On Tuesday, March 30, 1999, the Dow broke 10,000 points. For years, market watchers had anxiously awaited this momentous event. Conventional Wall Street wisdom predicted that once the number was hit, such a strong force of resistance would be exerted that there would be a major market reversal. Due to this belief, every time the market approached the 10,000 mark, sellers stepped in and pushed it down. Finally, after a number of approaches, the big 10,000 was reached and surpassed. Due to the significance of 10,000, it took a long time.

Every index, stock, and commodity has certain numbers that are recognized as more important than others, and I refer to them as key numbers. I do not know why this is true, but I am certain that it is. When the particular market approaches or hits these key numbers, they serve as points of support or resistance and are, therefore, pivotal numbers in the market. Professionals are aware of key numbers and their significance and they use them to make money. If you want to be a successful trader, you must also learn to use key numbers to your advantage. Like time, key numbers are another important element of my trading strategy.

**USING KEY NUMBERS IS NOT NEW**

Since the birth of the stock market, there have been many outstanding traders. I enjoy reading about their lives and their trading methods. Few of them have captured my imagination and my respect as much as Jesse
Livermore, the Great Bear of Wall Street. Throughout this book I refer to Livermore often because I identify with his trading style and I respect his rags-to-riches story. Richard Smitten tells the interesting story of Livermore’s life in the book, The Amazing Life of Jesse Livermore, published by Traders Press. At the age of 14, Livermore began his journey from humble beginnings to great wealth. With a few dollars in his pocket, he left his hometown and set out for Boston. As soon as he arrived, he jumped from the wagon transporting him and walked into the Paine Webber office. He sought a position and was immediately hired as a chalkboard boy. The duties of a chalkboard boy were not complex, but they required focus and accuracy. Numbers were called from a ticker tape and Jesse had to correctly record the numbers on a blackboard in the front of the room for brokers and clients to read.

As Livermore recorded the stock prices, he began to see certain numbers repeat over and over again and he saw the patterns formed by these repetitions. Livermore did not have the advantages of technology that we have today. No computer tracked and recorded his data or generated charts for him to study. Livermore jotted down the numbers in a numerical diary. He kept the diary in his pocket and studied it as frequently as possible. The significance of the repeating patterns impressed him and it was not long before he was using the information to make money by trading stocks. Once he identified a pattern, he was able to use that pattern effectively. If you want to succeed at the game, like Livermore, you have to study the numbers and find and use the patterns. Identifying key numbers will help you to do that.

On October 24, 1907, Livermore was 30 years old and he made his first million-dollar trade. That is right, on one trade he made a million dollars and according to Smitten, he made it in one day. A million dollar trade is huge today; think of how big it was in 1907.

Studying key numbers may not get you a million dollars in a day or a lifetime, but I guarantee you that if you learn the key numbers of the market you are trading and you use those numbers wisely, your trading will improve. Education is the secret.

WHAT ARE KEY NUMBERS AND HOW ARE THEY ESTABLISHED

What is a key number? A key number is a price that the market respects for some reason. It is a point at which the market has a tendency to exert some level of support or resistance. A line is often drawn in the sand at this point and the bulls or the bears dare the other to cross it. The market honors these numbers. Some key numbers are very strong; whereas others are much weaker. Key numbers are established in different ways. Some key
numbers are historically important. That is, over time, these numbers have established themselves in the market and the market tends to hold them in high regard. Other numbers are important because they have exhibited strength and significance in recent trading. As noted previously, all key numbers are not created equally. Some key numbers are major pivotal numbers, like the 10,000 was for the Dow in 1999. Other key numbers are minor pivots and may hold support or resistance only briefly. To be a good trader you must know the numbers that the market respects. Believe me, the big boys know the numbers and if you do not, you will likely get clobbered because you will have a habit of buying the highs and selling the lows. Use key numbers to avoid this mistake.

**Stocks Respect Key Numbers**

Not only are there key numbers on exchanges and indices, but equities also respect key numbers. Through the school of hard knocks, I learned that 100.00 is a key number for most equities. If a stock breaks 100.00, it is likely to go to 110.00. I remember becoming aware of this fact when I was trading Merrill Lynch stock. I was short the stock and it broke 100.00. I held tight and waited for the price action to reverse. However, I watched in dismay and shock as the stock headed for 110.00, taking my money with it. Since that time, I have understood the power of 100.00 in the equities market and I have repeatedly used that knowledge to make money. If IBM, Microsoft, eBay, or any other stock that I am trading breaks 100.00, I will not be short. I will be a buyer and I will have my ultimate profit target set at or near 110.00. Or, I will be on the sidelines, but I will not be short (Figure 3.1).

If you are trading a particular stock, study it and determine the pivotal numbers that are key for that stock. At what points have support and resistance been established? Be sure to get the yearly open for the stock and the historical highs and lows. Study trading patterns during certain times of day and of the year to determine the points where support and resistance will likely be strongest. This will help you see the rhythm of the market and get in step with it. Do not make the mistake of underestimating the power of key numbers.

**Key Numbers in Commodities**

Key numbers are also critical in the commodity markets. Consider crude oil. Fifty dollars a barrel was said to be a huge number for crude. Like the 10,000 level on the Dow, analysts carefully watched the $50.00 per barrel price. That number was actually hit and surpassed in 2004, and crude oil rose to $56.00 per barrel. In 2005, oil soared even higher. Once a major point of support or resistance is broken, the market is free to move to the next key number (Figure 3.2).
FIGURE 3.1 Note what happened to IBM when the price crossed $100.00 a share. Source: www.dtitrader.com

FIGURE 3.2 Note the market's response when oil crossed the $50.00 per barrel price. Source: www.dtitrader.com
A friend of mine, Big E, was short oil in 2004. Needless to say, when oil surpassed the $50.00 a barrel price, he was really hurting. In 2005, Big E reversed his strategy. He skillfully used the $50.00 price as a pivot number and bought the market. In June 2005, as oil hit $58.00, Big E was enjoying his profitable repositioning. Knowing key numbers pays in every market.

Before trading a commodity, observe it for a while. Just like stocks, observe patterns over time. Look at some daily charts and determine the places where you will likely encounter resistance. Then use these points to help you to make money.

Sometimes commodities are affected by external factors and the prices basically go wild. The war in Iraq stressed the oil market and led to the huge price increase in 2004 and 2005. At other times, shortages, gluts, or environmental factors will cause huge swings in other commodities. Therefore, if you are trading commodities, there are many factors to consider. However, key numbers are certainly one of the important things to research before entering the commodities markets.

**Key Numbers Are Huge in the Futures Markets**

All markets have key numbers that hold respect, including the futures indices. Years ago, I realized that the big S&P Futures contract likes to move in 0.50 increments. For example, if the price of 1167.00 is hit, there is an increased chance that 1167.50 or 1166.50 will also be hit. I use this knowledge to help me to determine optimum protective stop placement. Say, for example, that I am long the S&P Futures from 1167.00. I need to determine the best spot for my protective stop. I do not want it too close and I do not want it too far away from where the market is trading. Because I have studied key numbers, I know that 1165.00 is historically a key number on this index. With my added knowledge that the big S&P likes to move in 0.50 increments, I am better able to select my protective stop placement. Therefore, I put my protective stop at the 1164.40. (I want to get below 1165.00 by the 0.50 and then give the market one more tick so that if the index drops to the 1165.50 number, then reverses back up, I will be safe.)

Look at another example: If I am short the big S&P Futures from 1167.00, I know that the next key number where resistance will be exerted is 1169.00. I know this because nine’s are important numbers in this market. Again, in addition to knowing that the 1169.00 is a key number, I know that this particular market likes to move in increments of 0.50. Therefore, I place my protective stop at 1169.00 and add the 0.50 that the market is likely to hit. I give the market at least one more tick for good measure and place my protective stop at 1169.60.

This knowledge of trading patterns and key numbers has paid me for years. Your trading will benefit too if you know and use key numbers.
HOW I USE KEY NUMBERS TO ANALYZE THE MARKET

Another way that I use key numbers is to form a big picture of the market. Traders need both a big picture or long-term understanding of the market and also a smaller or a short-term picture. Key numbers help me to accomplish this objective and form a framework for my analysis. With my analysis, I start with the big view and incrementally move down to the smaller frame and then to the trade at hand.

Here is the method I follow. As stated in Chapter 2, when each year begins, I record the opening price for every stock, index, commodity, and other trading vehicle that I think I may want to trade during the course of the year. In 2005, I recorded the opening price for the S&P Futures (1213.50), the Dow Futures (10,781), the Nasdaq Futures (1628.00), the DAX Futures (4284.00), and some stocks that I thought I might trade, for example eBay (EBAY), Research in Motion Limited (RIMM), and Exxon Mobil (XOM), just to name a few.

This yearly opening price is the first big pivot number that I etch in my mind. Throughout the entire year, if the market trades above it, I consider the big picture more bullish. If the market trades below it, I consider the market to have a somewhat bearish tendency. How bullish or how bearish the market is depends on how far above or below that opening price it is trading.

After I know the yearly open, I follow the consecutive weekly opens. As each week of January begins, I write down that weekly opening price and I compare it to both the yearly opening price and to the opening prices of the weeks before. Is the market trading above or below these previous opens? I record the weekly opens and I make a trend line of these prices. This trend line keeps me focused on the big picture.

As the year progresses, on the first day of each month, I follow this same procedure; I record the month’s opening price. With each new week, I record the weekly opens and I plot them on my trend line. If the opening monthly price of the S&P Futures is greater in May than it was in April, I look more to the bullish side. If several consecutive months exhibit this bullish tendency, I will only short the market with great care. I, of course, also consider the monthly opens in comparison to the yearly open. By focusing on the market from month to month and week to week, I keep the big picture in mind and I gain an understanding of the overall structure of the market. You may want to refer to Chapter 4 and the examples of the trend lines for early 2005. They are depicted in Figures 4.2 through 4.5.

Why is this information important? Some years back, in evaluating the market, I discovered what I believed to be an essential part of its code. A lot
of traders pay attention to market closing prices and ignore the opens. I reversed the order and I think the big secret is in the opening prices.

Even when we are experiencing a strong bullish period, there will be times when the market will retrace and consolidate. Or, during doom and gloom times when the bears are trouncing the bulls, there will be some attempts to rally. If you are not aware of the underlying sentiment of the market, you may be tempted to sell or buy at just the wrong time. Watching market openings helps me detect that underlying market sentiment.

The opening price for the first day of the year for 2005 was the high of the month of January. As the months passed, I always remembered the opening price and used it to evaluate the market. At the time of this writing, it is May, 2005. As I look back I realize that by having a big picture view, I saved myself from mistakes that a lot of folks made. In the face of the big rally we had in 2004, a huge percentage of investors (maybe as many as 95 percent) probably thought the rally would continue in early 2005. But, my big picture approach helped me to understand the gyrations of the market.

Another example is Fed Day in May of 2005. On May 3, 2005, when the Fed made their announcement at 1:15 P.M., I was well aware of the fact that on the S&P Futures Index, we were trading below the daily opening of 1164.00. Therefore, I was looking to short the market. I did so and my students and I had a nice ten-minute run to 1157.00. While everyone else was trying to figure out Mr. Greenspan, we were using our method and making money.

With a big picture framework in your head, you will be better prepared to properly analyze the market's behavior and respond appropriately. You will know how the numbers fit together and their significance. This will save you money.

Use This Approach with Options, Too

I use a variation of this approach with options. On expiration date, look at the closing price for underling stock covered by the option. Is that price above or below the yearly opening price for that stock? If it is above the opening price, look to the long side. In late 2004, I used this strategy very successfully with Apple. I noticed that the monthly closing price was above the yearly opening price and I bought the stock and stock options at $60.00. I had a fantastic run as the price soared from $30.00 to $40.00 (Figure 3.3).

Move from the Big Picture to the Little Picture

From the monthly and weekly opens, I move to the daily numbers. My method begins with a wide screen and focuses upon smaller and smaller
time frames and numbers until I see the current market. Every day, I want
to know the daily opens and the daily closes. What was the daily trend on
Monday, on Tuesday, etc.? Next, I look within each day at some additional
numbers that I consider noteworthy. First, I want the high and the low price
for the previous day’s trading. Then, I want the high and the low for the
Globex (the previous night market). The highs and the lows of the markets
are important because they tell me where the market has recently estab-
lished support and resistance. I also want the previous day’s 12:30 P.M.
number, the 6:00 A.M. DAX number, and the 3:30 A.M. number for the S&P
Futures. Throughout my trading day, I consider these important numbers
and I record them before the day’s trading begins. I refer to these numbers
and use them as a gauge to evaluate the activity of the market as the day’s
trading progresses. I want to know if we are trading above or below yes-
terday’s high, or above or below yesterday’s 12:30 P.M. number. With these
numbers, I am able to plot market direction and identify trends. Using so
many numbers might seem confusing, but if you plot them out on a piece of
graph paper, you will see the code.
At 12:30 p.m., the Market Hits the Reset Button

As stated previously, the 12:30 p.m. number is a big pivot number for me. By observation over a good deal of time, I realized the significance of this number. Every day, after traders return from lunch, they seem to survey the market with a fresh look and the market tends to refresh and reset itself at this time. That does not mean that there will always be a retracement, but it does mean that this time is a watershed in daily trading when markets, exchanges, and indices may retrace, reverse, or accelerate a trend that has been established during the day. I consider the 12:30 p.m. trading price to be a very important number. This number will be significant to the market until a new number is formed at 12:30 p.m. the next day.

The 6:00 a.m. DAX Futures number holds the same importance in the German market as does the 12:30 p.m. United States number. At 6:00 a.m. Central Time in the United States, the DAX market is going through the same general activities that U.S. markets are going through at 12:30 p.m. This is a time when the DAX market is reevaluating and may reverse or accelerate an existing move. Therefore, the DAX 6:00 a.m. trading price is also very important to me.

I consider one other number important: I record and note the 3:30 a.m. number on the S&P Futures. I believe that this number is significant because it reflects how European traders view U.S. markets during some of their most active trading. Refer to the daily key numbers that I record and watch. I strongly suggest that you record the applicable key numbers for the investment vehicle that you are trading.

<table>
<thead>
<tr>
<th>Daily key numbers for the S&amp;P Futures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yesterday’s High</td>
</tr>
<tr>
<td>Yesterday’s Low</td>
</tr>
<tr>
<td>Globex High</td>
</tr>
<tr>
<td>Globex Low</td>
</tr>
<tr>
<td>12:30 p.m. price</td>
</tr>
<tr>
<td>3:30 a.m. price</td>
</tr>
<tr>
<td>6:00 a.m. DAX Futures price</td>
</tr>
<tr>
<td>Remember that all times are Central</td>
</tr>
</tbody>
</table>

Narrow the Focus Again

In addition to the key numbers, I also use 30-minute bar charts to focus in on the moment. Over my nearly 30 years of trading, I have tried using
all sorts of methods and various charting techniques. However, for me, the most useful chart is one that records trading for 30-minute time frames. The key numbers on the chart are the highs and the lows of each 30-minute bar. Figure 3.4 is an illustration of the only charts that I use on a daily basis. These bars each represent 30-minute trading on the S&P Futures index. The charts are incredibly simple and clear and most of the time these rather elementary charts, combined with other aspects of my method, keep me on the right side of the market.

In example A, the second bar has higher highs and higher lows than the first bar. For the short term, the market is indicating a bullish move. In example B, the second bar has lower highs and lower lows and is, of course, indicating a bearish trend for the immediate time frame shown. Example C shows no trend. The second bar is contained inside the first bar. It is impossible to determine whether or not the market wants to go up or down. This is a clear signal to sit on your hands and keep them away from your mouse. Trading with this type of charting pattern is like flipping a coin or sitting down at a slot machine. You cannot possibly use this chart for any reason except to stay out of the market.

As traders, we sometimes feel that we have to trade. We have been watching the market for hours and if we do not trade we feel that we have wasted our time. However, correctly deciding to stay out of a bad market is a very important decision and is far better than taking a bad trade and losing money. Why foolishly enter the market and live to regret it? Remember that money you lose today is money you have to make tomorrow.

During the day’s trading session, the most important 30-minute bars are the bars formed between 8:30 A.M. and 9:00 A.M. and between 12:30 P.M. and
1:00 P.M. I call these bars reference bars because I refer to them to gauge the market during the applicable trade zones. I note the highs and the lows of these bars to determine whether the market is, at the immediate time, being bullish or bearish.

When I analyze the market, I start with the big picture and move down to smaller frames until I zero in on the immediate market. By this method of moving from the big or more distant trading to the near or immediate trading, I am able to gain a clearer focus and, I believe, improve my chances of success. Many times, because I understand the big picture, I can stay on the right side of things and make money. It also helps me successfully identify false market moves and prevent losses.

**HISTORICAL KEY NUMBERS**

In every market there are some numbers that are historically significant. When you trade an index you should learn its key numbers. For example, take the Dow Futures. The historical key numbers on the Dow Futures are easy to remember because they are each quarter and five points on either side of the quarter. That is, 00, 25, 50, and 75 and five points on either side of these numbers. The 50 and the 00 are major pivot numbers and the 25 and the 75 are minor pivot numbers.

Watch the Dow Futures trade. If the Dow is trading at 10,482, the next historical point of major resistance will likely be 10,500. Once 10,500 is clearly broken, the next point of minor historical resistance will be 10,525. If 10,525 is broken, expect the index to attempt to challenge 10,550. Of course, these historical numbers are not the only key numbers that are significant on the Dow. As noted in the previous sections, there are other numbers that exert points of support and resistance as the market trades every day. You need to be aware of these numbers too.

| Historically key numbers on the Dow Futures Index |
|-------|-------|-------|-------|
| 00    | 25    | 50    | 75    |

Expect the market to exert major support or resistance at the 50 and 00 levels and minor support or resistance at the 25 and 75 levels. For example, 10,400, 10,500 and 10,600 and 10,450, 10,550 and 10,650 are numbers that will exert major influence and 10,425 and 10,475, 10,525 and 10,575 will exert minor resistance or support.
HISTORICAL KEY NUMBERS ON
THE S&P FUTURES

Now, let's take a look at the S&P Futures Index. There is a relatively long list of historical key numbers on this index. Like the Dow, expect 00 to be important. For example 1100.00, 1200.00, and 1300.00 will be strong. In addition, two, seven, and nine may also be key numbers. (That means that 902.00, or 1152, or any number ending in 2, 7, or 9 may be important.) Observe the S&P for yourself and watch it trade. Notice that when 1172.00, or 1182.00, or 1202.00, and so forth are hit, these numbers tend to be pivotal points. Likewise, expect 1177.00, 1277.00, and 1377.00 to be important numbers.

There are many other historically important numbers on the S&P Futures Index. Some of them are listed in Figure 3.6. Many of my students copy this list and tape it on or near their computers for easy, quick reference. They believe that recognizing and using these numbers positively impacts their trading.

When you are using historical key numbers, remember that you must put them in the context of the current market. Look at them relative to where the market is trading and note how the market has responded to them recently. For example, there will be times when a number will be very strong and for a week or so, every time that the number is hit, the market will either exert support or resistance. By monitoring the market, you will get an idea of the strength of some of these numbers.

| Some historically important numbers on the S&P Futures Index |
|-----------------|-----------------|-----------------|-----------------|
| 02   | 32   | 52   | 75   |
| 06   | 35   | 55   | 77   |
| 09   | 37   | 57-58 | 81   |
| 12   | 42   | 63-64 | 84   |
| 15   | 45   | 69   | 87   |
| 27   | 47   | 72   | 92   |
| 50   |      |      | 98   |

HOW I USE KEY NUMBERS TO TRADE

I Use Key Numbers to Enter the Market

Because key numbers are points of support and resistance in the market, I use them in several ways. First, if I am looking for a point to buy or sell the
market, I certainly do not want to buy the market just before a point of major resistance. I want to wait for the market to break above that resistance before buying. Every trader has had the experience of buying the daily, weekly, or monthly high, only to have the market reverse and go down. Then, an anticipated profit quickly becomes a loss. Likewise, we have all sold at a support level. In my dark years I seemed to have a special knack for buying the highs and selling the lows. Obviously, you do not want to sell if you are sitting on a level of key support. Wait for support to be broken before entering the market to the short side.

I Use Key Numbers to Set Profit Targets

I also use key numbers to establish profit targets. If I buy the S&P at 1209.00 and the yearly open was 1213.50, I know that the market will show a great deal of resistance at that yearly opening price. Therefore, I want to take some of my profits and lighten my position before hitting this known level of major resistance. If a number is very strong, the market may have to try to break it a number of times before it succeeds. After resistance is broken, then I may want to enter the market again or add to an existing position. At that point, the old resistance level becomes new support and I look for the next level of resistance to take additional profits. The same holds true if support levels are broken. I look for the next support level for profit taking.

If you do not take at least some of your profits at support and resistance levels, you may live to regret it. I always like to get paid. I do not want to hold my positions too long. If you get greedy the market may move against you. Remember, you are trading to make money.

I Use Key Numbers for Protective Stop Placement

Finally, I use key numbers to set protective stops. If you want to protect your capital, never trade without a protective stop. One of the things I drive into the heads of everyone I am teaching is that you cannot trade without a stop. Doing so is just plain foolish.

As all experienced traders know, stop placement is a tricky business. For effective stop placement, you need to be aware of and respect key numbers. When I am looking for a good spot to place my protective stop, I identify the next key number. I place the stop on the opposite side of that number. Review the example of that method in the previous section on key numbers in the S&P Futures Index. Believe me when I tell you that these pages on key numbers are very important. You need to read them again and again until you really understand it. This concept is too important to miss.
Almost every stock, index, exchange, and commodity respects some numbers more than others. These key numbers are pivotal points where support and resistance are established. By learning the key numbers, you can select optimum points of entry, set profit targets, and determine proper protective stop placement. Many traders know and use key numbers. Key numbers are the points where these traders draw the line in the sand and dare the market to cross.

Observation is the best way to learn key numbers. Watch a stock or an index trade for awhile and identify the pivotal points. Study weekly and daily charts and notice the points at which prices shift. Having a good working knowledge of key numbers will provide you with moneymaking opportunities. I cannot imagine trading without using key numbers. I would be lost. Key numbers are my compass; they lead me through the market maze.

**LESSONS LEARNED**

- Use key numbers to get the big picture.
- Record yearly opening prices and remember them.
- Start with the yearly open and use monthly and weekly opening prices to form a trend line. This will let you know whether the market has a long-term bias. If so, it will help you identify the bias.
- Every market has certain numbers that hold significance in that market. Learn these numbers and use them.
- Use key numbers to determine points of entry, exit, and to establish profit targets.