Ask your broker if he trades for himself and makes money, and he is sure to answer, yes. He will likely stare off at the screen as he answers, avoiding your eyes, but he will answer, yes. He can hardly answer no. So, be gentle on your broker. Don't make him squirm, needlessly. Why ask questions when you know the answers already? The qualities you want in a commodity broker are accuracy, honesty, and a willingness to get you information when you request it. Remember the broker's lot in life. He spends every day crowded over a machine, like a moth fixated on a light bulb, listening to egomaniacs boasting, whining, or threatening legal action.

Think about it. If a broker *really* had anything valuable to tell you, he would hardly be where he is, doing what he does. Never take the advice of brokers. Trust yourself.

Elliott's Wave and the Ghost of Fibonacci

Naturally, brokerage firms advertise themselves as experts. But it is a mistake to think that picking the right commodity brokerage firm will materially improve your prospects. A trader doesn't talk with a brokerage firm; he talks with salesmen, or brokers, who may or may not be following specific recommendations put out by the company they work for. Opinions within a firm are just as diverse as opinions between firms.

Brokerage-firm loyalty amongst salesmen is rare. Brokers are a highly mobile breed, and are constantly shopping rival firms in search of the highest commission payout. Usually, they take their clients with them when they change firms. Surprisingly enough, despite the frequent recriminations that pass between broker and client, broker-client alliances are much stronger than firm-client alliances, which suggests that brokers may well be adept at telling their clients what they want to hear, or at least are able to give their clients the necessary psychological support they need to function as traders.

For insight into how some commodity brokers do come up with sales pitches, consider the training a licensed broker is likely to receive. All licensed brokers must pass an examination. The study material for that examination is the *Futures Trading Course and Handbook*, published by the Futures Industry Association Incorporated. Allow me to quote verbatim from Lesson Ten of that study guide: "Advanced Technical Analysis—The Elliott Wave Theory."

> Elliott observed that all natural phenomena are cyclical and set out to determine whether this same cyclicality can be found in market price behavior. After several years of study he arrived at the conclusion that prices do move in waves and that these waves have certain identifiable characteristics which can be utilized in price forecasting ...
>
> ... Elliott also discussed the so-called Fibonacci numbers, named after a thirteenth-century Italian mathematician. The Fibonacci series is infinite, with each number being the sum of the preceding two numbers:
>
> 0, 1, 1, 2, 3, 5, 8, 13, 21 ...
>
> ... Although reputedly designed by Fibonacci merely as an exercise for his students, the Fibonacci Relationships have received close attention from statisticians—including commodity market technical analysts. Elliott's totals for the numbers of major, intermediate, and minor moves in a bull and a bear market are all Fibonacci numbers. Some technicians have devised entire trading methods based on the Fibonacci numbers.

This is a direct quote from the study guide, and a revealing one in that Elliott's philosophy is presented, uncritically, as a rational approach to trading the market. The Elliott Wave Theory and the Fibonacci Numbers have as much credence with professional statisticians as astrologers have with the National Weather Bureau. But they do have a devoted following. (A magazine called *The Elliott Wave Theorist* is available for devotees of the philosophy.)

Elliott's "wave" and Fibonacci's "numbers" have long been favorites of the far-out trading fringe. The arcane interpretations and mystical overtones appeal to a certain type of commodity mind. Reading the examination material, I kept waiting for the punch line, the disclaimer, but it never came. Elliott and Fibonacci *have* to be taken seriously. Otherwise, you could be denied your broker's license!

There is little point in exploring the Elliott Wave Theory because it is not a theory at all, but rather the banal observation that a price chart comprises a series of peaks and troughs. Depending on the time scale you use, there can be as many peaks and troughs as you care to imagine. Elliott thought that a bull market consisted of five peaks interrupted by five troughs. Trouble is, no two people can agree on what constitutes a peak or a trough, so there are as many interpretations as there are chartists.

Much is made of Elliott's observation that all natural phenomena are cyclical. But this is no more than a statement of the obvious, and the market is not going to reward anyone for observing the obvious. We all know that another earthquake is coming in California, but no one knows *when*. If natural phenomena—and by extension, commodity prices—were *periodic* then they would be forecastable with some precision. They would not be tradable for a profit, however, since everyone would know the answer in advance.

In truth, Elliott's greatest strength is that he is no longer around to be asked a few elementary questions. Elliott was a stockbroker, and a rather unsuccessful one. To reverse his sinking fortunes, he hit upon the idea of incorporating the Fibonacci numbers into his pitch. His fame is entirely posthumous, for he is reputed to have passed away in 1946, penniless, in a lunatic asylum in New Jersey. To be fair, this story may have been put out by one of his disgruntled subscribers who was promised periodicity but found only cycles. Elliott's most prominent present day incarnation is Robert Prechter, publisher of *The Elliott Wave Theorist*. Prechter gained fame about a decade ago with a couple of major correct calls in the stock market. His star has waned in recent years—after he got his signals crossed during the stock market crash of 1987.

And Fibonacci? Surely the medieval mathematician would be astounded at his impact on twentieth-century commodity man. His mathematical series was constructed from observations on the incestuous copulation patterns of rabbits. Let's see, you start with a male and a female, then you take the first female offspring and you ... well, better not get into it.

The Legacy of W. D. Gann

> When we have knowledge of the Divine Law of supply and demand and know how to draw upon the universal laws which supply all our desires, then we are free from fear and worry. Therefore ... seek the truth, the Divine Law ... find it and be free.
>
> —W. D. Gann

Enjoying a place in the Commodity Hall of Fame along with Fibonacci and Elliott is the legendary W. D. Gann, who left us his theory of Gann Angles, Gann Cycles, Gann Fans, Gann Numbers, and Gann Lines—a set of