

## CONSTRUCTION OF CHRISMAS TREE (CT) PRICE PATTERNS

Several month ago I came up with a new way to present price patterns for equities. The idea is to begin with the price pattern extending over a multiple year window and then modify things by adding a second chart giving the inverse price history. When these two patterns are stacked above each other one gets a horizontal Christmas Tree pattern with local extreme points marked by the signals buy(B), sell(S), short(Sh) or cover(Co). Up trends are marked in red and downtrends in blue. By following these trends one will always be buying low and selling high.

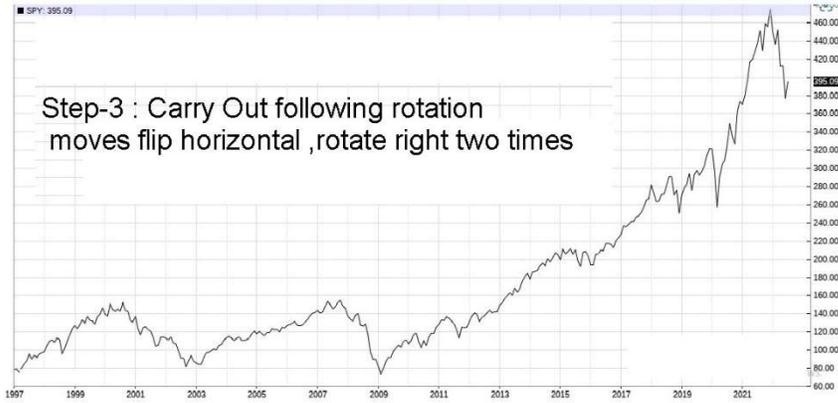
Details of the construction involve five basic steps which follow. In **Step 1** we go to any chart service on the internet. I prefer the free service BARCHART. Let us look specifically at the most active ETF designated as SPY. It represents the S&P 500 stock index. As a time window we choose 25 years as shown-



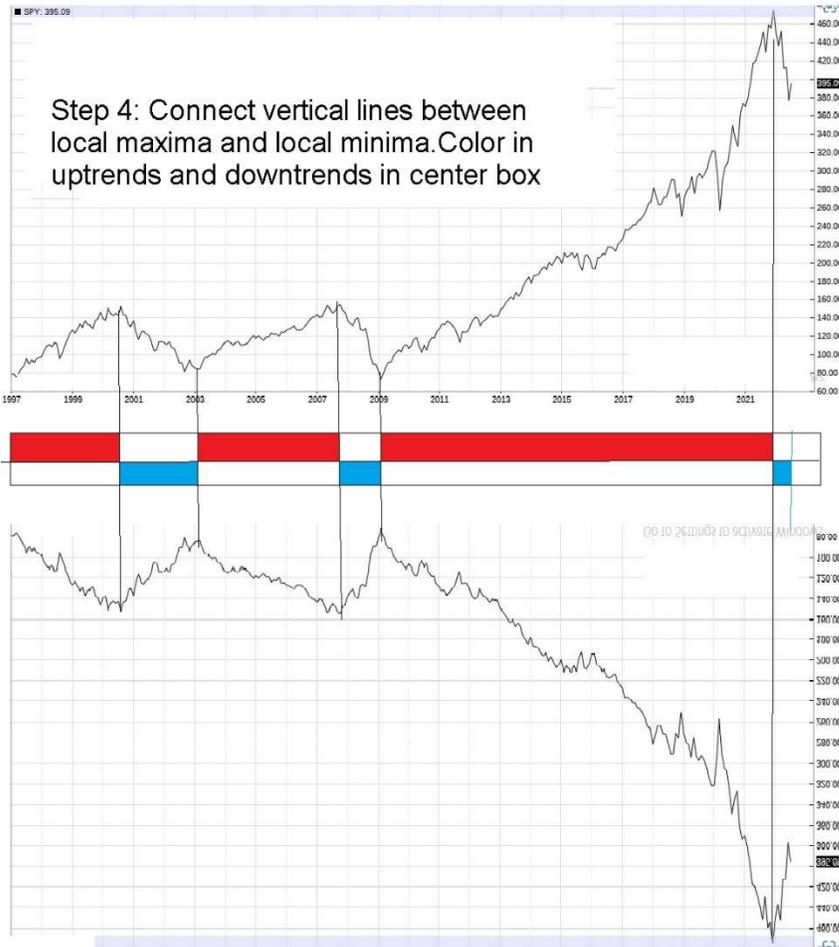
Next (**Step 2**) we copy this price pattern twice to MS Paint and add a long central box between the two identical price charts-



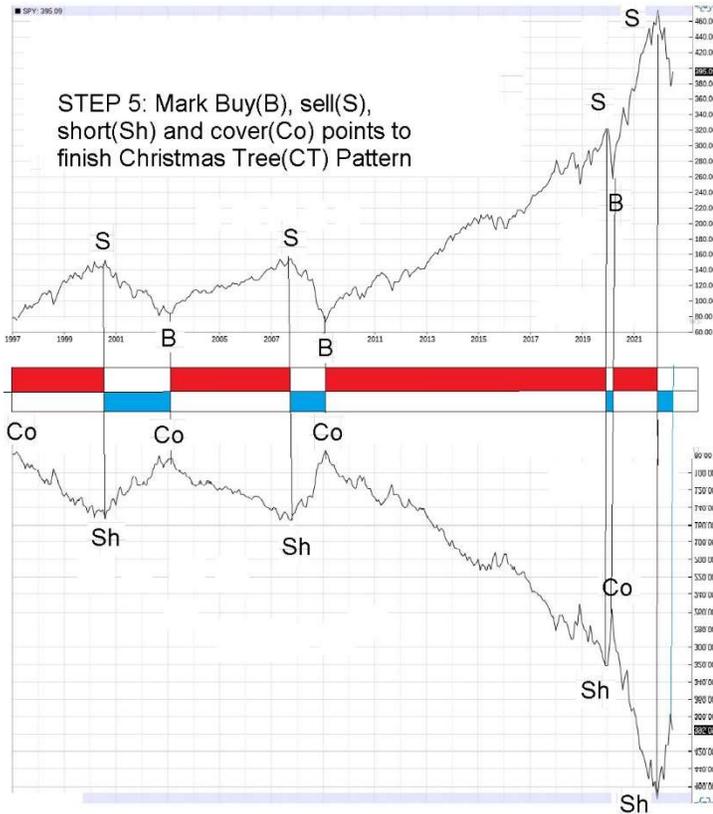
This is followed by rotating the lower price box by three rotation instructions. They are (1) rotate horizontal, (2) rotate right 90 degrees, and (3) rotate again 90 deg,. Here is the result of **Step 3-**



Next (**Step 4**) we draw vertical lines between extrema points in the price and inverse price charts as shown-

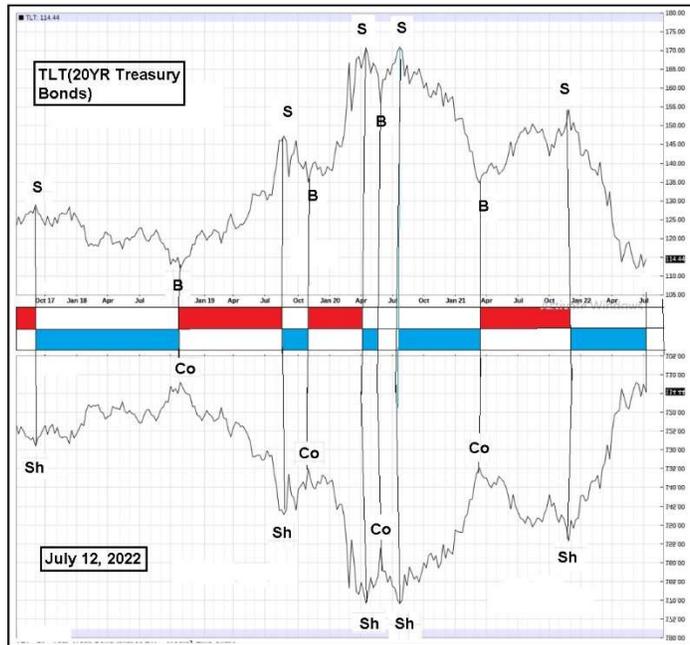


Also indicate uptrends in red and downtrends in blue along the central bar. Finally in **step 5** mark price turning points by B(buy),S(sell),Sh(short) or Co(cover) . Here is the resultant Christmas Tree (CT) Pattern-



We see from this last chart that SPY is presently in a downtrend of unknown duration . It ends when the next B signal is given and a Co appears. When the CT pattern widens toward the right (as it does for SPY) the long term trend is up. The reverse is true for certain longterm declining stocks such as GE.

Note that the above construction works equally well for any stock, bond, or commodity. The choice of the time window used should be at least three years. I typically will use a five year window. Here is the CT pattern for 20 year treasury bonds(TLT) using a five year window-



The present trend for TLT is down but a buy point may be approaching because of the already existing large drop which has occurred during the past year. The FED will probably not be tightening the money supply sufficiently to reduce our intolerable inflation rate because of the fear of producing a probably large recession .

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