

**Welcome to a CBOT® Online Seminar**

# **Trading Using Ocean Theory**

## **Part 1 of 2**

**Presented by:**

**Pat Raffalovich with Don Zordan, PFG**

*Sponsored by PFG*

**Live Presentation Starts at 3:30 PM Chicago Time**

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### Spotlight On: Metals

Gold heats up as the CBOT takes the lead. Here's how to take advantage >>

### Trading Strategies

[Trading the TUT Spread: Capitalizing on changes in the yield curve 1](#) - 12.05.03  
On Sunday evening, November 23, 2003 (trade date, the CBOT will begin trading.

[Day-Trading the mini-sized Dow](#) - 07.13.04

Gaps and Pivot Plays for day-trading mini-sized Dow Futures.

### Circuit Breakers

A full explanation of how NYSE and CBOT trading halts work in times of extreme market volatility.

### Today's Events

FR - [API/EIA Energy Stks](#)  
FR - [Greenspan speaks](#)

Live Options Book

			
<b>YMH4</b> Last: 10595 Change: 30 Time: 09:00			
Calls			
Bid	Ask	Last	
610	617	613	
517	523	495	
429	433	431	
342	347	344	
261	269	263	
191	197	193	
129	136	120	
81	89	77	
48	54	51	
27	32	25	
15	19	12	
Time: 2/25/2004 9:00:15 AM			

			
<b>YMM4</b> Last: 9906 Change: -79 Time:			
BUY ORDERS		SELL ORDERS	
QTY	PRICE	QTY	PRICE
93	9906	36	9906
98	9905	43	9905
14	9904	63	9904
19	9903	87	9903
55	9902	46	9902
35	9901	27	9901
45	9900	48	9900
40	9899	13	9899
47	9897	12	9897
47	9897	37	9897
Network Time: May-12 13:48:5			

Live Book

		<b>ZGZ5</b> Last: 471.5 Change: + 8.2 Time: 10:14:00	
BUY ORDERS		SELL ORDERS	
QTY	PRICE	QTY	PRICE
10	471.2	20	471.4
12	471.1	17	471.5
38	471.0	64	471.6
73	470.9	62	471.7
52	470.8	55	471.8
2	470.7	1	471.9
1	470.4	12	472.0
1	470.2	2	472.2
2	470.1	2	472.4
2	470.0	1	472.5
Sep 19, 2005 10:14:09 AM			

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**Disclosure:**  
**Investments In Futures and  
Options Involve A High  
Degree Of Risk And Are Not  
Suitable For Many Investors**

**Markets Cycle  
Stocks/Bonds/Real Estate  
versus Commodities**

# Market cycles

- 1947 to 1967
- 1967 to 1980
- 1980 to 2000

# Will You Profit?

- How perceptive will you be?
- Increasingly competitive
- Constant improvement
- Learn from the best

# Resources

- CTA's who manage your account
- Pool operators who manage pools
- System developers who build trading models

# Jim Sloman

- Unique way of looking at trading
- Met in NYC in 1975
- Developed Ocean
- Ocean is a gift to students of the market
- Subtleties

Pat Raffalovich

# Keys to Trading Success

- Develop a method with a statistical “edge”, using information largely unknown
- Method must fit personal financial & psychological profile
- Apply good money management
- Follow the rules you’ve established

# The Gatekeepers

## Impediments to Success

- Large Losses
- Lack of sound money management
- Failure to follow the rules
- Failure to correctly identify the trend
- Failure to think independently

Cultivate Contrary Thinking!

# Jim Sloman

## How Ocean was created

- The value of unknown information
- Non Arbitrariness
- Desire for “universal scaling” to offer cross market and cross time frame comparisons

# Ocean Attributes - I

- Non Arbitrary
- Weights all relevant past market data for a “now moment” observation without lag
- Allows for cross market & cross time frame “apples to apples” comparisons
- Is a complete “toolbox” and offers the potential for customization

# Ocean Attributes - II

- Encompasses roughly a dozen unique mathematical formulas
- Offers statistical measurements of market extremes
- Not limited to price based analysis – Can be applied to volatility measurements

# Primary Ocean Tools

- NMM – Natural Market Mirror
- NMR – Natural Market River
- NMA – Natural Moving Average – 2 versions
- NMC – Natural Market Channel – 2 versions
- NMS – Natural Market Slope
- Bounded Tools – NDX, NST, NXC

# NMM – Natural Market Mirror

- Measures the thrusting energy of market
- Numerical values can be compared between markets and time frames

# NMM – Natural Market Mirror



# NMR – Natural Market River

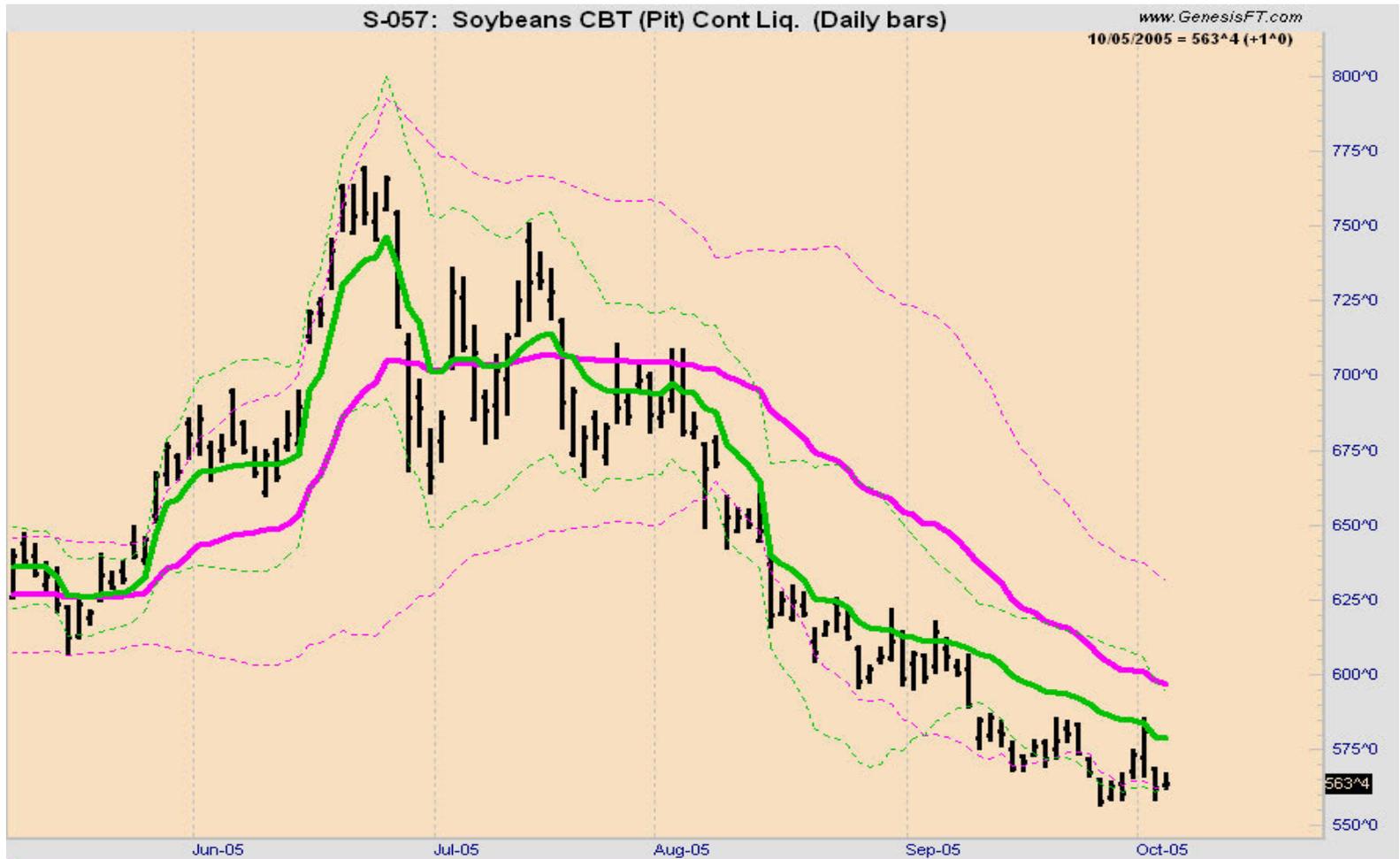
- Measures the naturally declining influence of each 1 bar instantaneous rate of change
- Math behind NMM and NMR is radically different, yet they agree most of the time
- When they are in disagreement, it's very important

# NMA – Natural Moving Average

## 2 Versions – Regular & Fast

- All MA's are filters – they reduce noise, but at a price – Lag & Diminished Amplitude
- Ocean MA's quickly adapt to price action without arbitrary methods being introduced
- Can be (and are) applied to other Ocean tools for early warning of directional changes
- Offer standard deviation bands to indicate statistically significant excursions away from MA's

# NMA Fast and Regular



# NMC – Natural Market Channel

- Identifies the directional trend of the market
- Also designed to pinpoint the terminations of counter-trend reactions
- Precise entry rules almost always limit the initial risk of a trade to the range of a single bar!!

# NMC – 2 Versions



# NMS – Natural Market Slope

- Behaves similar to NMM, but with a bit less noise
- Excellent for measuring the energy of a market thrust
- Subsets of the math are used to help identify terminations of counter-trend reactions

# Bounded Tools

- Designed to scale between +100 and –100
- May be used in unison with each other
  
- NDX
- NST
- NXC

# NDX

- Calculation is based upon a large amount of historical data to insure robustness
- Accurately identifies significant market extremes
- Measures changes in momentum characteristics of the market

# NST

- Employs a set of dynamically adaptive look back lengths
- Think of it as a self-adjusting stochastic
- Excellent for measuring market extremes, detecting divergences, and offers timely entry locations (under certain conditions)

# Bounded Tools - NDX & NST



# NXC

- Like the NMC's, an excellent counter-trend identification tool
- Since it's also bounded, can often detect tradable market extremes

# NXC



# Review, and What's Next?

- Today's topics
- Next week's agenda

# Additional Information

For more information about Ocean, see  
Jimmy's website

[www.mayyoubehappy.com](http://www.mayyoubehappy.com)

Click on the Ocean button in the upper left  
hand section of the home page

# Q&A / Contact Information

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