



Finding High Probability Lines

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Median Line Study: Finding High Probability Lines

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I wish to thank my children for giving me the inspiration to write this book. I hope that in doing so, they see that anything is possible.

PART I

Introduction

History of the Median Line

Dr. Alan H. Andrews developed a trend line technical market analysis tool called the Median Line method, more commonly known today as “Andrews’ pitchfork”.

Andrews reportedly made over a million dollars in a few years back in the 1920’s trading commodity futures after graduating from MIT with a degree in engineering.

Andrews credited Roger Babson with the idea of applying Newton’s third law of motion to economics as the basis for much of his work. Babson graduated from MIT with a degree in engineering in the late 1800’s. Babson soon began work on adapting Newton’s law, “For every action, there is an equal and opposite reaction”, to the financial markets.

Later in life, Andrews created a course entitled the “Action-Reaction Course”. The Andrews course sold for \$1,500 in the 1960’s and 1970’s. The course was 60 pages in length and used a case study approach. Andrews stated in his course:

“...drawing a single line will enable you to know where the price of any stock or any future is now headed and the probable time it will reach there.”

~ Dr. Alan Andrews, *Action-Reaction Course*

Andrews called the line the Median Line – a line drawn on a price chart after three alternative pivots in price occur. The original course can be somewhat difficult to interpret, and not many who have encountered the method understand its application. However, tools for “Andrews’ pitchfork” can be found in many of today’s trading software. Several sources with basic information concerning the Median Line method can be found on the internet. But, what exactly is the method suppose to reveal? Andrews stated the method would:

“...enable the user to be one of the few who can tell where the prices are headed, and the place they will reach about 80% of the time, and when approximately that place will be reached.”

~ Dr. Alan Andrews, *Action-Reaction Course*

Andrews also stated in his course that not only was there a high probability price would reach the line, but a change in trend often occurred at or near the line. Which brings a number of questions to mind:

- Do prices always return to the Median Line with that kind of accuracy?
- What is the probability of prices reversing near the line?
- Has market behavior changed since the 1960's?
- Is market behavior different now than it was in the 1920's?

Why Study the Median Line?

Traders such as Andrews in the "pre-computer" era hand charted many commodities or securities often receiving charts in the mail only once a week. Traders would update the charts by filling in the price bars and using simple techniques such as trend lines to get a feel for the market.

Today's computers have made a variety of indicators derived from complicated mathematics accessible to technical traders. The indicators are designed to give the trader an idea of where prices could be headed and when a trend will end or begin based on price history. Today, many traders watch live data streamed to their computer and evaluate market action as it unfolds.

With today's technological advances, are the trend line techniques of the old days outdated and no longer useful? Have the markets advanced beyond the ability to use trend line methods such as the Median Line to gage market movement?

Many are aware of theories involving the "random walks" of prices, and "efficient markets". The theories are based on the idea that market prices reflect all information currently available, and prices adjust quickly and accurately. The theories, if correct, would effectively dismiss any sort of "edge" gained by technical analysis. Interestingly enough, the ideas became popular around the time Andrews offered his course. More recently, the idea of "behavioral finance" has risen to the scene, which suggests human emotions are factored into market behavior. Can you say "fear" and "greed"? Are investors and traders rational or irrational? I don't think that one will be answered for a while. Does it matter?

Do prices return to the Median Line 80% of the time ALL the time? Or, does it depend on the conditions involved?

“When we speak of any scientific law, we mean a statement that a relationship has been observed among certain given conditions. We mean “if these conditions now, then those conditions follow, and can be expressed mathematically”. We have “order” through which we can know the outcome from these conditions. We can therefore take advantage of this knowledge, and thereby progress and profit.”

~ Dr. Alan Andrews, Action-Reaction Course

What are the different conditions behind applying the Median Line to a price chart?

To name a few of the basic and more obvious conditions:

1. From which pivots on the chart is the Median Line drawn?
2. The different markets themselves – do all of today’s markets act similarly?
3. The time frame being studied – monthly, weekly, daily, intra-day charts. Does it matter?

Good questions.

Determining the Basic Probabilities

"I hear and I forget. I see and I remember. I do and I understand."

~ Chinese Proverb

The first several charts in Andrews’ original course illustrate the Median Line – and only the Median Line. It isn’t until later in the course material where the Median Line parallels show up on charts. To begin understanding the Median Line method, focusing on the one line – the Median Line - helps keep things simple.

A simple study of Andrews Median Line can give a quick understanding of the probabilities associated with the claims Andrews made in his original course. The method can be applied to any of the financial markets such as individual stocks, forex, and futures.

The markets are a game of probabilities. Thinking in terms of probabilities will enhance the trader’s ability to play the game. Andrews definitely thought in terms of probability. In fact, in the chart-filled 60-page original course, the word

“probability” shows up about 40 times! The following illustrates Andrews’ view of probability and how it relates to the markets:

“While it is true that few things are certain to happen in the future at a definite time such as the time that a certain person will die in the future, this mathematical probability has made tremendous profits for the insurance concerns that use it, as well as similar profits for investing individuals who employed it.”

~ Dr. Alan Andrews, *Action-Reaction Course*

Requirements

To conduct a basic study of the Median Line method, access to price charts either from charting software or free charts available on the internet or other sources can be used. Many charting software packages have “Andrews’ pitchfork” as a drawing tool. The pitchfork is so named because its three parallel lines resemble a farmer’s pitchfork. Although it is understood that Dr. Andrews was not very fond of the term, “pitchfork”. For that reason, the construction will be referred to as, “Median Line set”.

The Median Line is the center line of the set. For the sake of simplicity, the “fork” will be set aside and the focus will be on the Median Line.

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