| 4.9655567 | 5 | 2584 | 1873 |
| 8.0212833 | 8 | 4181 | 1893 |
| 12.98684 | 13 | 6765 | 1901 |
| 21.008124 | 21 | 10946 | 1919 |
| 33.994965 | 34 | 17711 | 1929 |
| 55.003089 | 55 | 28657 | 1937 |
| 88.998049 | 89 | 46368 | 1962 |
| 144.0014 | 144 | 75025 | 1970 |
| 232.99878 | 233 | 121393 | 1973 |
| | | | 1980 |
| | | | 1990 |
| | | | 2000 |
| | | | 2008 |

| Years | | Months | |
|---|---|---|---|
| Distance | Number of Years | Distance | Number of Months |
| 1819-1862 | 144 | 1819-1869 | 610 |
| 1819-1873 | 55 | 1819-1901 | 987 |
| 1837-1857 | 21 | 1837-1857 | 233 |
| 1837-1893 | 55 | 1837-1919 | 987 |
| 1837-1980 | 144 | 1837-1970 | 1597 |
| 1857-1869 | 13 | 1857-1969 | 377 |
| 1857-1893 | 55 | 1857-1990 | 1597 |
| 1857-2000 | 144 | 1869-1973 | 55 |
| 1869-1873 | 3 | 1869-1901 | 377 |
| 1873-1893 | 21 | 1869-1919 | 610 |
| 1893-1901 | 8 | 1873-1893 | 233 |
| 1929-1937 | 8 | 1893-1901 | 89 |
| 1937-1970 | 34 | 1919-1970 | 610 |
| 1960-1973 | 13 | 1929-1960 | 377 |
| 1973-1980 | 8 | 1960-1973 | 144 |
| 1980-1987 | 8 | 1960-1980 | 233 |
| 1987-1990 | 3 | 1970-1973 | 34 |
| 1987-2000 | 8 | 1970-2000 | 377 |
| 1987-2008 | 21 | 1973-1980 | 377 |
| 2000-2008 | 8 | 1980-1987 | 89 |
| | | 1987-1990 | 34 |
| | | 2000-2008 | 89 |

| Weeks | | Days | |
|---|---|---|---|
| Distance | Number of Weeks | Distance | Number of Days |
| 1819-1869 | 2584 | 1869-1873 | 1597 |
| 1857-1869 | 610 | 1873-2000 | 46368 |
| 1857-1987 | 6765 | 1901-1919 | 6765 |
| 1857-1937 | 4181 | 1901-1929 | 10946 |
| 1869-1873 | 233 | 1901-1980 | 28657 |
| 1893-1973 | 4181 | 1929-2008 | 28657 |
| 1929-1937 | 89 | 1960-1990 | 10946 |
| 1929-1960 | 1597 | 1970-1973 | 987 |
| 1960-1990 | 1597 | 1970-1987 | 6765 |
| 1970-1973 | 144 | 1970-2000 | 10946 |
| 1970-2000 | 1597 | 1973-1980 | 2584 |
| 1973-1980 | 377 | 1973-1990 | 6765 |
| 1980-1987 | 377 | 1980-1987 | 2584 |
| 1987-1990 | 144 | 1980-2008 | 10946 |
| 1990-2000 | 610 | 1987-1990 | 987 |

**Cyclical Battles**

There are multiple timeframes to consider when doing analytics within the markets. Each timeframe has the potential to have several historical cycles. Now, once you factor in the different timeframes of minutes, hours, days, weeks, months, quarters, and years you can see the astronomical amount of cycles that can exist. This makes it inevitable that some cycles will overlap thereby creating a conflict of which cycle takes president or is more important or relevant.

A skilled trader has to be able to determine which timeframe is best suited for the cycle being reviewed and which analytics will yield the most accurate data to profit from the expected cycle. Consideration has to also be given to the conflicts of timeframes given convoluted data that may provide a false or skewed analysis. This is why it's important to have several forms of analysis to confirm the data being extrapolated.

**Takeaways**

Any stock market professional will tell you that the stock market is based on human behavior. Trading and investing books as well as courses will highlight this fact and the most that they will show you are charts or cycles of historic data. Although this may be sufficient proof it's not overwhelming enough in the mind of a novice to put complete trust in. By showing the overwhelming evidence that every stock market crash has a distance of a Fibonacci number, it should bring clarity and acceptance of the following facts:

1. humans move in patterns and groups like any other animal
2. human behavior is repetitive
3. human behavior is natural
4. human behavior is psychological
5. human behavior is mathematical & statistical
6. human behavior is cyclical
7. human cycles are the foundation of any economy or market
8. human cycles have proven over time they will always repeat
9. these repetitive patterns exist in the stock market
10. market analysis is dependable because of these repetitive patterns
11. statistical and cyclical analysis can be used to predict these repetitive patterns
12. technical analysis is cyclical analysis; pivot point analysis is statistical analysis