

How Our Newest Trading Maestro Turns ‘Patterns’ into Profits

Investors can pull a stunning amount of insight from trading patterns.

Movements in price and shifts in trading volumes tell stories.

And those stories point to opportunities.

Big opportunities.

I recently caught up with William McCanless, editor of our brand-spanking-new *Trade Cycles* publication. William has operated here in the financial publishing industry for a long time. And he’s been a trader for much, much longer.

He apprenticed with multiple proprietary trading firms, futures traders, and former CBOE options market makers to gain a real, working knowledge of markets with an X-ray view into the reasons prices move the way they do.

William’s forte is harnessing the power of our *Trade Cycles* timing indicators, and then digging even deeper by looking at seasonality – the historical win rates of individual securities at certain times of the year.

By finding reliable patterns that have a high probability of repeating, William can stack the odds firmly in your favor. He can zero in on winning trades in stocks, ETFs, and options.

I connected with William to learn more about his unique cycle-timing analysis and to find out where he’s seeing the best opportunities in the markets today.

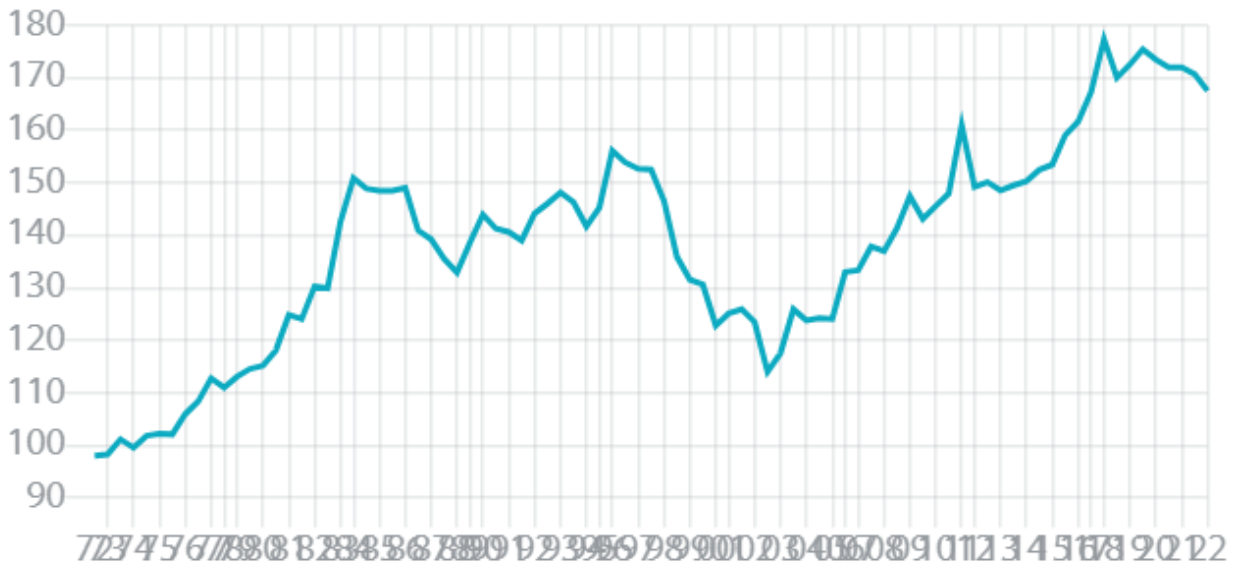
Here’s an edited transcript of our talk.

Mike Burnick: *Many of our Inside TradeSmith readers may not yet be familiar with Trade Cycles, particularly your active trade recommendations based on those cycles. Can you give us an overview of what members can expect?*

William McCanless: In *Trade Cycles* we locate trades based on periods of historical cyclicity and then qualify those trades based on volume, price action, and momentum.

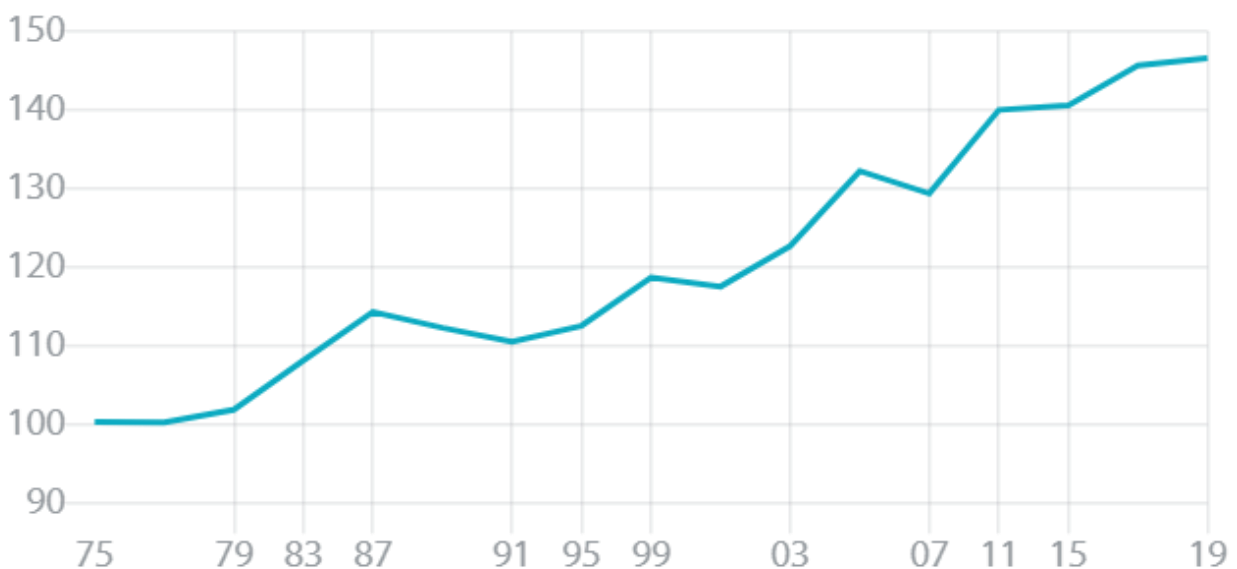
So let me give you an example of a recent trade on automaker **Ford (F)** that gained a little over 50% using a call option (long call) and 8.2% on the stock outright in just 14 trading days.

Over the last 51 years, Ford shares tend to rally 53% of the time between Aug. 25 and Sept. 4, for an average **0.64% gain**.



If we look at only pre-election years (which covers 12 pre-election cycles) there's a very short period between Aug. 25 and Sept. 1 that provides a 75% win-rate with a 3.6% average gain.

Here's the cumulative profit during those years:



This is historically a statistically significant trading cycle on Ford.

We booked 50% gains against a backdrop of volatile markets amid the uncertainty and fear that the United Auto Workers strike was impacting automakers – including Ford.

Here is the only thing that causes stocks to go up: **More buyers than sellers.**

Here is the only thing that causes stocks to go down: **More sellers than buyers.**

Why were they buying Ford during all the bad news? I don't know and I don't care... but they were. And that's why my subscribers made money – we just look at the actions of market participants because that's the only information that actually matters in the long run.

Mike: *So looking at statistically significant historical periods where – for whatever reason – people tend to buy Ford, that puts the stock on your radar?*

William: But that's not enough – because now I have to determine if people are likely to buy Ford AGAIN...*this time*. That's where the rest of my analysis comes in.

If I'm going to buy something, I want to buy it at a level where other people have tended to buy it in the past. So the next thing I want to know is whether or not the stock is trading at a point of strong support or resistance.

In the case of buying, I want the stock to be sitting at support – this is defined as a price level that the price of Ford has historically not been able to move below. In other words – for whatever reason – people have historically tended to view Ford as a “buy” in that particular price range.

Mike: *How do you go about determining support and resistance levels? What indicators do you use?*

William: Primarily by analyzing historical price and volume relationships over time.

For example – going back all the way to 1987 – \$11.50 is the single price point at which the most amount of volume for Ford stock has been traded.



And although the price occasionally breaks down there or moves above it – it tends to act as a magnet. The price has been returning to this level for nearly as long as I’ve been alive.

And at the time I was looking into this trade, Ford was once again trading almost exactly at that price point where people have tended to buy the stock for the last 35-plus years.

This is my “long view.” Then I zoom in...



I can see that over the last few months, Ford is trading at an incredibly high level of volume (see the yellow bar in the chart above). This high level of volume acts as “support.”

Because the price has hit this level and then bounced back UP several times, it tells me that people keep buying Ford at that level, which is what creates the volume.

Mike: *Because investors may perceive Ford as trading at “fair value” here and buy?*

William: That’s right, Mike. Or people have shorted Ford at this level – thinking it will go down – but it went up instead. And when Ford returns to this level, they buy back their shares to break even.

Still others may be short-term traders (like me) who see Ford at this level – see the EXACT same thing I do (that it acts as support) – and buy it for a quick swing.

For all those reasons, this level creates a self-fulfilling prophecy – it becomes a psychologically important level and it creates a lot of attention and trading action.

Next I want to look at price action – because the historical price you see on a chart is the cumulative psychology of all the world’s market participants.



I noticed that every time Ford dropped, it dropped *less* than before – causing a slight upward trend (see the “Bottom of the Range” in the chart above). People are not sure about Ford, but they’re starting to get bullish – scrambling to buy on shallower and shallower dips.

By price action alone – with no other information – I can tell what is likely to happen with any asset in the world.

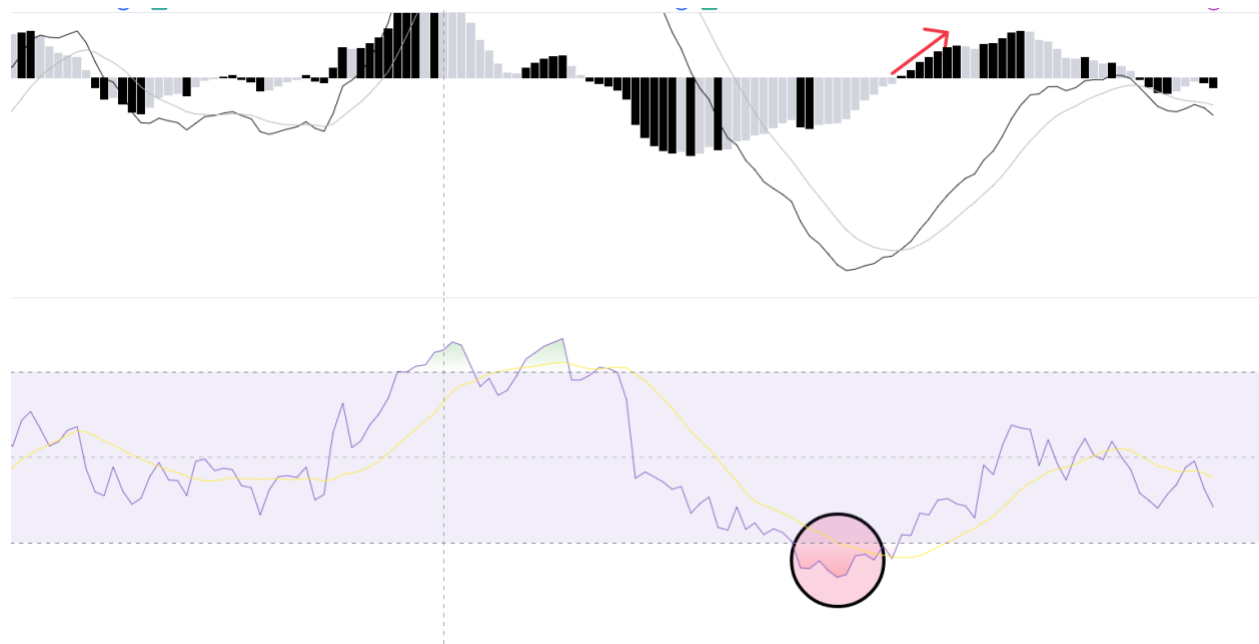
Mike: *It's the collective psychology of many traders in this same asset.*

William: Understand that those candlesticks are PEOPLE – and what those candlesticks are doing is explaining to you what those people are thinking and what they plan on doing next.

I then noticed once it got up to a certain point it hit “resistance” and dropped back down. So people tend to sell Ford in that upper range. Now I have identified a *trading range* – a place to buy and a place to look to take profit.

Mike: *Any other supporting technical indicators you use to increase your conviction level?*

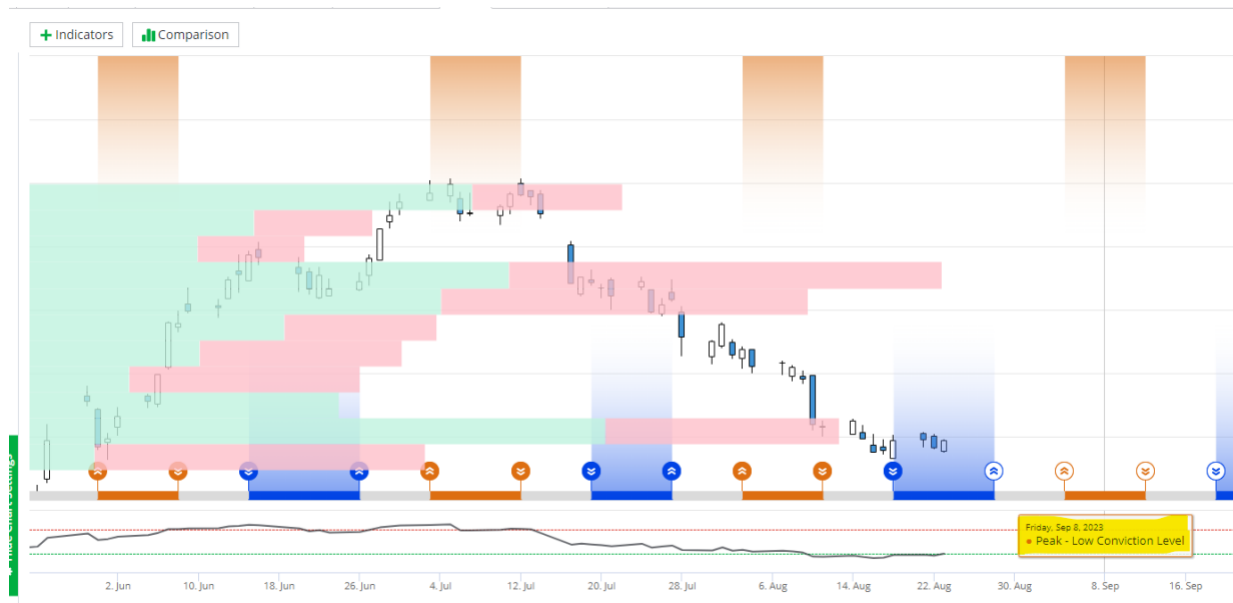
William: I also want to know if momentum is shifting at this level of support. So I look at Moving Average Convergence Divergence and Relative Strength Index to see if they are moving up from an oversold state.



And they were. This shows me that sellers are getting exhausted, and buyers are stepping in – causing a shift in momentum to the upside.

Mike: *And of course our own proprietary Trade Cycles algorithm gives you extra insight into price direction.*

William: Our timing cycles are where it all begins and I *a/ways* insist on them as verification. Here's the screenshot of Ford I shared with readers on the day I signaled the trade:

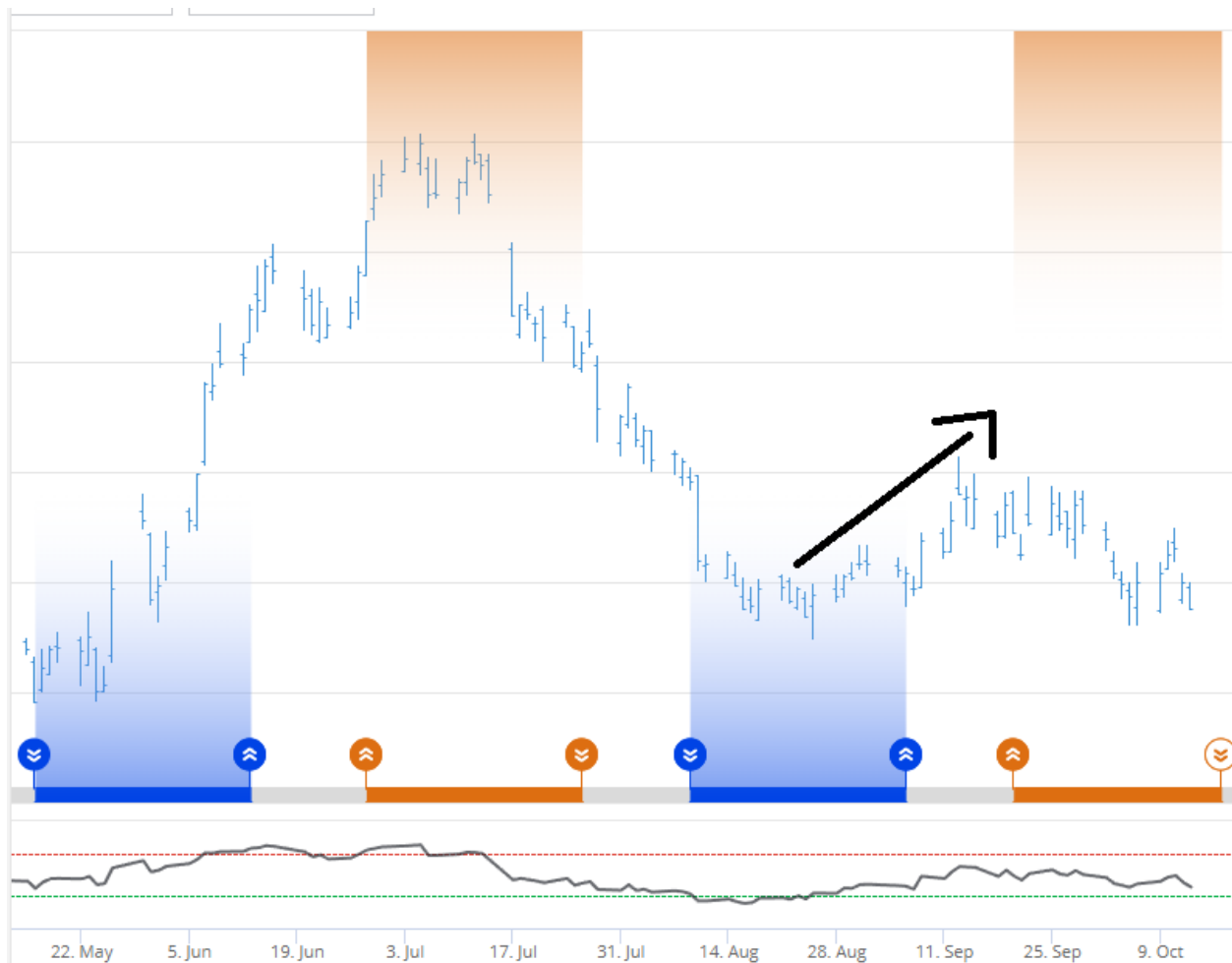


The blue area is called a “Valley” and the orange area is called a “peak.”

When the stock is in the blue area, it is temporarily bottoming out and is slated to rise into the next peak area, which would signal a period of temporary weakness into the next valley.

In other words – it detects short-term cycles. With Ford, the *Trade Cycles* algorithm lined up with the historical cycle data that showed Ford was likely to rise starting in mid-August into early September.

Mike: And you can see exactly what happened next.



William: To sum it all up, I only take a trade when ALL the variables line up.

1. Historical data shows Ford was statistically likely to rise
2. The price was trading at a high-volume area of strong historical support
3. The price action was at a level where buyers typically step in
4. Momentum indicators oversold and changing momentum to the upside
5. The *Trade Cycles* algorithm showed Ford was in a valley, with the time frames between valley and peak lining up almost exactly with historical data

It sounds complicated. But all this “complicated” stuff combined to tell me a *very simple* story.

- People usually buy Ford during this time
- People usually buy Ford at this price
- And our *Trade Cycles* indicators say that now is the time to buy Ford

Mike: *Tell me what a Trade Cycles member can expect from your service in terms of recommendation frequency.*

William: The *Trade Cycles* service typically sends out four to six trades a month, both long and short. Many of the trades we place run against major news narratives. For example – going long on Ford during the UAW strikes.

We went short on oil (with subscribers making as much as 55%) when everyone was peak bullish on it – talking about shortages and so on.

We shorted Apple (making gains of better than 100%) even though it had been going straight up since October 2022 and had just come out with amazing earnings.

We shorted Nvidia (65% gains) even though analysts were coming out saying it was going to rise another 30% – and issuing price targets as high as \$650 and \$750.

I don't automatically take the opposite side of everybody else's bet – but because we look at just the price and volume actions and historical cycles, and ignore all other information – we often are in trades at EXACT turning points... peak bearishness or bullishness right before there is a major momentum shift.

Mike: *This is really good stuff, William. Thanks so much for taking the time to talk with me.*

Mike Burnick's Bottom Line: I've looked around and I can tell you, the type of analysis and trade advice that William offers to his readers is rare. I'll be back next week to show you more about how to put these valuable tools to use.

Good investing,

Mike Burnick
Senior Analyst, *TradeSmith*

P.S. If you have any questions or concerns, feel free to reach out to me at emailmikeburnick@tradesmith.com, and include "Inside TradeSmith" in the subject line or at the top of your message.