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Andrews' Pitchfork

Whenever I see an indicator that claims to have an 80% accuracy it always make me curious. It makes me even more curious when that indicator is as old as the hills.

What is the oldest Stock Exchange in the world?

The Stock Exchange in Amsterdam, The Netherlands, was founded in 1602 for dealings in printed shares of the United East India Company of the Netherlands.

Source: Guinness World Records.

Anyway, every couple of week or so I write a trading lesson for my subscribers and I find it one of the most interesting parts of the week - when I actually get motivated to sit down and write the thing.

This year I am concentrating in trying to write about things that interest the readers as opposed to the things that may or may not interest me. To this end I am slowly working my way through a bunch of requested topics, one of which is Andrews' Pitchfork.

Now if you are anything like me you have probably seen this on your list of indicators but seldom used it. I have often played around with it without really understanding it. But as I had a request to do a lesson on it I thought I would spend some time researching how it should be applied to the markets. The results are actually very impressive and I think there is something there.

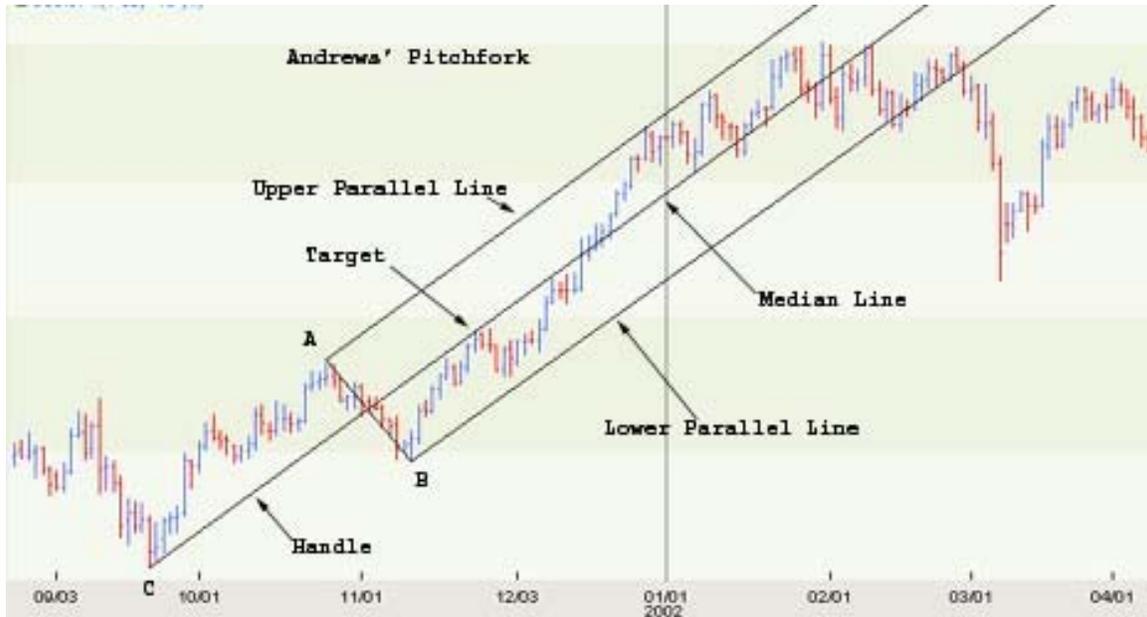
I am sure it would tie in with Gann, Elliott and Fibonacci in some way, as the levels generated are all similar.

Dr. Andrew median line technique now more commonly know as the "Andrews' Pitchfork" was invented by Alan Hall Andrews. It is basically a study of trendlines consisting of three parallel lines.

Initially you need three points to draw a Pitchfork. As the trend will already have started by the time you can draw the Pitchfork it is unlikely you will catch the start of a trend but it will give you a predicted path of the trend that has started.

The thing that interested me was that Andrews' estimated that the price would make it to the median line between 75% -80% of the time. That is very powerful information.

We need three points in order to draw the Pitchfork. In an uptrend we shall label the three points A,B and C. Point A should be a significant high in the trend and Point B should be a significant low. As we are in an uptrend point C should be the major low point, which I have found to generally be the starting point of the trend. Have a look at the examples below



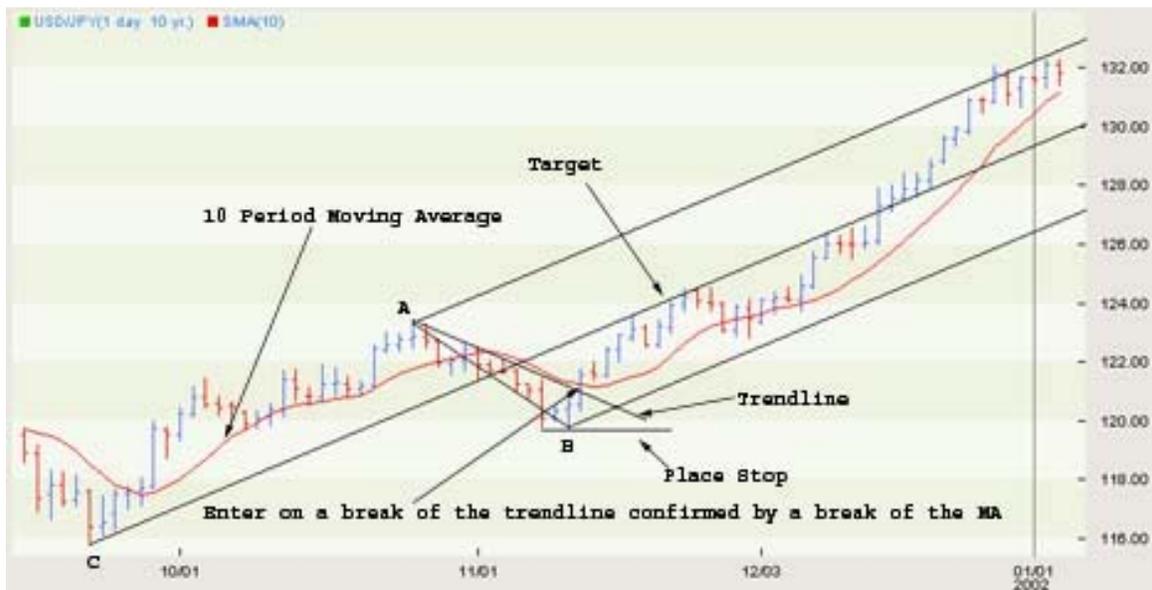
In an uptrend you need to wait for a decent retracement. Point A will be the highest high before the retracement started and Point B will be the lowest point of that retracement. Once you have these two points you then look for a major low to use as Point C. You then draw a trendline from Point C exactly in the middle of the AB line. In other words it bisects the AB line. Here are a few more examples.





Some Ideas For Trading The Pitchfork

Now that you know how to draw an Andrews' Pitchfork - how do you trade it? Like any system or method you need an entry point, an exit point and a target.



One way to trade it is to draw a trendline along the tops of the AB line. I also add a 10 period moving average of the closes. Once the trendline is breach and there is a close above the MA that is your entry. The target is the median line and your stop loss is placed below Point B (support). You could also use a cross of the MACD or stochastic as an entry point once Point B has formed. You could even use a cross above the 50% line of the RSI.

I think there is a lot of potential in using Andrews' Pitchfork and it wouldn't take much to mold it into a good little trading method.

Economic Calendar Terms

Housing Starts

Relevance: This is an important release. (4) Scale Of 1-5

Source: The Census Bureau of the Department of Commerce.

Scheduled Release Time: Normally around 16th of the month for data from the previous month at 8:30 ET .

Housing and Building Permits indicator is the measure of how many residential units have started construction. As a permit normally needs to be issued before excavation begins then the number of permit can be measured each month.

There is often an increase in the number of permits issued after a decrease in the mortgage rate. Permit are however not required in all states. The report is broken down into region - Northeast, Midwest, South, and West.

Traders' Glossary

Buy On Opening - An instruction to your broker to buy at the opening of the market within a certain range.

Call - An option to buy a commodity, future or security contract at a specific price from present until the expiration date of that contract.

OCO - One cancels the other - This order is know as a qualified order as there are two parts to the order. The trader will normally have two orders in the market at the same time. If one order is filled then the other is canceled.

Spot Rate - The current average price for a pair of currencies, where one is exchanged for the other.

Usable Margin - Excess funds in an account, which can be used to open fresh or additional contracts.

This lesson is part of the 'Traders Secret Library' which you can see at

<http://www.tradingforbeginners.com>

Good Trading

Best Regards

Mark McRae

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